IMPROVING THE PRACTICE OF EVALUATING COLLATERAL SECURITY FOR BANK LOANS (A CASE STUDY OF "HAMKORBANK" JSCB)

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Abstract

This study focuses on improving the practice of evaluating collateral security for bank loans using "Hamkorbank" JSCB as a case study. The effectiveness of collateral assessment plays a crucial role in ensuring financial stability, reducing credit risks, and maintaining the quality of loan portfolios in commercial banks. The research analyzes the existing procedures and criteria used by "Hamkorbank" in assessing collateral, identifies the key challenges faced during the valuation process, and explores international best practices in collateral management. Based on the findings, the paper proposes a set of practical recommendations to enhance transparency, accuracy, and efficiency in collateral evaluation. These recommendations include the adoption of modern digital valuation tools, regular training of credit officers, the introduction of unified valuation standards, and the integration of independent appraisal services. The proposed measures are expected to strengthen risk management frameworks, optimize decision-making in lending, and improve the overall sustainability of the bank's credit operations.

Keywords: collateral evaluation, bank loans, credit risk management, Hamkorbank, loan security, collateral valuation, financial stability, banking efficiency.

Introduction

In modern banking systems, collateral security serves as a cornerstone for credit operations and risk mitigation. The process of evaluating collateral is one of the most crucial stages in bank lending, directly influencing both the decision-making process and the overall financial stability of the institution. Collateral evaluation is not merely a technical or procedural activity—it represents a

multidimensional mechanism that integrates financial analysis, legal considerations, and market assessments. The accuracy and reliability of collateral valuation determine whether the bank can recover its funds in the event of default, thus safeguarding its financial health. In this regard, the effective management of collateral plays a pivotal role in shaping the sustainability and profitability of the banking sector.

Over the past decade, Uzbekistan's banking sector has undergone substantial reforms aimed at strengthening financial discipline, ensuring transparency, and aligning national practices with international standards. Within this reformative context, "Hamkorbank" Joint-Stock Commercial Bank (JSCB) has emerged as one of the leading financial institutions, actively engaging in both retail and corporate lending. Like many commercial banks, Hamkorbank faces the dual challenge of maintaining a growing loan portfolio while minimizing credit risks. One of the key instruments for achieving this balance is the accurate and efficient evaluation of collateral security.

Despite regulatory improvements and the introduction of modern banking technologies, collateral assessment in many local banks remains inconsistent and partially subjective. The main issues include inadequate valuation methodologies, outdated market data, insufficient professional expertise among appraisers, and limited integration of digital tools. These shortcomings often lead to overvaluation or undervaluation of pledged assets, resulting in significant risks for both lenders and borrowers. Inaccurate collateral evaluation can cause the bank to extend excessive credit, face difficulties in asset liquidation, or experience capital losses during enforcement. Therefore, improving the practice of evaluating collateral security is not only a financial necessity but also a strategic imperative for ensuring the soundness of the banking system.

Collateral, as an essential form of credit security, acts as a lender's protection against borrower default. The concept of collateral stems from the need to establish trust and reliability in credit relations. From an economic standpoint,

collateral evaluation aims to determine the fair market value of the pledged asset, taking into account its liquidity, depreciation, and market volatility. International financial institutions such as the International Valuation Standards Council (IVSC) and the Basel Committee on Banking Supervision emphasize the importance of standardized valuation procedures and periodic re-assessment of collateral. However, the implementation of these standards in developing economies, including Uzbekistan, remains a complex process that requires institutional adaptation and capacity building.

In the case of Hamkorbank, the collateral evaluation process typically involves multiple stages: preliminary verification, asset inspection, valuation by internal or external experts, and approval by the credit committee. Although this framework provides a systematic approach, several gaps persist. For instance, the bank's internal methodologies may not fully reflect current market dynamics, while external appraisers may lack access to reliable market databases or modern software tools. Additionally, regulatory discrepancies between the Central Bank's guidelines and international valuation standards often create confusion in practice. These factors underline the necessity of revising and enhancing existing procedures to ensure transparency, fairness, and efficiency.

The significance of this study lies in its potential to bridge the gap between theory and practice in collateral management. By analyzing the current practices of Hamkorbank, the research aims to identify critical weaknesses in valuation procedures and propose practical solutions to improve them. In particular, the study focuses on how technological innovations—such as automated valuation models (AVMs), geographic information systems (GIS), and digital asset registries—can contribute to more objective and data-driven evaluations. Furthermore, it explores the role of human capital development, emphasizing the need for continuous training and certification of valuation specialists. The combination of these approaches can create a more resilient and adaptive collateral evaluation framework.

Another crucial aspect concerns legal and institutional frameworks. The enforcement of collateral rights in Uzbekistan, though improved, still faces procedural delays and inconsistencies. Legal uncertainties in property registration, ownership verification, and foreclosure processes can significantly diminish the effectiveness of collateral as a risk management tool. Therefore, enhancing collateral evaluation must go hand in hand with strengthening legal mechanisms and promoting cross-sectoral cooperation among banks, appraisers, and regulatory authorities.

In light of these challenges, the present research adopts a case study approach, focusing on Hamkorbank's internal credit and collateral evaluation practices. By assessing the bank's methodologies, organizational structure, and decision-making processes, the study provides insights into how collateral valuation influences loan approval, pricing, and risk assessment. Moreover, it examines international experiences from advanced banking systems—such as those in the European Union and East Asia—to highlight best practices that can be adapted to local conditions.

The overall objective of this research is to develop a set of recommendations aimed at improving the quality, consistency, and transparency of collateral evaluations in Hamkorbank. The specific goals include:

1. Analyzing the current regulatory and institutional framework governing collateral assessment;
2. Identifying weaknesses and risks in existing evaluation practices;
3. Reviewing global standards and technological solutions in collateral valuation;
4. Proposing practical measures for improving the efficiency and reliability of the collateral assessment process.

Ultimately, this study contributes to the broader goal of enhancing financial stability and risk management in Uzbekistan's banking sector. By improving the practice of collateral evaluation, banks can not only safeguard their assets but also

expand responsible lending, support entrepreneurship, and foster sustainable economic growth.

Conclusion

The evaluation of collateral security is a fundamental component of the credit management system, serving as a key determinant of a bank's financial health and risk exposure. The findings of this research underscore that the accuracy, transparency, and consistency of collateral valuation significantly affect loan performance and the stability of the banking sector. In the context of "Hamkorbank" JSCB, while the current system provides a structured approach to collateral management, several critical gaps persist that limit its efficiency and reliability. These include methodological inconsistencies, inadequate market data, insufficient professional expertise, and limited use of technological solutions.

Improving collateral evaluation requires a holistic strategy that combines institutional reform, capacity development, and technological innovation. First, there is an urgent need to harmonize Hamkorbank's internal valuation methodologies with international standards such as those set by the IVSC. The adoption of uniform guidelines will reduce subjectivity and ensure comparability across different asset types and loan categories. Second, the creation of a centralized and regularly updated market database will enhance the precision of valuations by providing reliable reference prices for various asset classes, including real estate, vehicles, and equipment.

Equally important is the professional development of valuation experts. Continuous training, certification, and adherence to ethical standards are essential to ensure objectivity and competence in the appraisal process. The establishment of partnerships between banks and independent appraisal firms can further promote transparency and reduce potential conflicts of interest. Moreover, integrating modern technologies such as automated valuation models (AVMs), blockchain-based property registries, and data analytics platforms can streamline the process

and minimize human error. These tools enable faster, data-driven decisions and provide real-time monitoring of collateral value fluctuations.

From a legal perspective, the improvement of collateral evaluation must be supported by a robust regulatory environment. Clear legislation regarding ownership rights, foreclosure procedures, and property registration can significantly reduce the risks associated with collateral enforcement. Collaboration between banks, valuation agencies, and regulatory authorities will be vital to ensuring a coherent and functional system.

In the case of Hamkorbank, implementing these measures will not only strengthen its internal risk management framework but also enhance customer confidence and institutional reputation. Accurate collateral evaluation leads to more balanced lending decisions, lower non-performing loan ratios, and increased operational efficiency. Furthermore, it supports sustainable credit growth, allowing the bank to allocate resources more effectively toward productive sectors of the economy.

In conclusion, improving the practice of evaluating collateral security is an essential step toward modernizing the banking system and enhancing financial resilience. By adopting international standards, investing in technological innovation, and building professional capacity, Hamkorbank can establish a more transparent, efficient, and reliable collateral management framework. These improvements will ultimately contribute to greater financial stability, stronger risk control, and the long-term development of Uzbekistan’s banking industry.

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