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THE MAIN CAUSES OF PROBLEMATIC CREDIT DEBTS IN BANKS OF UKRAINE ON THE MODERN STAGE OF ECONOMIC DEVELOPMENT

Today, the quality of loan portfolios of domestic banks remains at a critical level. The domestic credit market was characterized by a high level of credit risk, as evidenced by the increase in the share of problem credit debt from 7,7 % in 2013 to 13,5% in 2014, and at the end of 2015, the share of problem loans in total amounted to 22,1 %.

The problems with credit repayment do not arise suddenly. A number of reasons at macro level and at the level of individual entities precede them. At the same time, having an impact in some way on macroeconomic processes is a complex task. Therefore, managing link in the banking business has to adapt to the conditions that dictates nowadays.

At the level of bank institutions, the main reason for the growth of bad debts was the lack of an effective and well-functioning risk management system of banks. In other words, this system could meet the challenges of the global financial crisis. Therefore, the aim of this research is to analyze the reasons of emergence and growth rate of overdue debts, searching the ways to improve the risk management system, which occupies a key position towards the reduction of troubled banks portfolios.

After Ukraine gained the status of an independent state and the emergence of such entities as commercial private banks, a new service of crediting appeared. It is clear that for the average citizen, as well as for legal entities lending has opened a lot of opportunities to get any benefit from the purchase of household appliances, cars, apartments (for individuals) to the opportunity to develop its business (for the legal entity). Moreover, the entire world uses credits.

But nobody paid attention to the lack of experience of credit activity in the domestic banks, to the difference in the level of interest rates, when rates on credits in national

banks are ten times higher than in foreign banking institutions.

Opaque (to the borrower) diagram of the formation of the loan rates, the availability of large expenditures, associated with the loan (one-off fee, notaries' payment, insurance, and so on) and high interest rates did not reduce the desire of borrowers to try an interesting novelty – credits.

Financial illiteracy of some borrowers became the first reason in the process of bad\problem debts. Because no one can resist the well-known truth – a banker is someone, who lends you an umbrella when the sun is shining and who asks for it back when it starts to rain.

Moreover, the first steps in the loan process (concerning bad\problem debts) were made not only by borrowers, but also by most banks. The aggressive policy of banking institutions regarding capture the maximum share of the credit market has provoked a situation when the rate of consumption of credit resources has significantly exceeded the growth rate of income of the borrowers, which resulted in a reduction requirement regarding the financial condition of the borrower. For example, consumer loans were granted even without proof of borrower's income.

Thus crediting, as one of the main functions of bank institution, defined problems in almost all phases of the loan process: from the preparation stage and the stage of granting credit to the stage of monitoring and control of credit resources.

In our study, we formulated and examined the reasons of bad\problem debt at every stage of the loan process.

The initial stages of the credit process, namely the preparation of grant and loan are extremely important, because it is the basis for the strong financial results of the credit activity of the banking institutions and the opportunity to avoid problems with loan defaults. Nevertheless, as practice shows, the domestic banking institutions need to move to improve almost all procedures and processes accompanying the issuance of credit resources. Banking products, system analysis of the financial condition of the borrower, the analysis of the adequacy and accurate assessment of the collateral for the loan require refining.

The lack of a thoroughly developed regulations and banking products, including standardized conditions, process maps, forms of documents and forms of management

reporting as well as the lack of a clear allocation of responsibilities and control of procedures creates the ability to make situational decisions by the credit workers, and leads to:

- increasing the level of operational risks;
- increasing the time required for operations;
- increasing the likelihood of errors;
- occurrence of fraud and abuse.

Thus, there is a potential problem of loans at the initial stage of the credit process.

The insufficient control of the credit portfolio concentration causes an increase in credit risk. Moreover, the abovementioned insufficient control leads to losses and significantly reduces the quality of the loan portfolios of the banking institutions at the period of financial decline.

The imperfect scoring models, the ratings of the borrowers, risk maps and other methods identifying and evaluating the creditworthiness of the borrower sometimes do not give the opportunity to define the objective financial condition of the borrower and its changes over time.

However, it should be noted that the difficulty in determining the actual financial condition of the borrower is not always associated with imperfect schemes approved by the banks. The situation is complicated by the fact that the data provided by the borrower itself may carry part, and sometimes purely formal information. This is due primarily to the fact that the borrower is trying to optimize the tax base. Therefore, accounts payable that does not actually exist, may be indicated in the balance sheet, the overstocks can be too high. That is, the financial statements of the borrower can be radically different from the status quo. Thus, it is extremely difficult for the bank worker to determine the actual financial condition of the borrower, if the latter will not provide adequate explanation.

There are also facts of criminal fraud, when the borrower is not going to repay the loan and intentionally provides such information, which does not correspond to the real state of things.

Non-criminal fraud, unfortunately, also takes place in the conduct of banking business. For example, trying to get a loan, the borrower provides financial statements that do not reflect the real situation in the business, with the hope that the situation will

improve and the loan will be repaid. However, as practice shows, hopes for the best, as a rule, are not justified, and a bank gets problem credit that would incur losses.

The moral and ethical qualities of the bank employees also play an important role in the minimization of credit risks and, as a consequence, in the event of bad loans. There are some cases when bank employees are interested in decision to issue the loan. In addition, there are regular cases of incompetence or negligence of bank employees that lead to errors in the process of lending operations. The inability to collect, organize and analyze information may lead to carelessness in making important decisions regarding the financial condition of the borrower. All these reasons lead to a possible deterioration in the loan portfolio of the bank.

Due to the results of analysis, problematic credits are one of the most destabilizing factors in the context of a single bank and the banking system of Ukraine as a whole. Therefore, the primary task of the banks in order to counteract the problematic debt is to use their own internal measures designed and aimed at reducing the volume of distressed loan portfolios, maintenance of corporate principles, following strategic goals and putting the financial interests of the banking institution above all.