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### **Probing the level of importance of the current bank lending policies**

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#### **Abstract**

The profitability and productivity problem that has been plaguing the banking industry as of late has become a contentious and puzzling point of discussion in recent times. The purpose of the study was to evaluate the lending activities of private commercial banks in the four (4) cities that make up Region 02. This study's objective is to identify the relevance of bank policies and processes, in addition to the difficulties that these institutions faced during the course of their lending operations at private commercial banks. The research will be carried out in order to meet this objective. This conclusion suggests that as a general policy, the terms and conditions are highly important to private commercial banks. This is because without terms and conditions, the lending business of private commercial banks would not be viable as a business enterprise for the financial stability of banks. The personnel of the banks that have a capitalization of more than one hundred million pesos is sufficient to handle the lending and credit needs of borrowers. These banks are considered to be "big" banks. The policies and procedures that banks follow in the lending operation are outlined in Loan Operation Manuals, which are kept by the banks as a guidance. The policies and procedures that a bank follows when it comes to lending are generally vital to the bank's lending operations.

#### **Keyword**

current bank policies, level of importance, bank lending policies, enterprise, private commercial banks

#### **Introduction**

The profitability and productivity syndrome in the banking sector has recently turned out to be a topic of hot and perplexing debate. In the academic

circle, however, most of the studies confined themselves to the narrow interpretation of profitability and productivity. The role of private commercial banks' lending operations to priority sector is not only for service but also for profit motives. This concept proves the deterioration in profitability and productivity in the lending operations of private commercial banks but, more often than not, fail to interlink and analyze some crucial aspects of the problem.

Thus, despite vast literatures available in this field, a systematic and explicit analysis seems to be indispensable. There are two distinct characteristics of post nationalization banking development in India. First, nationalization of commercial banks have made great and rapid strides in several spheres such as branch expansion, resource mobilization and credit deployment etc. Consequently, the total number of offices, deposits and advances have stepped up considerably. What is important in the success story of private commercial banks in lending operations is that it involves several structural changes in favor of rural and priority sectors. The nationalization of 14 + 6 major private commercial banks in lending operations during the years 1969 and 1980 altered the ownership pattern in favor of public sector provided wide ranging powers to the government to influence the banking policy and orientation.

At the time of nationalization, the socio-economic objectives of bank were explicitly laid down and they were asked to contribute to the maximum possible extent towards economic and social development of the country. It was realized lately that the traditional banking ethics were not compatible with the needs of economic development and that balanced development was not possible without strengthening the hold of commercial banks in the backward and neglected areas.

Banking is a profit-seeking business and lending is ordinarily the most profitable method of employing banks' funds. Bankers tend to view lending as the most constructive use of their institutions' funds to serve and benefit the local communities in which the banks exist and operate.

In the operation of a bank, policies and procedures should be followed strictly. Obviously, it should be realized that these banks should come up to the expectation of their clientele by assuming more consistent approach on how their functions are best carried out.

Business lending in the four (4) cities of Region 02 can also take the form of mezzanine financing, project financing or bridge loans. Mezzanine lending is not all that is common for most commercial banks, but bridge loans and project financing are often extended on a short-term basis, until the borrower finds a more permanent source of funds.

### **Statement of the Problem**

The study assessed the lending operations of private commercial banks in the four (4) cities of Region 02. Specifically, it sought to answer the following question

1. What is the level of importance of the current bank lending policies as assessed by the loan and credit personnel in terms of
  - a. application of loans;
  - b. terms and conditions of loans;
  - c. release of loans;
  - d. distribution of loans;
  - e. needed loan documents;
  - f. appraisal of loans and;
  - g. loan collaterals?

### **Method of Research**

The purpose of this research is to ascertain the significance of bank policies and procedures, in addition to the challenges that these institutions faced in the course of their lending operations at private commercial banks located in the four (4) cities that make up Region 02 in the Philippines. In order to accomplish this goal, the research approach known as descriptive surveying was utilized. According to Good (2008), the purpose of the descriptive research approach is to collect evidence concerning an existing situation on its current condition. The survey method also draws attention to practical needs that can go unnoticed for a considerable amount of time if they are not observed.

The respondents were obtained by a method known as universal population; more specifically, all of the loan and credit professionals from each private commercial bank located in the four (4) cities that make up Region 02 were included in the study as respondents. The total number of people who participated in the survey as responders was 153, and they were all loan and credit personnel. These respondents are workers working in the loan and credit departments of the nine (9) private commercial banks who participated in the survey. At the time of the study, the financial institutions had been in operation in each of the four cities that make up Region 02 for longer than five (5) years.

The survey questionnaire was the primary instrument that was utilized in the research investigation. A method of conducting interviews and a study of documentary evidence were also used as auxiliary tools. The following statistical methods were used to conduct an analysis on the data that was obtained.

### **Discussion of result and findings**

#### **Level Of Importance Of The Policy Concerning Application Of Loan As To The Number Of Years In Lending Operation**

It was found out that typically, the policy surrounding the application of loans was very important as demonstrated by a general weighted mean of 4.85. This was discovered based on the responses of the respondents. This finding is applicable to those banks that have been operating their lending policies for twenty years, with

the exception of the policy addressing the appraisal of the debtor's character and integrity, which was only assessed as being important. Those financial institutions that had been in business for more than 20 years gave this policy on the application of loans significant weight. It's possible that these institutions, which have been in the business of lending for more than 20 years, have come to the conclusion that there are challenges and obstacles borrowers face when trying to apply for loans.

### **Level Of Importance Of The Policy Terms And Conditions With Regards To The Number Of Years Of Lending Operation**

This is a reflection of the data that pertains to the level of relevance of the policy on terms and conditions in lending in relation to the number of years that the banks have run their lending business.

According to the findings that were derived from the data that was gathered, it was discovered that, in general, the respondents held the opinion that this policy is highly important in terms of the terms and conditions that pertain to loans. As a result, the general weighted mean that was derived is 4.74. According to the statements made by the financial institutions, this policy on terms and conditions is of utmost significance. These financial institutions had been running their lending businesses for more than ten to twenty years. Banks that have been in the business of lending money for more than 20 to 40 years have placed a high priority on specific policy number 5 (see table), which states that a corresponding penalty will be charged to the borrower in the event that they are unable to pay the principal amount and the interest on their loan. This penalty will continue to be charged until the loan is paid in full. Every other financial institution ranked the terms and conditions policy as either fairly important or much less important on their priority list. This conclusion suggests that as a general policy, the terms and conditions are highly important to private commercial banks. This is because without terms and conditions, the lending business of private commercial banks would not be viable as a business enterprise for the financial stability of banks (Acharya, 2012).

### **Level Of Importance Of The Policy Concerning Release Of Loans As Regards To The Number Of Years Of Lending Operation**

The release of loans is another policy that banks use when it comes to lending money. In order to avoid uncertainty and misunderstanding among the borrowers, it is imperative that this policy be explained to them in a way that is easy to comprehend. This represents the data received from respondents about the policy on the release of loans, which can be found in the previous sentence. The general weighted mean of 4.66 demonstrates that the private commercial banks located in the four (4) cities that make up Region 02 all agreed that this policy had a significant amount of significance. All of the particular issues included on the release of loans were regarded by banks that have been in the business of lending money for more than five to ten years as being of utmost significance. The fact that banks who have been in the business of lending money for more than four decades

believe two aspects of this policy to be unimportant was something that came as a surprise to a lot of people. The release of the loan upon registration of the chattel mortgage and estate mortgage as well as the release of the loan made through payment of manager's check/credit are not important to these banks. This could be due to the fact that the borrowers were most likely already informed of the various policies regarding releasing loans before they applied for the loan.

### **Level of Importance of the Policy Concerning Distribution of Loans as Regards to the Number of Years and Lending Operation**

There is a wide range of opinions among the respondents on the degree to which the policy governing the disbursement of loans is important. For financial institutions that have been in the business of lending money for more than 20 to 40 years, the particular policy that governs the distribution of loans directly to borrowers is of some significance. This policy of loan distribution is regarded as either somewhat important, important, or not important at all by the other financial institutions, respectively.

Nevertheless, a general weighted mean of 4.61 indicates that the policy on loan distribution is of utmost importance. This finding supports this assertion. Because such policy will serve as a guide or guidance on what directions borrowers must do in acquiring their loans, as well as to avoid confusion upon the release of their loans, this policy was regarded as being of utmost importance.

### **Level Of Importance Concerning Policy Concerning The Needed Loan Documents In Terms Of The Number Of Years Of Lending Operation**

According to the obtained data for the respondents, in general, the policy concerning the needed document is very important. This is indicated by the general weighted mean of 4.70 Banks which have operated their lending business for more than 5 to 10 years considered each of the 14 specific policy items to be very important. This has a mean value of 4.92 based on weighting.

All of the other financial institutions thought that the first 14 items were of the utmost significance, whereas those financial institutions that had been in the loan business for more than 40 years thought that the specific policy item number 15 was only somewhat significant. Because these banks have been in the business of lending for such a long time, it is possible that they do not need to require regular documentations of borrowers. This is because the borrowers have already been familiar with these particular policies for quite a long period of time because there are borrowers who frequently borrow sums of money from these banks.

### **Level of Importance Concerning the Appraisal of Loans with Regards to the Number of Years of Bank Lending Operations**

The general consensus among the private commercial banks based in the four (4) cities that make up Region 02 was that the policy governing the evaluation

of loans was of the utmost significance. This information is reflected in the overall weighted mean, which comes in at 4.69. Based on these data, the only banks that deemed all six of the specific policy elements to be very significant were those with more than five to ten years of experience in the lending business. This was determined using a general weighted mean of 4.85. The policies of all the other banks with regard to the evaluation of loans were widely seen as being important.

It's possible that all the other banks thought this policy to be significant but not extremely important because some borrowers were already familiar with it due to the fact that they renewed their loans.

### **Level of Importance Concerning Loan Collaterals as Regards to the Number of Years of Bank Lending Operation**

As indicated by a general weighted mean of 4.79, the private commercial banks located in the four (4) cities that make up Region 02 believed that all five (5) specific policy items should be given a high level of importance. Because of this, the only banks that deemed all five (5) specific policy areas to be highly essential were those with lending operations that had been going on for more than 5 to 10 years. This policy on lending collaterals was held in high regard by all of the other financial institutions. The data are presented in Table 14.

It's possible that the fact that not all loans have the same collateral is the reason why the respondents said that this policy is the only thing that matters. The many kinds of loans each require their own unique sets of collateral to secure the loans. Some loans require collateral in the form of real estate, while others require it in the form of machinery and equipment, and still others require it in the form of the borrowers' personal character (Akinlo & Ogo-Temi, 2002).

### **Conclusions**

#### **The following conclusions are drawn from the findings of the study**

1. The private commercial banks in the four (4) cities of Region 02 which have branches in the city are relatively young in lending operation. More than 70% of shares are owned by individuals or a family group. The banks which have more than 100 million pesos of capitalization is composed of personnel sufficiently to take care of the loan and credit of borrowers. Banks have Loan Operation Manuals to serve as guide for their policies and procedures in lending operation.

2. The banks lending policies and procedures are generally important to their lending operations.

### **Recommendations**

On the basis of the findings and conclusions of the study, the following recommendations are offered:

1. Private commercial banks in Region 02 are encouraged to put up more branches in the cities of Region 02.
2. In addition to the assistance given to borrowers in filling up their application forms for loans, the bank personnel must look into the genuineness of the borrowers' signatures. Three (3) specimen signatures must be indicated in a separate card and filled in the borrower's folder.

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