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## COLLATERAL VALUATION OF BANK LOANS IN UZBEKISTAN: THEORETICAL BASIS AND FEATURES

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**Abstract.** *This article studies the importance and significance of collateral valuation of bank loans and the participants in this process. Opinions and approaches of various economists are covered. The mechanisms for implementing this process in Uzbekistan are also analyzed. Scientific conclusions and practical recommendations are provided by analyzing the theoretical aspects and features of the collateral assessment of bank loans.*

**Keywords:** *collateral, valuation, bank loans, collateral valuation, collateral valuation participants.*

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### **Introduction**

In accordance with international banking practice, one of the main conditions for reducing the credit risk of commercial banks in a market economy is the provision of highly liquid collateral. Therefore, the study of international experience in this area and the effective organization of national practice in Uzbekistan is of great practical importance. In recent years, the instability of prices for movable and immovable property, as well as the multifaceted risks of bank lending, raises pressing issues on the provision of bank loans with liquid collateral and their assessment.

### **Literature review**

In a market economy and strong competition, time spent inefficiently is a waste of money. To overcome this, it is advisable to obtain additional benefits through the efficient use of financial capital. Earning time is measured in intervals or periods. An interval or period is a time that is usually equal to a day, week, month, quarter, half year, or year. Money received or paid over a period of time is very important in the process of assessing collateral on a bank loan [1].

In this regard, one of the foreign economists E. Rummyantseva (2006) admits that in a market economy, "in economic theory, the law of value determines the purpose and main reason for the activity of the entrepreneur and is at the heart of the distribution of financial resources and profit formation" [2]. In our view, if the amount of value is more or less the main force that drives the activity of the entrepreneur, its amount increases or decreases under the influence of a number of factors. It can be concluded that the cost of bank loan collateral depends not only on the position of the appraiser in this market or the experience and knowledge of appraisers, but also on the socio-economic situation in the country, foreign and domestic financial policy, the competitiveness of the national economy and price stability in various markets. affects.

Some classical and neoclassical school advocates a single approach to valuing property in the face of uncertainty. In particular, representatives of the Australian School of Economic Theory (K. Menger, E. Bem-Baverk, L. Walras, 1992) put forward the theory of determining the value of a commodity according to the "level of utility" [3].

Representatives of the classical school of political economy advocate the doctrine that the "amount of costs" should be used as a basis in determining the price of a commodity. Based on the results of our research, it can be concluded that in the assessment of movable and immovable property in modern conditions it is necessary to use the interrelation of theories of "utility" and "cost" proposed by classical and neoclassical schools of economic theorists.

In particular, Alfred Marshall, the founder of the Cambridge Neoclassical School, argues for the need to introduce the interrelationships between the "profitability" and "cost" theories of determining the market value of goods and property. A. Marshall denies the introduction of a single factor in shaping the value of the property being valued (E.V.Katsman, I.V.Kosorukova, A.Y.Rodin, 2010)[4]. It appears that there is no single approach to pricing movable or immovable property or the ability to determine based on a particular pattern.

According to O.V.Mosolova (2013) The pledge mechanism was first introduced into the economy and there is analyzed this process as the preparation and execution of a pledge agreement [5].

## Research methodology

Methods such as comparison, scientific abstraction, analysis, synthesis were used in the study of the theoretical basis and specific features of the collateral assessment of bank loans.

## Analysis and results

Assessment of collateral for bank loans reduces the risks of banks, increases the efficiency of their core business and serves for the positive implementation of investment activities. In assessing the collateral of a bank loan, it is advisable to take into account the following general aspects.

1. The level of utility of the assessed object, ie the value of the item appears as the level of utility. Utility is the ability of a product to meet the needs of the user in a particular place and period. A number of factors affect the level of utility of a property. In particular, problems with changes in supply and demand in the market, the moral and physical suitability of the assessed object, the spiritual obsolescence of products in modern conditions. The property may be physically new and meet the requirements, but as a result of its spiritual obsolescence, its value will fall. This is, of course, natural under the laws of a market economy.

2. The value of property is the product of human mental and physical labor. In assessing the collateral of a bank loan, attention is paid to the cost of mental and physical labor and its level of profitability.

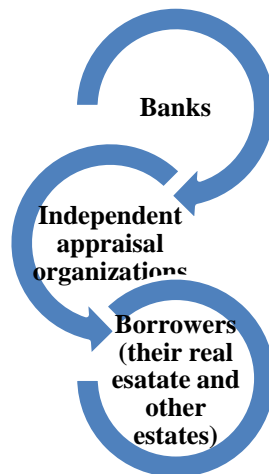
3. The level of socio-economic development and the state of infrastructure of the area where the assessed property is located. This factor is also important in determining the value of movable and immovable property pledged by the bank.

**Table 1 Reflection of collateral as a legal, value and financial category [5]**

Legal category	Financial category	Value category
Attached by law	Type of economic category (view)	Distribution by properties
<b>The public regulates the relationship</b>	It has a definite feature	Control
<b>It has a separate (special) object</b>	Reflecting financial relationships	
<b>It has a separate (special) subject</b>	Clear definition of community goals	
<b>From a legal point of view, it is a legal relationship</b>	It has an objective character	

If we accept collateral as an economic category, the question naturally arises as to which category the collateral belongs to, namely, to which of the categories of legal, financial or value (Table 1). We therefore considered it appropriate to comment on whether collateral is a legal, financial or value category. In particular, bail as a legal category is enshrined in law. It regulates the relationship between the mortgagor and creditors, ie the subjects. Collateral is a specific object provided by the borrower - property.

It is known that in order to ensure a safe level of credit risk provided by the bank, the borrower, an individual or legal entity, provides banks with various forms of property as collateral. In credit relations, the market value of the property taken as collateral is important, and this process makes it necessary to assess the collateral provided on bank loans. Thus, based on the above, we can say that the process of assessing the collateral for a bank loan involves three parties, which are shown in the figure below (Figure 1).



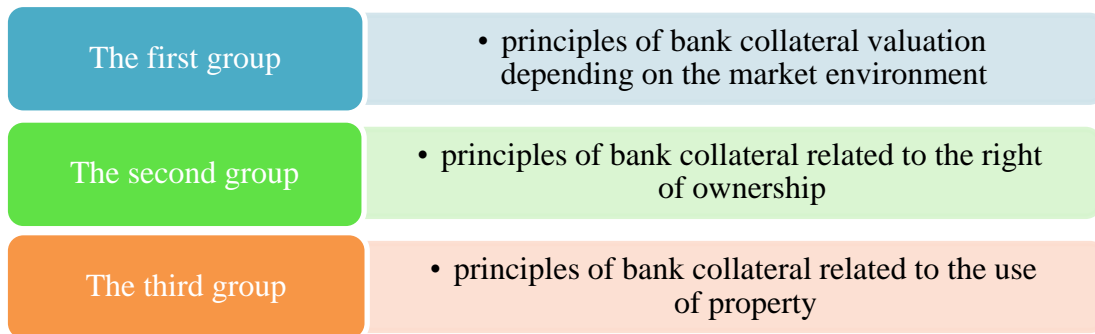
**Figure 1. Entities involved in the process of assessing collaterals of bank loans<sup>1</sup>**

In the process of valuation, regardless of whether the subjects are at the center of credit relations, ie legal entities and individuals, they are considered borrowers. The borrower provides the bank with collateral for his movable or immovable property at the request of the bank in order to meet his needs for financial resources. It is this evaluation process that paves the way for the establishment of a relationship between an independent appraisal firm, a bank and borrowers. Of course, this process is carried out and regulated on the basis of an agreement between the borrower and the appraisal organization.

The collateral assessment of a bank loans is based on a combination of a number of factors and economic principles that may affect the value of the property. In particular, the assessment of collateral takes into account the

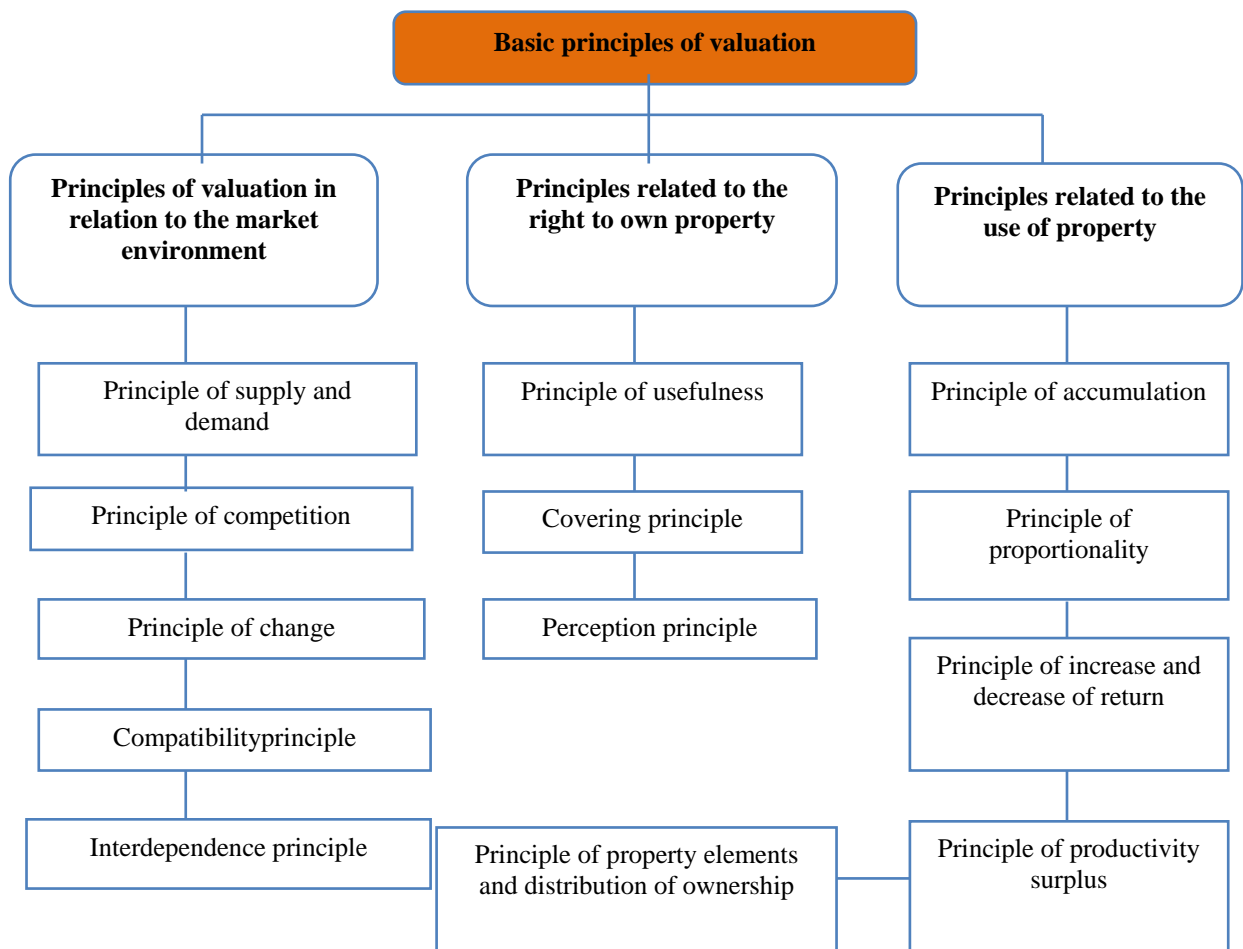
<sup>1</sup>Done by the author

physical and moral condition of the property, the availability of supply and demand for property, the socio-economic level of the area where the property is located, the condition of the infrastructure.



**Figure 2. Principles of assessment collateralsof bank loans<sup>2</sup>**

The economic significance of the assessment of a bank loan collateral is more clearly reflected in its principles. As a result of the study, we concluded that the principles of assessing bank loan collateral can be divided into the following three major groups (Figure 2). Thus, as can be seen from Figure 2, the principles that need to be considered when evaluating a bank loan collateral are divided into three major groups. In order to better understand them at the level of opportunity and to determine their importance, we cite Figure 3 below.

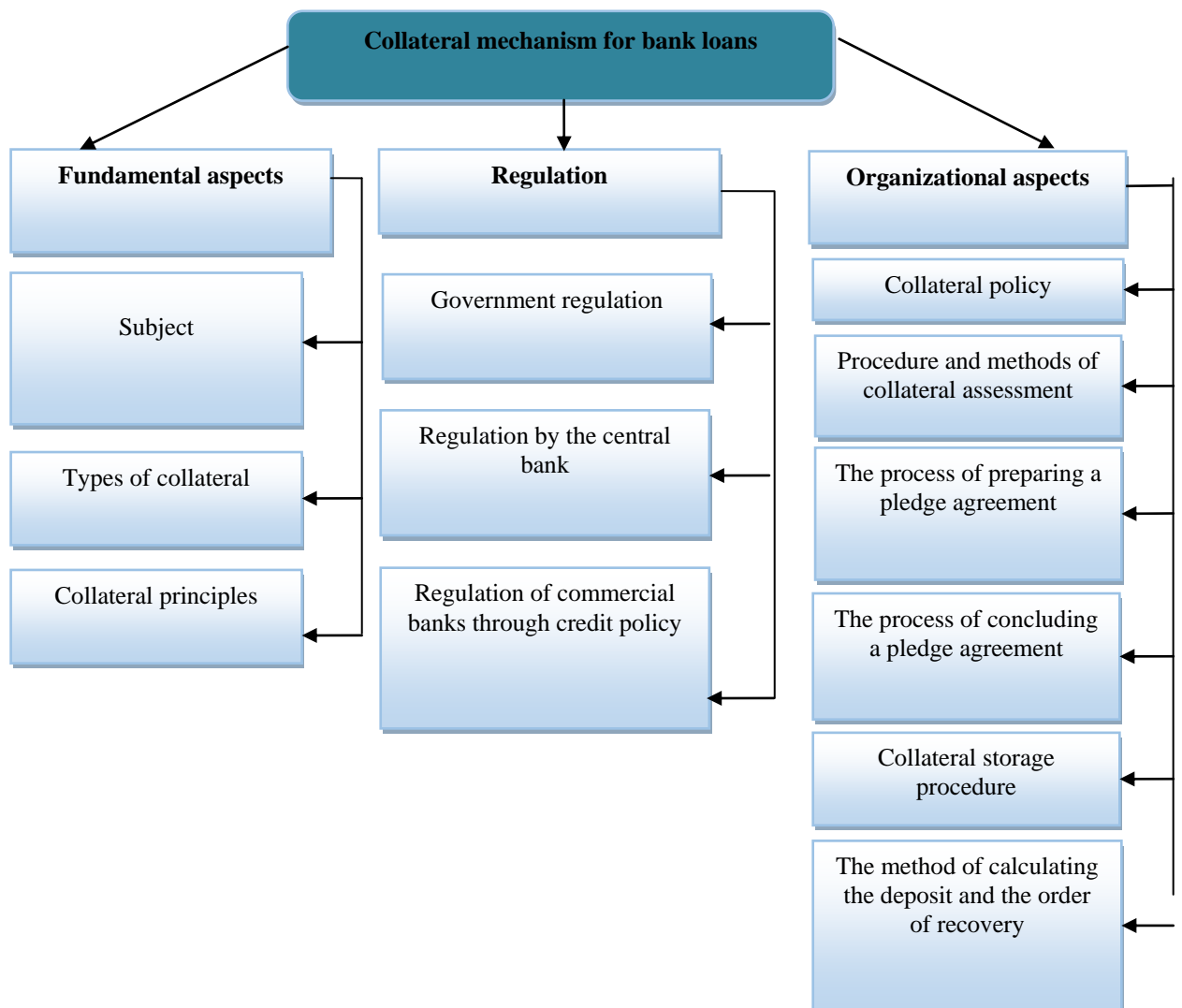


<sup>2</sup>Done by the author

**Figure 3. Basic principles of valuation<sup>1</sup>**

The results of the study show that the list of principles for assessing bank collateral can be further expanded. However, the principles of evaluation presented in the figure are central to all the trends considered. If the subjects involved in the evaluation relationship enter into an appropriate relationship, taking into account these principles, it will be clear that they will achieve the goals they have set for themselves.

The collateral mechanism arises as one of the terms of the loan agreement in the process of reviewing the loan application. It is valid until the loan is fully recovered from the collateral. The specifics of the collateral mechanism can be seen in the following figure (Figure 4).



**Figure 4. Specific features of the collateral mechanism for bank loans<sup>3</sup>**

<sup>3</sup>Расм муаллиф томонидан тузилган.

As can be seen from Figure 4, the fundamental section includes the principles of operation of the subject, object and collateral mechanism. Subjects include the mortgagor and the recipient. The object of pledge includes property that can be changed in its registered form in its natural form and in the range of pledged property, objects that meet the principles of limitation, acceptability and sufficiency, assessment, monitoring and state regulation. Organizational aspects are directly related to the mortgage policy and contract.

### **Conclusion**

By analyzing the theoretical basis and features of the collateral valuation of bank loans, we can conclude that:

- In the assessment process, issues such as the availability, usefulness of the enterprise, the accuracy of the residual values are considered as the main criteria for the assessment. It was the introduction of these requirements and rules that prevented the plundering of state property in the early days of independence and, as in some countries, the transfer of property to individuals;

- Given the shortage of qualified specialists with a certificate authorizing them to engage in appraisal activities, it is necessary to provide an opportunity for certified appraisers to join not one, but one or more appraisal organizations;

- It is expedient to involve the Association of Appraisal Organizations and experts of appraisal organizations in the development of national standards of evaluation, to develop the Association's interaction with international appraisal associations and foundations and to expand its activities in international practice;

- At the current stage of development of appraisal institutes it is necessary to pay more attention to increasing the transparency and practical significance of their conclusions, exchange of experience between appraisal organizations, strengthening natural competition in the appraisal services market, further improving the type and quality of services provided by appraisal companies;

- One of the main conditions for overcoming the financial risks of commercial banks and reducing credit risk in a market economy is the provision of liquid collateral and its fair assessment;

- In assessing the collateral for bank loans, the appraisal organization should pay special attention to such factors as time, risk, market, competition, profitability of the appraised object.

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