

There are many criteria for estimating the performance of a bank but the most important is its loan quality. Since the 1990 Banking Ordinance, HCMC-based banks have tried their best to adjust themselves to the market economy, improve their business in terms of both quality and quantity, and helped carry out socioeconomic development programs adopted by HCMC government. However, the business performance didn't come up to expecta-

Vietnam banking sector. In addition, natural disasters and bad weather made the local production and export fall drastically. In such a situation, many HCMC-based companies suffered losses and failed to repay bank loans on time.

- Economic policies: Because the law system isn't perfect fails to meet requirements posed by the socioeconomic developments, many economic policies are inconsistent and in direct contradiction to one another. In addi-

supervision didn't produce intended results. Many violations have gone unnoticed for years. The inspection hasn't been carried out properly, professionally and systematically with the result that it failed to prevent crimes and wrong practices. Many inspectors didn't understand their role and responsibility. They usually carry out inspection when violations are discovered by the press or the public, instead of working out a program or strategy to prevent wrongdoings or help

is only a formality. If necessary measures are taken on time, consequences aren't as bad as we see today.

- Too high credit ceiling: As for commercial banks, increasing the supply of credit is necessary because it meets the demand from clients and ensures reasonable profits for banks. However, increases in the credit supply and the credit ceiling for each customer must be well under control. In most HCMC-based banks, the annual increase in the volume of credit supplied is

For a Better Loan Quality in HCMC Commercial Banks

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tions because of many causes.

1. Main causes of high degrees of risk in banking services in HCMC

a. External causes
- Business climate unfavorable for companies: In recent years, the regional and world financial markets have experienced wide fluctuations that produced bad effects on the

tion, the plan to privatize and restructure state-owned companies makes the business strategies of many companies unstable and risky. Inconsistent banking regulations and risk-controlling mechanism also cause great difficulties for commercial banks.

- Ineffective inspection and supervision: The government inspection and

banks carry out internal inspections.

b. Internal causes
- Failure to observe banking regulations: This failure leads to wrongdoings by bank officials and heavy overdue debts. In some loss-making banks, the overheads and payroll aren't cut. This reflects violations of regulations by the bank management and the fact that the inspection

high, which makes the workload heavier while the skills and ability of their officials aren't improved as required, therefore, the poorer loan quality is inevitable.

- Lack of a strict lending procedure: Most commercial banks only pay attention to the nature of mortgaged assets (their values and legality for example) and overlook the

feasibility of business plans of borrowers, so they don't care about the use of the loans. And as a result, many banks hold a lot of mortgaged assets while the overdue debts rise incessantly. Because the procedure for selling of mortgaged assets is complicated and time-consuming, most banks couldn't retrieve the loans. That is why a stricter lending procedure is much needed.

- - Unsuitable internal audit: Commercial banks haven't paid full attention to this task for years with the result that violations of banking regulation became widespread and caused a lot of damage to the profit and public image of banks.

- Untrained personnel: This is one of causes leading to high degrees of risk when supply credit. Loan officers must master not only banking services, but also various fields of knowledge relating to industries in which their customers operate in order to select right business plans.

2. Measures to improve the loan quality

a. Distributing investments among many industries and classes of customers: This is one of the most common measure to reduce risk but many HCMC banks have ignored them.

b. Strictly observing lending procedures: Loan officers must fulfil the lending procedures (classifying customers and assessing their creditworthiness before deciding on the supply of credit). At the end of the fiscal year, loan officers must make reports on customers's ability to repay debts. After supplying the loans, the officers must watch the way the customers use the loan, take measures to retrieve money and deal with overdue debts when necessary.

c. Reducing fiduciary loans: To reduce risks, banks should limit the supply of fiduciary loans and

supply credits based on mortgaged assets. This practice is still common among banks in many countries where the danger of bankruptcy is high because of the increasingly keen competition. The bank had better have the mortgaged assets assessed by experts before grant the mortgage contract.

d. Credit insurance: Commercial banks could ask borrowers to insure the assets bought with bank loans. This measure is good but also an extra expense for the borrower. Banks could adopt a policy to give financial support or incentive to encourage the borrower to buy insurance.

e. Beefing up the internal audit: This measure is also very useful in preventing possible risk. In addition, commercial banks could have independent auditing companies manage their investments (this measure helps share part of possible risk with the auditing companies). Auditing is also a useful tool for detecting possible shortcomings or mistakes, thereby allowing the bank management to take timely action before the loss increases.

f. Incentives: At present, the official salary scale isn't equal to responsibility and workload assigned to workers, the banks could link the salary

scale with performance of loan officers or work out a new scale based on workload.

g. Standardizing the bank personnel: It's necessary to improve the quality of personnel in terms of ethics and skills as well. After careful selection when recruiting new workers, the workforce must take regular and short-term training courses to keep pace with the modernization of the banking system in the years to come.

h. Advertising: A majority of the public have only a limited knowledge of banking services, therefore the banks have launch advertising campaigns to provide potential customers with information about benefits of banking services, thereby helping them feel free to use these services instead of buying gold or foreign currencies to store their wealth.

i. Many commercial banks make it a policy to rotate officers in order to prevent them from conniving with customers to get more loans. This practice is unreasonable because there all officers have to take time to get accustomed with new assignment and there are many effective measures to achieve this aim.

j. Lending assessment committee: The committee

will help ensure high quality for the supply of loans. Its role is very important when dealing with customers with low creditworthiness rating or in need of big loans. The SBV had better set forth a statute for the committee in order to help it operate properly.

k. Auditing companies specialized in banking services: At present, the demand for auditing service is on the increase, especially when the stock market came into operation. Specialized auditing companies become very necessary. For the time being, the Government could form such a company to meet the demand from the banking sector.

k. Problems with mortgage and guarantee contracts: These contracts are the source of troubles because the settlement of these contracts requires participation of various public services. The SBV and the Government had better carry out researches into this topic.

l. Better inspection: The SBV should work out strict and reasonable statutes of inspection and supervision that pay full attention to prevention, transparency and determination. If the inspection discovers wrongdoing, they should be solved properly and resolutely. ■

