



Received: 02-03-2024
Accepted: 12-04-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Lending Process and Lending Activities for Individual Customers at Tien Phong Commercial Joint Stock Bank Thang Long branch, Vietnam

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Abstract

Along with the opening and development of Vietnam's banking industry, individual customers play an increasingly important role in the development strategy of commercial banks. Banking products and services for individuals, especially credit products, are being provided by banks in a very diverse and abundant manner and have become key competitive tools. Not only Vietnamese joint stock commercial banks but also old foreign banks such as HSBC, ANZ, SCB, also jumped in to win individual customers. This makes the level of competition for this customer group fiercer and more fierce than ever. Improving lending

efficiency in general and lending to individual customers in particular is an extremely important issue for commercial bank operations in a market economy, it is not just a matter of survival. As for commercial banks, it also has great significance in the socio-economic development of the country. The article focuses on researching the concept, characteristics of individual customer credit, lending process, current situation of individual customer credit activities at Tien Phong Commercial Joint Stock Bank Thang Long branch and from there provide solutions for TPBank and TPBank Thang Long.

Keywords: Personal Customer Loan Process, Personal Customer loans, TPBank

1. Introduction

Right from the first days of operation, Tien Phong Commercial Joint Stock Bank Thang Long branch (TPBank Thang Long) has identified individual customers as the target customers in its business development orientation. Consistent with this operational orientation, TPBank Thang Long's achievements over the past years demonstrate its position as the leading retail bank in Vietnam. TPBank Thang Long is the leading bank in the Vietnamese banking system providing credit products for individuals such as: Loans for production and business; installment loans for home purchases and home repairs; consumer loans, study abroad loans...

Officially present and operating quite early, TPBank Thang Long has achieved quite good operating results in recent times and contributed significantly to the overall success of the TPBank system. TPBank Thang Long's lending activities for individual customers have been deployed quite successfully with a diversity of products provided, large outstanding loans to individual customers and a high proportion of total outstanding loans. Of TPBank Thang Long. However, if compared with the total outstanding loans to individual customers of the entire TPBank system or to the outstanding loans to individual customers of the banking industry in the entire Hanoi area, the outstanding loans to individual customers TPBank Thang Long's staff is still very modest, not commensurate with the market's potential, not commensurate with TPBank's position. Faced with that reality, finding solutions to expand lending to individual customers at TPBank Thang Long is very necessary.

2. Research overview

Concept of individual customer credit at commercial banks

In banking business, credit is defined as an asset transaction between a lender and a borrower, in which the lender transfers assets to the borrower for use within a certain period of time. According to the agreement, the borrower is responsible for unconditionally repaying principal and interest to the borrower when payment is due (Ho Dieu, 2003). Credit activities are considered the main profitable business activities for banks. Usually, for most banks, outstanding credit accounts for more than half of total assets and income from credit activities accounts for more than half of total assets. About ½ to more than 70% of the bank's total income. Because credit is the main profitable item in banking activities, this is also the main risk item of

commercial banks (Le Van Te, 2009).

Accordingly, bank credit has characteristics such as being based on trust, being the transfer of an asset with a term or repayment nature, based on the principle of not only repaying the principal but also paying interest and commitment. Unconditional repayment and is a potentially high-risk activity for banks.

Individual customer credit at commercial banks is an economic category that reflects the relationship between two subjects: The bank and the bank's individual customers. This relationship is recognized based on a credit contract, in which the bank transfers a certain amount of currency to an individual customer to be used within a certain period of time, and commits to repay it over time. Agreed time.

Individual customers at commercial banks are all individuals in society with civil legal capacity and civil behavioral capacity. According to the 2015 Civil Code, civil legal capacity is the civil legal capacity of an individual, the ability of an individual to have civil rights and civil obligations, all individuals have legal capacity. Civil legal capacity is different, an individual's civil legal capacity begins when that individual is born and ends when that individual dies, an individual's civil legal capacity is not limited except in some cases. Cases prescribed by law (individuals are wanted, are being prosecuted for criminal liability...).

Individual customers are extremely diverse, creating a potential and "fertile" market for banks. This is an extremely important customer source and accounts for a large proportion of the bank's activities. However, individual customers are always "difficult" customers when their financial and non-financial information is difficult to determine accurately because they have stable sources of income with a basis for determination. But there are also sources of income that are unstable and have no basis to determine. Besides, they often change their place of residence, area of operation and profession. An important point that makes the difference between individual customers is that this person must bear unlimited civil liability with all of his or her own assets. This is a major obstacle that makes this group quite hesitant about bank credit products rather than corporate customers.

Characteristics of individual customer credit

In addition to the general characteristics of credit, personal customer credit has differences compared to other types of corporate credit as follows:

First, the size of the loans is often small, but the number of loans is large

The main loan purposes of individual customers are as follows:

Additional working capital. Usually, these production and business activities are not on a large scale. Besides, most customers come to the bank when they already have a relatively small amount of capital, so they only supplement the relatively small deficiency.

Serving daily consumer needs. Personal loans for this purpose directly serve life spending needs such as buying a house, car, purchasing household appliances, construction, home repair, and studying abroad. These are all small loans, however, because the customers are all individuals in society, from people with high income, average income and even low income people, the credit needs are quite diverse. Form and richness.

Second, individual customer credit is costly

Due to the characteristics of individual customers being large in number and widely dispersed, it will cost a lot of money for activities such as expanding the network system, advertising, and marketing to create favorable conditions for reaching people. target individual customers in each area and region, fully develop human resources to serve customers quickly and accurately from the stage of receiving documents, appraisal to loan decisions, disbursement and debt collection as well as related costs such as: Management costs, stationery, electricity, water, telephone, per diem to support credit officers, etc. Therefore, interest rates on individual customer credit are often high. Than business customers. For personal loans, because information about the customer's identity, background and financial situation is often incomplete and difficult to collect, banks often spend a lot of money on appraisal and approval. Get a loan.

Third, individual customer credit is more risky than corporate customer credit

In addition to the general reasons for bank credit, personal loans also have risks stemming from the customer themselves, such as the financial condition of the individual or household can change unfavorably very quickly due to illness. Illness, accident, unemployment or family tragedies.

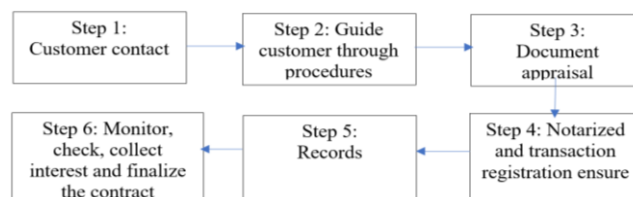
Fourth, the quality of financial information of borrowers is often not high

When appraising a loan, this information is an extremely important factor for banks to make lending decisions, in addition to the reasonableness and legality of capital needs, debt repayment ability and collateral. For organizational customers, capturing customer information is relatively convenient because there are many publicly available sources of information such as: Financial statements, tax payment status, reputation of relationships with partners, etc... On the contrary, for individual customers, the assessment of personal identity, source of debt repayment, and purpose of loan use is often difficult to be complete, clear and accurate, leading to asymmetric information risks, making the Customer appraisal is inaccurate.

Fifth, individual customers have unlimited liability for the loan amount

For corporate customers (except private enterprises) when unwanted events such as bankruptcy or dissolution occur, their liability is limited to the previously registered charter capital. This leads to a situation where the bank may not be able to collect its debt if the business's capital is not enough to repay the debt. On the contrary, in the event of an incident, individual customers must bear full responsibility to creditors in general and banks in particular.

3. Loan process for individual customers at TPBank Thang Long



Source: Credit Support Department

Diagram 1: Loan process for individual customers at Thang Long City

Step 1: Contact customers

After understanding the customer's needs, the personal customer relations specialist will advise and discuss loan conditions. When a customer proposes a loan, the credit officer will inform the customer about the lending policy that TPBank Thang Long is currently applying, advise the customer on choosing the appropriate type, and preliminarily negotiate the terms and conditions. Loan conditions that the bank can meet such as interest rate, term, form of security or other binding conditions. In addition, the specialist will explain and specifically guide customers on preparing loan documents according to current regulations of the law and TPBank Thang Long. Cases of customer refusal require the opinion of leaders of the Personal Customer Department Manager or Branch Manager.

Step 2: Guide customers through loan procedures

The customer relationship specialist personally receives the customer's loan application, checks the completeness, legality and correctness of the application to avoid the situation where the customer has to explain, supplement the application and leave. Again, many times. Documents included in the loan application include:

- Documents reflecting the legal status of the borrower.
- Documents reflecting the borrower's financial situation and production and business activities.
- Documents reflecting the loan plan.
- Documents reflecting assets securing the loan.

Step 3: Appraisal of documents

The loan appraisal step is usually performed after TPBank Thang Long specialists receive all documents and records provided by the customer to see if the loan meets the conditions according to lending regulations of the law. No, is the loan feasible and effective, can the customer afford to repay both principal and interest according to the scheduled term, and what is the expected risk in the worst case scenario?

The specialist performs the appraisal and writes the appraisal report to submit to the Director of individual customers. The Personal Customer Director will review the information stated in the appraisal report and then make a decision whether to agree with the contents stated in the report or not. If the report does not meet the requirements, he will recommend the expert clarifies or adds some appropriate content. If the Personal Customer Manager finds that this loan does not meet the requirements or because the loan is too complex beyond the specialist's ability to work, he will request support from other credit officers or the credit support department. Use. After agreeing with the appraisal proposal, the Personal Customer Director signs for approval and submits it to the Branch Director.

At TPBank Thang Long, the loan appraisal process is strictly implemented based on three main sources of information, which are documents provided by customers, actual information surveyed by Branch staff and from other sources such as CIC credit information center, credit institutions, other economic organizations, etc.

In case of agreeing to lend, the credit officer must draft and submit to the superior a credit contract with a capital withdrawal schedule, a loan guarantee contract or a notice to the customer to fulfill the conditions to accept the loan. Get a loan.

The lending of TPBank Thang Long and the borrower must be made into a credit contract. The credit contract must have content on loan conditions, purpose of loan use, loan method, loan amount, Interest rate, loan term, form of security, value of collateral, repayment method and other commitments agreed upon by the parties.

If the loan is refused, the specialist will notify the customer of the refusal, clearly stating the reason for the loan refusal and return to the customer all the documents that the customer has provided attached to the letter and official letter of refusal in the loan application. Soonest. In case of supplementing or re-checking information, the credit officer must find out the information at the request of the Personal Customer Director and Branch Director and prepare an additional report.

Step 4: Notarize and register the secured transaction

After the credit appraisal application is approved, the personal customer relations specialist will notify the customer to confirm the status of the collateral.

Personal customer relations specialist prepares documents for notarization and secured transaction registration including 4 copies of Credit Contract, 5 copies of Mortgage Contract, 3 copies of Minutes of determining the value of mortgaged assets. Or guarantee and 1 copy of the Guaranteed Transaction Registration, then submit it to the Personal Customer Director and proceed to enter corebanking to get the credit contract number, record the Mortgage Contract book to get the Mortgage Contract number.

The specialist and customer will meet at the notary office as previously agreed upon, instructing the customer to bring all documents. After notarization, the transaction will be registered and secured.

Step 5: Save profile

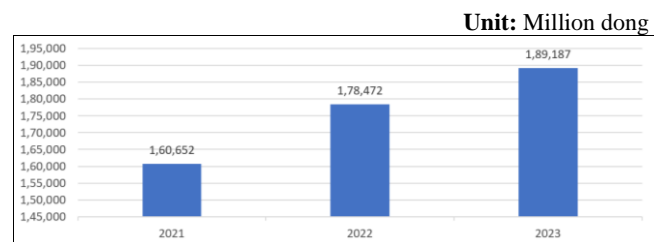
The credit specialist draws up a debt acceptance contract and submits it to the individual customer manager to sign, enter Corebanking to get the debt acceptance contract number, stamp, transfer the documents to the Credit Accountant for disbursement, then make a record of delivery and receipt of the documents. Main house, seal the room and send it to the treasury department.

Step 6: Monitor, check, collect interest and finalize the contract

Based on the lending characteristics in the area, the Personal Customer Director directs the development of a plan to check the use of loan capital for some basic types of loans. Particularly for loans to implement investment projects, short-term loans have unique characteristics, borrowers have special production and business plans, specialists need to develop a plan to check capital use. Borrow separately according to each credit contract no later than after issuing the first loan. Then the specialist submits the plan to superiors for approval. The inspection results confirm at least the following: Whether the customer uses the loan for the intended purpose, the value of assets formed with the loan is not less than the value of the loan, in accordance with the above commitment. Credit contract. Before the due date, the customer relations specialist personally reminds customers to pay principal and interest on time. The customer has finished paying the principal and interest and then finalizes the contract.

4. Current status of individual customer lending activities at TPBank Thang Long

Total outstanding loans to individual customers of TPBank Thang Long



Source: TPBank Thang Long Personal Customer Department, 2021-2023

Fig 1: Outstanding individual customer credit balance at TPBank Thang Long in the period 2021-2023

Outstanding loans to individual customers have increased over the years. In 2021, it will reach 160,652 million VND (accounting for 68.23%). In 2022, outstanding individual customer debt will reach 178,472 million VND (accounting for 68.35%), an increase of 17,820 million VND compared to 2020 (equivalent to 11.09%). By 2023, outstanding debt will reach 189,187 million VND (accounting for 64.24%), an increase of 10,7115 million VND compared to 2021 (equivalent to 6%). In general, the outstanding debt situation for individual customers over three years has not changed much.

Outstanding loans to individual customers of TPBank Thang Long by term

Table 1: Outstanding personal loan customer debt by term in the period 2021-2023

Targets	2021		2022		2023	
	Value (million VND)	Ratio (%)	Value (million VND)	Ratio (%)	Value (million VND)	Ratio (%)
Short-term debt balance	76.135	47,39	85.213	47,75	90.812	48
Medium-term debt balance	48.862	30,41	57.012	31,94	62.856	33,22
Long-term debt balance	35.655	22,19	36.247	20,31	35.519	18,77

Source: TPBank Thang Long Personal Customer Department, 2021-2023

Table 1 shows:

Short-term loan balance: Over the three years in the period 2021-2023, short-term loan balance shows an increase at a steady pace. In 2021, outstanding debt is 76,135 million VND, accounting for 47.39%. In 2022, outstanding debt is 85,213 million VND, accounting for 47.75%, an increase of 9,078 million VND compared to 2020 (equivalent to 11.92%). In 2023, outstanding debt is 90,812 million VND, accounting for 48%, an increase of 5,599 million VND compared to 2022 (equivalent to 6.57%).

Medium-term debt balance: The medium-term debt balance in 2021 reached 48,862 million VND, accounting for 30.41%. In 2022, it will reach 57,012 million VND, accounting for 31.94%, an increase of 8,150 million VND compared to 2021 (equivalent to 16.68%). By 2023, outstanding debt will reach 62,856 million VND, accounting

for 33.22%, an increase of 5,844 million compared to 2022 (equivalent to 10.25%).

Long-term debt balance: The long-term debt balance in 2021 reached 35,655 million VND, accounting for 22.19%. In 2022, it will reach 36,247 million VND, accounting for 20.31%, an increase of 592 million VND compared to 2021 (equivalent to 1.66%). However, by 2023, outstanding debt will decrease and reach 35,519 million VND, accounting for 18.77%, down 728 million compared to 2022 (equivalent to a decrease of 2.01%).

Outstanding loans to individual customers of TPBank Thang Long according to credit purposes

For car loans

In 2021, outstanding debt will reach 93,400 million VND, accounting for 70.17%. In 2022, outstanding debt will reach 96,320 million VND, accounting for 68.72%, an increase of 2,920 million VND compared to 2021 (equivalent to 3.13%). In 2023, outstanding debt will reach 100,723 million VND, accounting for 66.48%, an increase of 4,403 million VND compared to 2022 (equivalent to 4.57%).

For production and business loans

Tuy dư nợ tương đối thấp nhưng gia tăng với tốc độ hơn so với cho vay mua xe ô tô. In 2021, outstanding debt will reach 39,700 million VND, accounting for 29.83%. In 2022, outstanding debt will reach 43,836 million VND, accounting for 31.28%, an increase of 4,136 million VND compared to 2021 (equivalent to 10.42%). In 2023, outstanding debt will reach 50,797 million VND, accounting for 33.52%, an increase of 6,961 million VND compared to 2022 (equivalent to 15.88%).

The loan balance target reflects the constantly expanding scale of the Branch's credit activities.

Restrictions in lending activities to individual customers at TPBank Thang Long

With the results achieved, TPBank Thang Long is considered a unit with quite developed personal customer lending activities with a large outstanding loan balance, providing a variety of products and services and with good credit quality. However, those results are still not commensurate with the market's potential, not commensurate with TPBank's position due to the following limitations:

TPBank Thang Long's outstanding personal customer loans are not commensurate with the market potential and TPBank's position. Operating in Hanoi market - the largest economic and political center of the country; however, the outstanding loans to individual customers of TPBank Thang Long are not really large, not commensurate with the position of TPBank, which is still considered a bank with developed lending activities to individual customers.

Outstanding loans are not highly sustainable and are greatly influenced by the State Bank's management policies.

Processing time for customer loan applications is long, causing negative psychology for customers in need of loans.

The cause of the limitations

Banking activities in Hanoi have very fierce competition

Joint stock commercial banks headquartered in Hanoi such as Techcombank, MB, VPB, have made great strides in retail activities in general and individual customer lending activities in particular. These banks have focused a lot of resources, networks, human resources, finance and

marketing activities, thus building their image, reputation and achieving good results in lending activities to individual customers. People in Hanoi. Another feature that creates vibrant competition in the personal customer loan market is the participation of foreign banks in this market such as HSBC, ANZ, Standard Charter Bank, banks. Foreign banks with strengths in technology, experience, and service quality are gradually attracting the attention of borrowers.

Administrative and legal procedural issues related to lending activities

Commercial banks are more apprehensive about lending today because the procedures related to handling collateral to collect debts face many difficulties, there are no really clear regulations, and rights are not protected. The interests of lenders and the support of relevant agencies in debt collection such as courts and judgment enforcement are not effective and quick.

TPBank Thang Long's lending policy is not clear

In the Vietnamese commercial banking system, TPBank is always considered a bank with a strict and even conservative credit policy. In recent times, with its lending policy, TPBank Thang Long has managed its loan portfolio well, limited bad debt, and ensured the safety of lending activities. However, this is also what makes TPBank Thang Long lose many opportunities to develop individual customers and limit the expansion of individual customer loans. For example, in many periods, TPBank Thang Long stipulated different limit standards for borrowers, such as for unsecured consumer loan products, the borrower's monthly repayment level did not exceed 50% of total income; the debt/total personal assets ratio does not exceed 50%, etc.

5. Solutions to improve the quality of individual customer lending activities at TPBank Thang Long

Solution for TPBank

To ensure good implementation of assigned plan targets, with specific conditions and special conditions, TPBank should:

Actively participate in the banking market, seek new capital sources, especially foreign currency capital to support and regulate capital for grassroots banks. Encourage branches to seek foreign currency capital from foreign investment projects.

Carry out a summary of individual customer credit work over the years, draw on practical experiences and synthesize them into lessons, disseminate them throughout the industry so that credit operations are truly methodical, from That will improve both the quantity and quality of this work in the coming time.

Have documents and regimes to fully, promptly and accurately guide individual customer credit operations to serve as a basis for branches to implement to ensure credit safety and at the same time regulate the credit process for individual customers must be reduced, making it convenient for both banks and customers.

Training programs for credit officers need to be organized annually on legal knowledge, appraisal techniques, marketing, etc.

Continue to train and retrain Bank staff, especially credit officers to respond.

Meet the needs and tasks in the new situation to improve the efficiency of banking operations in general and the quality of lending activities to individual customers in particular.

Solution for TPBank Thang Long

Focus on strictly controlling the credit quality of individual customers, controlling debt quality well at the current level, not allowing overdue debt/bad debt to arise in the near future. Pay attention to maintaining capital structure and using capital appropriately to optimize capital efficiency and ensure safety ratios.

Focus on the individual customer segment in the micro market, near the branch headquarters, focus more on the segment of customers buying townhouses/project houses,... to increase outstanding debt. At the same time, focus on mobilization to increase output scale.

Focus on analyzing the current status of outstanding debt of individual customers, reviewing customers who have extended debt, improving appraisal quality and strengthening inspection and control work.

6. Conclusion

Strengthening and improving the efficiency of lending activities with individual customers is an issue that requires regular and serious implementation. With the goal of positioning TPBank Thang Long as the bank branch with the most satisfied retail services, dynamic operations, rich products, diverse distribution channels, modern technology, safe and effective business. sustainable growth, staff with high professional ethics and expertise. TPBank Thang Long needs to synchronously implement solutions to achieve the highest efficiency.

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