



**Financial and Banking Services Market**

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**THE ANALYSIS OF CREDIT STANDING  
OF A BANK BORROWER**

**Abstract**

The article focuses on the absence of a uniform interpretation of the term "credit standing", analyses the methods and techniques of borrower credit standing valuation used by foreign and national banking organization, and brings forward the classification and general characteristics of these models and techniques. The author accentuates the ineffectiveness of mere transposition of foreign experience onto the domestic practice of borrower credit standing valuation, and elaborates recommendations for improvement of complex credit standing valuation techniques.

**Key words:**

Altman model, banking organization, borrower, CART (classification tree), CAMPARI, Chesser model, credit scoring, credit standing, discriminant analysis, models of complex analysis, rating methods, rule of «six C», PARTS, PARSER.

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When issuing loans, a bank evaluates credit standing of its borrowers. The result of the analysis will determine whether a potential borrower will receive a loan, and if yes, in what amount.

At present, the banking institutions develop different approaches to the analysis of the borrowers' financial position. Moreover, every single bank develops its own system of credit ratings for a potential borrower, proceeding from specific contract terms, bank priorities, its specialization, niche at the market, competitiveness, state of customer relations, and level of economic and political stability in the country, and so on.

The absence of scientifically grounded methods of borrower credit standing valuation and credit risk assessment, as well as the absence of specialists competent in taking decisions on credit availability and credit terms can result in worsening of the quality of the bank's credit portfolio. Consequently, these reasons lead to worsened financial state or bankruptcy of the bank. Thus, according to American analysts, from 30% to 40% of overdue credits originate from poor credit valuation of borrowers at the initial stage of negotiations [4: 50].

Great contribution into the development of the borrower credit standing valuation was made by modern western economists E. Brigham, L. Gapenski [21], P. Rouse [15], J. Sinki [16]. Many researches on borrower credit standing valuation have also been made by the national scientists. For the last few years, the discussed problem has been widely argued in monographs and textbooks of such Ukrainian authors as V. V. Witlinskii, O. V. Pernarivskii [9], O. V. Dzyublyuk [7], A. M. Moroz [3] and others. Among the Russian scientists, worth mentioning are the researches of V. N. Yedronova [8], O. I. Lavrushyn [5], G. S. Panova, V. M. Usoskin [18], and others. At the same time, this problem needs subsequent study, since both theory and practice lack a single approach to defining the system of indicators which can provide complex description of the credit standing of borrowers.

### **The Essence of Credit Standing**

The present state of things urges to develop and apply scientifically grounded methods of borrower credit standing valuation. In order to elaborate and apply these methods, it is first needed to define the essence of the term «credit standing». So far the economists have not agreed on this matter. Thus, the authors of one technique understand credit standing as «...the ability of the borrower to perform his credit obligations on time and in full» [5:198; 19:35]. In our opinion, this definition does not reveal the essential distinction between solvency and credit standing. We view these terms as dissimilar, as it is proved by the following. The term «solvency» mainly implies the ability of the legal or natural person to timely repay all kinds of liabilities, while credit standing means only

the ability to repay a loan. From this standpoint, the concept of credit standing is narrower than the notion of solvency [9:76]. The authors of another technique consider that «...credit standing is the bank's evaluation of the borrower in terms of the possibility and expediency of granting him a credit facility, as well as the bank's assessment of the probability of debt repayment and interest generation» [12:289].

The Provisions of the National Bank of Ukraine «About Crediting» say: «Credit standing is the ability of the borrower to meet his debt liabilities in full under the credit contract» [1]. The Provisions of the National Bank of Ukraine «About the Order of Formation and Use of Reserves to Cover Possible Losses from the Bank's Credit Operations» postulate that «credit standing implies pre-conditions for obtaining a credit and the ability to repay it» [2]. These definitions represent the essence of the discussed notion in the most accurate way. However, they are not complete as well.

Nevertheless, these definitions of credit standing do not take into account the borrower's law competency, which is a very important condition for a credit operation. The market economy allows partial changes of the legal status of borrowers in result of start-up or liquidation of businesses, merging or establishment of branch companies, changes in ownership patterns, etc., which intensifies the significance of this element of credit standing.

Having compared the existing definitions, we suggest that the notion of credit standing formulated in the Provisions of the National Bank of Ukraine «About Crediting» should be improved, and it should be the following: credit standing is the assessment of the available economic and juridical preconditions for obtaining a credit, and the ability of an enterprise to repay it on time and in full, thus meeting its credit liabilities. Credit standing is evaluated through the analysis of financial and economic performance of the borrower, as well as through assessment of the chief manager's reputation. The evaluation is made at the stage of preparation and taking the decision on credit issue and terms of credit line, and in the process of crediting. Consequently, the essence of the discussed category includes the preconditions for the borrower to obtain a loan and the ability to repay it under contract terms.

When assessing a borrower's credit standing, it should be expedient for banking institutions of Ukraine to apply the methods used abroad.

The modern approaches to credit valuation used by our national banking institutions are based on comprehensive application of quantitative and qualitative indicators, while those applied by foreign banks are classified as follows [6: 18]:

- Classification methods (statistical methods of valuation, which include credit rating systems and expected default probability models) (based on MDA –Multiple Discriminant Analysis);
- Methods of complex valuation (based on «semi-empiric» methods based on expert valuations: «rules of 6C», CAMPARI, PARTS, PARSER, etc.).

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## **Classification (Statistical) Valuation Methods**

During the last decades, the Western banks have developed the methods of credit quality valuation based on various classification (statistical) models. Their aim is to design standard approaches to objective borrower evaluation, to set quantitative criteria for classifying potential clients into reliable and unreliable, that is, those who are likely to default and those who are unlikely to default.

### **Credit Rating Systems**

Banks develop credit rating systems on the basis of empirical approach with application of regressive mathematical and factor analysis. At that, the historic data on the bank's «good», «standard», and «bad» loans are analyzed, which enables to determine the criteria level for the borrower's rating [12: 296].

It is expedient to apply the rating model in the following steps:

1. Collection and analytical assessment of the input information for the analyzed period of time.
2. Substantiation and classification of the indicators used for rating of the enterpriser's financial state.
3. Selection and economic substantiation of the criteria for establishing the robustness of financial standing of the enterprise and setting the limits for variations of these criteria.
4. Final rating of the financial state of the enterprise.

The above mentioned demonstrates that the rating index could be a sound criterion for comparative analysis of operations of different enterprises and their subsections, likewise of the competitive capacity of the products manufactured. Besides, a company's rating shows the effectiveness of its managerial decisions; it can also become the basis for choosing possible policies of production development and serve as a criterion of investment attractiveness. In addition, credit rating can serve good to banking institution in choosing a reliable business partner. Therefore, rating valuation should be separated into a special part of the analysis.

The advantage of the rating model is its simplicity: having financial coefficients calculated and analyzed, the bank can easily determine the class of the borrower.

## Credit Scoring

Credit scoring is a modified version of rating valuation, which is widely applied in Western banks as a technical instrument. The credit scoring model can be applied to evaluate the issued credit (i. e. to predict the possibility of breach of credit contract) and to screen potential borrowers. Credit scoring can be applied both to businesses and to individual borrowers. Credit scoring technique was pioneered by the American economist D. Durant in the early 1940-s to screen borrowers of consumer loans [18: 235]. D. Durant singled out a group of factors enabling to determine rather accurately the degree of credit risk when advancing a consumer loan. The scoring method provides an opportunity to make an express analysis of credit application at the client's presence [12: 295].

Different scoring techniques are applied to analyze business loans – from simple formulas to complicated mathematical models. In particular, for credit risk valuation, a big Austrian bank (Table 1) applies a simple method with the three following balance indicators: efficiency of capital allocation, liquidity coefficient, and the equity ratio [18: 238]. Depending on the score received, an enterprise is then referred to one of the four risk groups.

In case the borrower's rating (credit scoring) is less than that established by the bank's specialists and experts, this borrower will not be credited. If the credit test meets the established norms, the borrower will succeed in obtaining it. In addition, the applied limits of credit test allow setting interest rates and other crediting terms for every single class of borrowers.

Table 1.

### Credit Scoring in the Kreditanstalt Bank (Austria) [18: 238]

Indicators	Limits	Weight	Risk Group (Based on the Score)			
			A	B	C	D
Capital efficiency (in %)	2–15%	50	Over 99	From 40 to 90	From 20 to 39	Less than 20
Liquidity coefficient (in %)	15–40%	20				
Equity capital (in %)	2–35%	30				

## The Discriminant Analysis

Forecasting models are applied for credit quality valuation. They are based on statistical methods, the multiple discriminant analysis known as «cluster analysis» being the most used [8, 10].

The general form of discriminant function is the following:

$$Z = \sum_{i=1}^n a_i \cdot f_i,$$

where  $a_i$  – parameters (coefficients of regression);

$f_i$  – factors describing financial state of the borrower (for example, financial coefficients);

$n$  – number of indicators.

The coefficients of regression are calculated on the basis of historical data on the companies which defaulted and those that managed to survive.

The discriminant function (index  $Z$ ) divides all companies into two groups (depending on the values of the financial factors): those which are likely to run the risk of bankruptcy in the nearest perspective, and those which are not. If  $Z$ -rating of a company approaches the index of average defaulting company, the company will default given its financial state worsens. If the company's managers and the bank take measures to prevent the worsening of the situation, the company will escape bankruptcy. Consequently,  $Z$ -rating is an early warning signal [8, 10].

The application of multiple discriminant analysis requires a rather representative set of enterprises differentiated by industry and size. The main difficulty is that it is not possible to find a sufficient number of defaulting companies within the same industry, which would enable calculating the coefficients of regression.

Zeta model, developed by a group of American economists in the late 70-s and applied by banks for credit analysis, can be one example. The model is used to determine the probability of the business' default. The value of key parameter  $Z$  is computed through the equation the variables of which represent basic characteristics of the analyzed company, i. e. its liquidity, velocity of capital circulation, etc. If the given company's coefficient exceeds a certain score, the company is regarded as healthy, while the company with the coefficient below critical value is considered as unstable and not recommended for loan issue.

### The Altman Model

The Altman and Chesser models are the most known models of multiple discriminant analysis. In 1977, E. Altman, R. Haldeman and P. Naraynan introduced «Zeta analysis» on the basis of the following equation [16: 624–65]:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5,$$

where  $X_1$  – ratio of working capital to total assets;

$X_2$  – ratio of retained earnings to total assets;

$X_3$  – ratio of earnings before interest and taxes to total assets;

$X_4$  – ratio of market value of equity to book value of total debt;

$X_5$  – ratio of sales to total assets.

For computation of numerical parameters, Altman applied statistical techniques, namely the multidimensional discriminant analysis. The classification «rule» that follows from this equation proves that:

- if  $Z < 2.675$ , a company is referred to a group of bankrupts;
- if  $Z > 2.675$ , a company is considered to belong to a healthy group.

Altman proved that the model does not work when  $Z$ 's value varies between 1.81 and 2.99.

Altman's five-factor model is rather simple to use. However, it is problematic for our national banking institutions to apply such models so far, because, first, such models are developed on the basis of empiric data analysis; second, because of the lack of bankruptcy statistics; third, because of many factors causing bankruptcy which can not be accounted for; fourth, because of the instability of bankruptcy regulations in many Ukrainian companies.

### The Chesser Model

The Chesser model of credit supervision predicts cases of client non-performance. At that, the latter implies not only non-repayment of the loan, but also other violations, which make the loan less advantageous for a creditor as against initial expectations [16: 627].

The Chesser model of commercial loan assessment includes six variables [16: 628]:

$X_1$  – ratio of cash and securities realizable at short notice to total assets;

X2 – ratio of net sales (excluding VAT) to cash and securities realizable at short notice;

X3 – ratio of earnings before interest and taxes to total assets;

X4 – ratio of total debt to total assets;

X5 – ratio of fixed capital to net assets (or stock capital to long term loans)

X6 – ratio of working capital to net sales (or net sum of sales).

The coefficient assessment is the following [16:627]:

$$Y = -2.0434 + -5.24X1 + 0.0053X2 - 6.6507X3 + 4.4009X4 - 0.0791X5 - 0.1020X6.$$

Variable Y, that is a linear combination of independent variables, is used in the following formula for estimation of default probability,  $P$ :

$$P = 1: (1 + e),$$

where  $e = 2.71828$  (Euler number – the basis of natural logarithms).

Y can be viewed as an index of default probability: the greater is value of Y, the greater is the default probability. In his model Chesser uses the following criteria :

- if  $P > 0.50$ , the borrower is viewed as a defaulter;
- if  $P < 0.50$ , the borrower is considered to be standard.

Chesser used the data of four banks on 37 good and 37 bad credits (with initial terms not met). Putting the model computation indexes in the formula of «default probability», Chesser achieved an accuracy rate for three out of each four tested cases [16: 628].

### **The CART Model (Classification and Regression Trees)**

The CART model (classification and regression trees) is widely practiced to determine credit ratings of the bank's clients, credit test, and credit classification [16: 621]. The model is non-parametric, and its basic advantages are wide application, easiness for interpretation, and rather low labour-intensive computation, though the construction of these models requires complicated statistical techniques.

One of such models, known as «recursive partitioning» was introduced by M. Friedman, E. Altman, and D. Chao. It is demonstrated in Figure 1, representing the construction of «a classification tree» to expose bankrupt companies [16:622]. The principle of the analysis through the model consists in the follow-

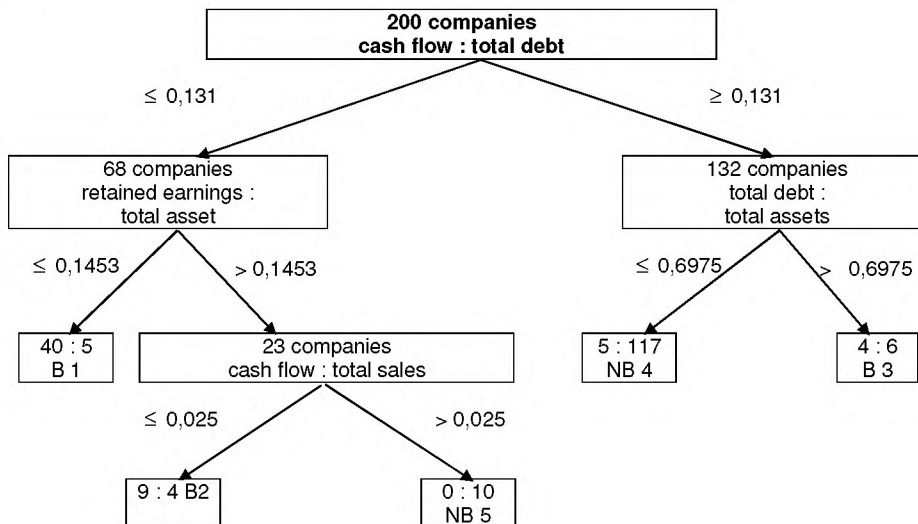


ing: corporate borrowers are split into «branches» depending upon the values of the selected financial coefficients. In its turn, each «branch» of the tree splits into «branches» according to other coefficients. According to marginal value of the selected index, the companies are classified into those that potentially can go bankrupt (*B*), and those that financially are rather healthy (*N*). The classification accuracy is about 90%.

The weak points of classification (statistic) models are the overestimated role of quantitative factors against underestimated cross-individual relations, self-will approach to selection of basic quantitative indexes, high sensitivity to distorted input data (in particular, financial reports, which is most typical of the Ukrainian corporate borrowers), and awkwardness of comparisons.

Figure 1.

**Sample CART model (Classification Tree):  
Application for Determination of Bankrupt Companies [16: 622]**



## The Models of Complex Analysis

When selecting certain indexes for establishing the credit rating of the borrower, a comprehensive qualitative analysis should be taken into account. The models of complex analysis, consisting of «six C», CAMPARI, PARTS, and PARSER enable to aggregate the quantitative and the qualitative descriptions of the borrowers.

American banks practice the rule of «six C», where client selection criteria start with the letter «C» [18: 223–224]. The criteria include:

- character (character and reputation of a borrower);
- capacity or cash flow (capacity to repay a loan, financial capacity or cash flow);
- capital (capital, property, volume of equity);
- collateral (security, varieties and value of assets);
- conditions (economic conjuncture and its prospects);
- control (control, correspondence of credit request with bank credit policy).

Thus, the managers of credit departments of American banks, while preparing credit memoranda, make a detailed report not only on basic descriptions of the borrower's performance (i.e. general information on top managers and their replacements, rating of assets, bonds and bills, financial standing, other creditors), but also on the industry where the borrower works and the market characteristics for the manufactured products, etc. At that, such a memorandum is elaborated according to a standard scheme; it includes specific conclusions and the manager's suggestions. The use of the standard scheme of the analysis enables to have a clear and complete picture of the character and activity of the borrower [15: 182–188]. English-language literature presents seven developed and applied credit principles [10, 8] expressed by the abbreviation CAMPARI. The latter was created from the initial letters of the following words [8:14; 17:50]:

- C – character – description or reputation of the borrower (his personal qualities);
- A – ability – capacity of the client to repay credit;
- M – margin – expected profitability (margin) of credit operation;
- P – purpose – the aim (purpose) the loan is applied for;
- A – amount – total amount of credit;
- R – return – terms of loan return;
- I – insurance – insurance against risk of credit failure.

The CAMPARI method consists in gradual discriminating of the most essential factors out of credit application and submitted financial documents describing the client's performance after personal meeting with the client.

The banking services manual issued in England says that the key word to denote concentrated requirements for credit borrowers is «PARTS», which includes [12:289]:

- P – purpose – credit objective;
- A – amount – credit size;
- R – repayment – reimbursement of debt (basic debt and interest rate);
- T – term – term of credit;
- S – security – mortgage, credit collateral.

English clearing banks use the PARSER system for evaluation of the client [17:50; 20:52]:

- P – person – information about a person – a potential borrower, his reputation;
- A – amount – requested credit size;
- R – repayment – capacity of credit reimbursement ;
- S – security – estimation of credit collateral
- E – expediency – credit expediency;
- R – remuneration – bank earnings (interest rate) for the risk of credit advancement.

Consequently, the overseas banking businesses, while considering the case of the client's credit standing, comprehensively analyze such comparative categories as the bank's economic interests, guarantees of credit repayment, as well as human qualities of the managerial staff of the debtor company. All the systems have common elements, and at the same time, they have substantial differences. The systems of client credit standing description applied by foreign banking institutions contain much longer lists of the described issues as against those defined by the National Bank of Ukraine. But in fact, these systems are very much alike, and their different names are mainly determined by different sequences of analysis of these attributes.

Similar systems of credit standing analysis are contributive foremost for considerable time saving, badly needed to analyze credit requests and business plans, as well as take decisions on credit requests, etc. Therefore, they could be applied in our home practice. Nevertheless, the automatic replication of the foreign experience in this area, in our opinion, is ineffective in many cases because of the peculiarities of national enterprises, namely their financial reporting and accounting.

## National Methods of Credit Rating Valuation

The normative indices of borrower's credit rating are formulated in the Provisions of the National Bank of Ukraine «About Crediting» [1], «About the Order of Formation and Use of Reserves to Cover Possible Losses from the Bank's Credit Operations» [2] (Table 2).

At the same time, it is worth to note that the mentioned Provisions of the National Bank of Ukraine do not ban banking institutions to establish additional criteria for evaluation of the borrower's financial standing, which would increase the requirements to indexes and provide adequate weights of credit risks and, respectively, set up proper control over them. In this case, the banking institutions would rather apply the methods their foreign colleagues do.

At present, the Ukrainian banks have a rather wide range of methods for determination of the borrower's credit standing [11; 13; 14:118–123]. Thus, the methods of credit standing valuation developed by the Joint Stock Commercial Bank Prominvestbank and the Joint Stock Post and Pensioner Bank Aval consist in evaluating the borrower's credit standing by means of a complex-scoring system (Tables 3, 4).

Table 2

### Comparative Description of Credit Valuation Methods Recommended by the National Bank of Ukraine [1; 2]

Provisions «About Crediting»	Provisions «About the Order of Formation And Use of Reserves to Cover Possible Losses From the Bank's Credit Operations»
<ol style="list-style-type: none"> <li>1. Provision with own resources of no less than 50% of total expenses.</li> <li>2. Reputation of the borrower (qualification, managerial skills, adhering to business ethics, payment discipline).</li> <li>3. Evaluation of manufactured products, demand for sales, service description, competing capacity on domestic and international markets, demand for products, services, volume of export)</li> <li>4. Economic conjuncture (borrower's growth perspectives, availability of sources of funds for capital investment</li> </ol>	<ol style="list-style-type: none"> <li>1. Solvency.</li> <li>2. Financial stability.</li> <li>3. Turnovers.</li> <li>4. Returns on accounts.</li> <li>5. Structure and dynamics of receivables and debts payable</li> <li>6. Costs of production.</li> <li>7. Profits and losses.</li> <li>8. Profitability.</li> <li>9. Credit history.</li> </ol>

*Table 3*

**Methods of Borrower Class Determination  
at JS CB Prominvestbank and JS PPB Aval**

Class	Total Scores	
	JS CB Prominvestbank	JS PPB Aval
Class A. Borrowers are reliable (not risky)	over 670 scores	550 scores and more
Class B. Borrowers of minimum risk	from 530 to 670	450–549
Class C. Borrowers of average risk	from 370 to 530	300–449
Class D. Borrowers of high risk	from 140 to 370	200–299
Class E. Borrowers of complete risk	less than 140 scores	below 200 scores

*Table 4*

**Comparative Characteristics of the Methods of Borrower Credit Standing  
Valuation at JS CB Prominvestbank and JS PPB Aval [11; 13]**

JS CB Prominvestbank	JS PPB Aval
1. Estimation of solvency	1. Indicators of financial state
2. Estimation of financial firmness	2. Account turnovers
3. Analysis of realization volumes	3. Credit history
4. Analysis of returns on accounts	4. Objective factors of the client's activities
5. Analysis of structure and dynamics of receivables and debts payable	5. Additional factors
6. Analysis of profits and losses	
7. Analysis of profitability	
8. Credit history (for the most recent 3 years)	
9. Managerial effectiveness	
10. Impact of geographical and industry factors	
11. Estimation of professional qualities of management	
12. Other information	

As we see from Table 3, the scoring ranges of corporate borrowers established by the two banks are almost similar. As against the method applied by JS PPB Aval, the JS CB Prominvestbank essentially increased the number of scores for each class.

As seen from Table 4, the methodical recommendations as for the valuation of borrower credit standing in the JSCB Prominvestbank include twelve points, three of which imply the analysis of financial state indicators. If we consider a borrower, for example, having maximum total score of 165 (an enterprise will be referred to class D), it will gain 25% of the total number of scores. Therefore, the borrower can obtain a credit due to other general descriptions of his performance. The evaluation criteria of financial position of the borrower include the perspective business plan (feasibility study), the analysis of profits and losses, the evaluation of business skills of the borrower's managers, etc. Scores of total indexes are equated with such qualitative descriptions of the enterprise as profitability and liquidity ratios. In some cases, the quantitative scores exceed the qualitative ones. Naturally, the noted indices influence either directly or indirectly the borrower's solvency, but not so much as do those that provide accurate description of his financial position. Moreover, the list of indices includes minimum descriptions – in particular, only those which were recommended by the National Bank of Ukraine [2] plus profitability of production. Out of the above mentioned indices, the scoring of «production profitability» is prioritized. The number of scores is counted according to the level of profitability. The maximum number of scores – 30 is assigned to the enterprise the profitability rate of which is over 10%. Other indexes are estimated by scores ranging from 10 to 20.

In our opinion, the Prominvestbank should increase the number of coefficients describing the financial position of an enterprise for purposes of credit standing valuation. The significant indices need to be included to describe the efficiency of exploitation of circulating assets, balance of receivables and debts payable, and profitability of own and attracted funds.

The method used by the Aval includes more coefficients to evaluate the borrower's credit standing. In addition to the coefficients recommended by the National Bank of Ukraine [11], the method includes the scoring on autonomy, long-term loans, assets turnovers, inventories, account receivables, and gross profit ratio. However, the Aval's method of evaluating the financial position of a borrower has also weak points. First, the indices describing the financial state of the enterprise are scored too high. Thus, the minimal value of financial position index is 0 scores, while the maximum is 100 (autonomy – 50 scores). Consequently, a borrower can be valued maximum 650 scores (the enterprise will belong to A class), i. e. 118% of total number of scores. Therefore, the borrower can obtain a credit, without regard for other issues of the method's requirements. Second, the range of scores in some indices is simplified. In particular, for scoring the profitability of assets, sales, assets turnover, inventories, account receivable, and gross profit ratio, there is only one position -- positive changes during a quarter of a year -- rated extra 25 scores.

In our opinion, the Aval needs to enlarge the number of general sections to have accurate evaluation of the borrower's credit standing, including the evaluation of business skills of the borrower's management, analysis of structure, and dynamics of receivables and debts payable, availability of business plan (feasibility study), etc.

Thus, national banking institutions apply complex rating method of borrower financial position valuation. But this method is «empiric», its theoretical and methodological practice is insufficient, and the use of mathematical instruments is poor. In addition, the major focus is made on personal expert opinion.

The system of selecting credible borrowers applied by the majority of banking institutions is far from being perfect. Its major weak points are the following:

1. Expert valuation is usually subjective and, therefore, not always accurate.
2. Most of expert valuation is based on distance analysis that can bring about fallacious observations.
3. Effectiveness of expert examination depends upon frequency of its conducting.
4. Evaluation of credit standing is rather formal and sporadic.
5. Decision-making completely depends on the bank's expert. The experience of the latter, his knowledge, sometimes intuition, emotional state, personal predilections, and even adherence to principles decide the client's fortune at the moment.
6. The minimum size of credit request is limited because of high cost of expert examination.
7. The number of examined credit requests is limited because of poor abilities of experts.

### **Improving the Method of Complex Borrower Credit Standing Valuation**

Proceeding from the analysis of borrower credit standing valuation, we can conclude that the following factors should be taken into consideration:

- a) The evaluation of credit standing should take the form of express-analysis, that is, it should be frequent, maximally prompt and with maximum information covered.

- b) Apart from banks, it is feasible to create independent structures that will conduct express-analysis of credit standing of enterprises.
- c) While evaluating the borrower's credit standing, the bank should solve the following questions: can the borrower meet his liabilities on time and is he able to meet them at all? The first question is answered through examination of financial and economic aspects of the enterprise, while the second one is juridical and connected with personal characteristics of its management.
- d) Comprehensive evaluation requires an estimation of current and perspective credit standing of the borrower. Current credit standing of the borrower is estimated by comparing the calculated coefficients and the optimal indices (establishment of correspondence with optimal tendencies to change). Prognostic evaluation of the borrower's credit standing needs analysis of changes in the enterprise's performance, turnover and profitability (given no essential changes in conditions for an enterprise's performance and no changes in the borrower's legal status).
- e) The effectiveness of credit standing analysis depends upon its frequency, competence and experience of the bank's expert.
- f) It would be expedient to include into the Provisions «About Crediting» the system of necessary and additional indices enabling to evaluate the credit standing of the borrower and recommend the system to be applied in the banking institutions of Ukraine.

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The article was received on July 22, 2005.