



## LEVYING THE LEVEL OF IMPORTANCE OF THE BANK LENDING PROCEDURES IN THE NORTHERN PHILIPPINES

DR. ROLLY SAN JOSE

Isabela State University, Euchague Campus

### ABSTRACT

The operation of private commercial banks in the modern economy is very important to the functioning of the modern financial system. They do this by initiating credit programs in the form of loans and investments, which allows them to bring into our midst the component of the total money supply that is viewed as being of the utmost relevance. The purpose of this study is to determine the significance of bank policies and procedures, in addition to the challenges that these institutions faced during the course of their lending operations at private commercial banks located in the four (4) communities that make up Region 02 in the Philippines. This study's objective is to determine the significance of bank policies and procedures, in addition to the challenges that these institutions faced during the course of their lending operations. In other words, the purpose of the study is to provide a solution to the question, "What difficulties did these institutions encounter while carrying out their lending operations?" According to the findings of this study, lending procedures enable financial institutions to more precisely evaluate the potential downsides of providing borrowers with credit. It enables the bank to evaluate the creditworthiness of the consumers, which in turn decreases the risk that the customers will be unable to repay the loans they have taken out. Having transparent loan procedures is good for both the borrower and the lending institution. This is because it makes it easier to comprehend the circumstances of the loan, such as the interest rate and the repayment schedule. As a consequence of this clarity, the borrower is able to create precise plans, which guarantees that the transaction will be transparent.

**Keyword:** financial system, lending procedures, private commercial bank, credit programs

### INTRODUCTION

Private commercial banks play a significant role in our modern economic system. They bring into our midst the most important ingredient of the money-supply-deposit through the creation of credit schemes in the form of loans and investment. They create credits in order to supply the funds that are needed in the community. They are engaged in an array of functions and services which earn for them the esteem of the trading public. Commercial banks could function as savings and mortgages banks, trust companies and that of other lending institutions.

Obviously, it could be realized that these banks should come up to the expectation of their clientele by assuming more consistent approach on how the functions are best carried out. Since one of the most important functions of commercial banks is the loan and credit functions, the private commercial banks in the Philippines must adopt these functions through a respectable policies and procedures in lending operations (Bellman, 2012).

Section 76 of the General Banking Act should follow certain basic procedures in lending operation to ensure a sound and healthy banking system. By their lending investing activities, private commercial banks affect the total volume of funds available for lending and they play a crucial role in determining aggregate economic activity. Credit extension by banks has, no doubt, helped to alleviate to a certain degree the financial predicament of the people.

Today, as rapid changes are apparent in the field of banking business, the policies and lending procedures are becoming more complicated. Thus, the loan and credit personnel are assuming more duties and responsibilities now than before and therefore there is a need for all private commercial banks in effecting desirable policies and procedures on lending scheme.

Private commercial banks have long been highly important sources of credit to business. Loans are the major investment outlet for commercial banks, and substantial portion of total bank credits are extended to business. The interest collected from borrowers constitutes the income of the bank. This income actually depends on the effectiveness of the policies, procedures and strategies of collecting loans. Therefore, this study is timely and is the initial venture in this area (Warner, 2005).



Furthermore, the results of the study on the existing policies and lending procedures of private commercial banks will give the top management officials better information on the current lending operations of their banks.

There is a pool of commercial financing through which effective utilization of the social circulating capital is rendered possible. The individual business enterprise contributes its surplus and obtains its deficit, the co-operative application of the capital being effected through the institution of commercial banking. There is an investment pool, as well, in which the institution of investment banking partly affects the co-operative application of the capital which is contained in that pool. Considerable difference, however, exists between the two pools (Cowenberg, 2006). The pool of commercial financing concerns itself exclusively with the social circulating capital, while the pool of investment financing is much wider, and concerns itself with the total capital in existence and includes fixed, as well as circulating capital. In broad sense, there is thus included in the pool of investment financing the capital which is contained in the pool of commercial financing. This difference in area goes hand in hand with a difference in the units between which co-operation is affected. In the case of commercial financing, the borrower stops with the individual enterprise; in the case of investment financing, business enterprise ends with the individual himself. In the first case, the lenders and borrowers are in a broad sense one and the same class; on the other hand the individual is the lending unit, while the business enterprise is the borrowing unit. The underlying purposes of the two pools thus differ.

The commercial pool represents co-operation by business enterprises in the employment of the circulating capital owned by these enterprises; the investment pool represents co-operation by individuals to render available for employment by business enterprises the capital owned by these individuals. In the investment pool, relative permanency is the keynote, both on the part of borrower and lender. There is not the periodic liquidity of funds which is found in the commercial pool, nor is there the frequent periodic availability and in availability of funds - alternating periods of surplus and deficit - on the part of the individual enterprise. The flow of capital in the investment pool is more viscous. Slower change occurs in the alignment of recipients and of lenders, as well as in the general character of the investments represented. Change in the investments occurs primarily in the direction in which new saved capital is applied (Hanson, Kashyap & Stein, 2010).

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.

The role of private commercial banks in carrying out their lending functions effectively in this modern era cannot just be overlooked. There is a need to scrutinize them to find out the importance of their policies and procedures in lending operation and as well as the problems they met so that solutions can be offered to keep them abreast with the modern banking lending operations. Therefore, a study of the lending operations of private commercial banking institutions in the four (4) cities of Region II is timely and relevant, thus this study has been conducted.

On the lending side, we obtain similar results, implying that tight monetary policy leads to a larger contraction in Islamic bank credits. This finding is a reflection of the favourable attitude of Islamic banks towards small and medium-sized enterprise (SME) financing. When similar relationships are analysed for currency and inflation shocks, we again find larger responses for Islamic banks showing the cyclical nature of SME credit (Aysan et al, 2017).

#### **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 importance of the current bank lending procedures as assessed by the loan and credit personnel in terms of: (a) loan pricing procedures; (b) documentation of credit procedures; (c) loan approval procedures; and (d) release of loan procedures.

#### **RESEARCH METHODOLOGY**

The study made use of descriptive surveying. The respondents were obtained through a method known as universal population; more specifically, all of the loan and credit employees from each private commercial bank located in the four (4) cities that make up Region 02 were included in the study as respondents. A tally and a table were created from their statements so that analysis and interpretation could be performed. The total number of people who participated in the research as respondents was 153, and they were all loan and credit employees. These respondents



are personnel working in the loan and credit departments of the nine (9) private commercial banks that participated in the survey. At the time of the research, 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 project. A method of conducting interviews and an examination of documentary evidence were also used as auxiliary tools. The methodology of conducting interviews was utilized in order to validate the responses provided by respondents, some of which were written in the questionnaire form but were ambiguous or unclear. The document pertaining to the General Banking Act, as well as the documented policies and procedures of the private commercial banks that were the subject of this study, were both subjected to documentary analysis.

## **DISCUSSION OF RESULTS AND FINDINGS**

### **RESULTS AND DISCUSSION**

#### **LEVEL OF IMPORTANCE OF THE BANKS LENDING PROCEDURES**

The private commercial banks in the four (4) cities of Region 02 have lending procedures in the operation of the lending business. The lending procedures include loan pricing, documentation of credit, loan approval, and release of loans. These procedures were assessed by the 153 personnel-respondents who served in the loan and credit section of the bank. The data were analyzed with the use of weighted mean.

#### **LEVEL OF IMPORTANCE ON LOAN PRICING PROCEDURE AS REGARDS TO THE NUMBER OF YEARS OF THE BANK IN LENDING OPERATION**

The pricing of loans is the first procedure in lending operation of private commercial banks. This is done to determine the cost of funds, administrative costs and other overhead expenses, taxes, degree of credit risks as well as the competition in the market. The data relative to pricing of loan procedures are shown. This procedure is based on or in relation to the number of years of the bank in lending operation.


Based from the obtained data from respondents, this loan pricing procedure was regarded as very important, as evidenced by 4.60 general weighted mean. The specific procedures that were considered very important are the administrative costs and other overhead expenses, degree of credit risks involved, and the competition in the market.

Insofar as the number of years the bank is in lending operations, the banks with 5-6 years in lending operations considered loan pricing procedure as important. This is the same with banks who have more than 10 to 20 years in lending operations. Banks which have operated for more than 5 years but less than 10 years believed that loan pricing procedures are very important in lending operation. Banks which have operated their lending business for more than 20 to 40 years considered the loan pricing procedure as somewhat important and least important respectively. Based from the above data, it could be deduced that private commercial banks in the four (4) cities in Region 02 have different perception or assessment as to loan pricing procedure. The higher the number of years in lending operations, the lesser the importance is attached to the loan pricing procedure. Perhaps because of the long years of operating their loan business, the banks have already been familiar on what loan pricing procedure could be adopted in lending operation; hence there is no need for them to give attention to the level of importance of the various specific procedures in loan pricing.

#### **LEVEL OF IMPORTANCE IN THE DOCUMENTATION OF CREDIT PROCEDURE AS REGARDS TO THE NUMBER OF YEARS OF THE BANK IN LENDING OPERATION**

There are specific procedures in documenting credits. One is to advise loan applicants regarding the approval of their loans. Another is to require the borrower to submit supporting papers for documentation. Another procedure is to verify the authenticity or defect of submitted documents, preparing credit proposal for submission to area manager for approval, and the endorsement to the credit committee for approval. The data for each of this specific procedure vis-à-vis the number of years of the bank in lending operation are indicated.

Generally, all the specific procedures were claimed as very important in the documentation of credit. It is only in the procedure where advise is given to applicants regarding the approval of their loans. This procedure was not very important. Perhaps, there is no need for the borrowers to



be advised of their loan approval as there are definite or standard procedures to be followed in lending operation.

Insofar as the number of years of the bank in lending operations is concerned, those banks which have operated their lending business from 1 to 10 years considered the five (5) specific procedures as very important whereas those banks with 10 to 40 years of operation assessed this documentation of credit procedures as important procedures and those with more than 40 years of lending operation regarded the procedures as somewhat important. Perhaps, the reason given by this bank with more than 40 years of lending operation is that the documentation of credit operation is a normal procedure in their lending business and this has been going on for a long period of time.

Based on the above concept, it could be inferred that the importance of documentation of credit depends on the number of years that the banks have operated their lending business. The banks with a long period of lending operation gave a lesser importance to the documentation of credit procedures.

#### **LEVEL OF IMPORTANCE OF THE LOAN APPROVAL PROCEDURE AS REGARDS TO THE NUMBER OF YEARS IN LENDING OPERATION**

The procedure in approving a loan takes several ways. Each specific procedure differs in importance in relation to the number of years the bank operated its lending business.

Generally, all the enumerated specific procedures in obtaining the approval of the loan are considered very important. This is attested by a general weighted mean of 4.95.

In terms of the number of years of the bank in lending operation, those banks with 1 to 10 years in lending operation regarded the specific procedures of loan approval as very important procedures on the other hand, those banks with 10 years to 40 years of lending operation considered the procedure as important, whereas those banks which have more than 40 years of lending operation considered the procedure as somewhat important. Perhaps, these banks with longer lending operation have been familiar or knowledgeable of the different procedure of loan approval because of their long years in lending business.

The data, imply therefore, that as banks operate for a longer period of time, the lesser importance is given to the various loan approval procedures.

#### **LEVEL OF IMPORTANCE OF THE RELEASE OF LOAN PROCEDURES AS REGARD TO THE NUMBER OF YEARS OF THE BANK IN LENDING OPERATION**

Various specific procedures have been adopted by private commercial banks in the four (4) cities of Region 02 in releasing the loan. The data for these procedures are indicated. Overall, the release of loan procedures was regarded by the respondents as a very important procedures in lending operations. This is evidenced by a general weighted mean of 4.58. Except for specific procedure which was considered important, all the other specific procedure were considered as very important. In terms of the number of years of the bank in lending operation, those banks which have 5 to 10 years in lending operation regarded the release of loan procedure as very important whereas those with 1 to 5 years and 10 to 20 years of lending operation considered the release of loan procedure as important.

For those banks which have operated for 20 to 40 years and banks with more than 40 years, the release of loan procedure to these banks was considered as somewhat important or least important respectively. Based on the analysis of data, it could be inferred that as the higher years of lending operations exist, the lesser the banks regard documentation of credit with less importance. May be the reason for this is that those banks which have been operating long their lending business have already adjusted or were already familiar with what best and suitable procedures to be adopted on the release of loans. These are the reasons why as the bank stays longer in the lending business, the lesser importance is given to the release of loan procedures.

#### **LEVEL OF IMPORTANCE IN LOAN PRICING PROCEDURE AS REGARDS TO THE NUMBER OF BRANCHES IN THE CITY**

Some banks do not have branches in the city, there are specific procedures being observed in loan pricing to enable the bank to be financially viable in their operation. Table 54 reflect the data on the weighted mean of those banks with no branch and those with branches in the city.



As regards to those banks with 1-5 branches and those with no branches, it was noted that, in general, the specific procedures on loan pricing were considered important. Thus, this is evidenced by a general weighted mean of 4.20.

Insofar as the number of branches or none at all is concerned, it could be observed that those with no branches regarded this loan pricing procedure as very important except on the administration costs which is somewhat important. On the other hand, those banks which have 1 to 5 branches in the city considered the specific procedures as important. It could be noted that as the banks have branches, the lesser in importance is given to the loan pricing procedures. Perhaps, those with branches in the city have regularly adopted such procedures such that they could always adjust on what procedures are to be adopted.

#### **LEVEL OF IMPORTANCE OF THE DOCUMENTATION OF CREDIT AS REGARDS TO THE NUMBER OF BRANCHES OF THE BANK IN THE CITY**

Based from the responses of the respondents, it could be noted that, in general, the procedure on documenting credit is an important policy. This is attested by a general weighted mean of 4.18. In the five (5) specific procedures for documentation, it is number 4 that was assessed as very important. This is the verification for the authenticity of supporting papers submitted to the banks. Given importance are the submission of supporting papers and the preparation of credit proposal. Somewhat important procedure was the advise to applicants regarding approval of their loan. Advise on the approval of their loan was not very much needed since their loans will be approved if all the requirements and documents have been complied with.

Those with no branches of the city gave higher importance of the procedure than those banks with branches in the city. This means that those with no branches considered the specific procedure of credit documentation as very important whereas those with branches considered documentation of credit procedure as important. Perhaps the reason for a lesser importance of the procedure is that those with branches have already adopted this procedure in lending operations for quite as sometime among the different branches.

#### **LEVEL OF IMPORTANCE OF THE LOAN APPROVAL PROCEDURE AS REGARDS TO THE NUMBER OF BRANCHES OF BANKS IN THE CITY**

Overall, the four (4) specific procedures in loan approval were considered as important procedures as claimed by the respondents. This is attested by a general weighted mean of 4.36.

Those bank with no branches in the city they considered these procedures as very important procedures since there are based on sound credit decision. There are the recommendation of the credit committee as reflected in the memo and the approval of the loan done by the head office on the basis of the recommendation of the branch manager. The memorandum is drawn up if the credit proposal is viable was assessed by the respondents as important. The respondents considered the specific procedure that only the branch manager approves the credit upon the recommendation of the loan and credit committee somewhat an important policy. This was so because the bank does not have branches in the city and as such no branch manager is able to exercise his function loan approval.

With respect to banks with branches in the city the four (4) specific procedures in loan approval were considered as important. Nevertheless, whether the banks have branches or no branches in the city, the loan approval procedure is regarded as an important procedure since this is the right and correct procedures in approving loans.

#### **LEVEL OF IMPORTANCE ON THE RELEASE OF LOAN PROCEDURE AS REGARDS TO THE NUMBER OF BRANCHES IN THE CITY**

As already previously mentioned, the release of loans has several specific procedures to undertake. Data shows the data obtained from respondents with weighted mean of those with or without bank branches in the city.

It could be noted that all the specific procedures in the release of loan were assessed as important procedures. This is evidenced by a general weighted mean of 3.90. Those banks with no branches in the city gave different level of importance to the specific procedure. The procedures that clearance is secured from the legal department of the bank and the procedure that when interest is to be discounted the initial release is not of the discounted interest were regarded as very important procedures. The procedure that the release of credit is in accordance with terms



and conditions of the credit as well as the release of loan is in accordance with the Truth in Lending Act, these are either somewhat important or important procedures in that manner.

To banks with 1-5 branches in the city, all the four (4) specific procedures were regarded as important. It was considered important procedure perhaps this procedure must have to be followed or observed by all the branches of banks in the city whereas those with no branches, it is the main bank that decides on the procedure of releasing the loans.

Nevertheless, both banks with no branch or with 1-5 branches considered the release of loan procedures as important. They must be observed properly for the interest of the banks and the borrowers/debtors.

#### **LEVEL OF IMPORTANCE OF THE LOAN PRICING PROCEDURES AS REGARDS TO THE SHARE OWNED BY AN INDIVIDUAL OR A FAMILY GROUP**

The data obtained from the respondents' assessments on the level of importance of the loan policy procedures is indicated. Based from the assessment of the respondents, it could be noted that, as a whole, the loan pricing procedures as regards to the shares owned by an individual or a family group are important procedures in loan pricing. This is attested by a general weighted mean of 4.20. All the five (5) specific procedures were considered as important procedures.

In terms of the shares owned by an individual or a family group, those banks with shares of an individual or family group up to 20% were regarded as very important procedures. For those with more than 20% to 40% shares, they considered the procedures as important except in one procedure which was regarded as somewhat important. Banks with more than 40% to 70% vary in their assessment of the importance of the loan pricing procedures.

Based on the findings of the study, it could be noted that only those shares of up to 20% considered the loan pricing procedures as very important while those with shares of 20% up to 70% considered the loan pricing procedures as important.

Based from the above data, it could be deduced that when the shares owned by an individual or a family group increases the lesser importance is given to loan pricing procedure. Perhaps, the reason for this is that banks with high shares of individual or family group have already been familiarized on what procedures could be adopted that is correct and proper for those who are borrowing from their banks.

#### **LEVEL OF IMPORTANCE OF THE DOCUMENTATION OF CREDIT PROCEDURE AS REGARDS TO THE SHARES OWNED BY INDIVIDUAL OR A FAMILY GROUP**

As assessed by the respondents, the documentation of credit procedure is an important procedures in the lending industry. This is evidenced by a general weighted mean of 4.19. Except in the verification of the authenticity of the documents which is very important, all the other specific procedures were regarded as important.

In terms of the number of shares owned by an individual or a family group, those with up to 20% considered the documentation of credit procedures as very important. Those with shares of more than 20% to 70% in the banks regarded the documentation of credit procedures as important procedures.

Thus, it could be noted that there is a difference in the level of importance between those with lower shares and higher shares in the banks. Those with higher shares are more stringent in assessing the importance of the procedure of documenting credits since they do not want to lose their money or let the bank lose its good business of lending money to borrowers unlike those with only lesser shares in the bank.

#### **LEVEL OF IMPORTANCE OF THE PROCEDURES IN THE RELEASE OF LOAN AS REGARDS TO THE NUMBER OF SHARES OWNED BY AN INDIVIDUAL OR A FAMILY GROUP**

The assessment of the respondents with respect to the procedures in releasing loans was generally important. This is attested by a general weighted mean of 3.90. This means that all the specific procedures in the release of the loan were considered important. Likewise, the shares owned by an individual or family group of 20% up to shares of more than 70% were regarded as important too. The data indicate that regardless of the number of shares owned by an individual or a family group the procedure in the release of loan is an important procedure being adopted by the private commercial banks in the cities of Region 02.



### **LEVEL OF IMPORTANCE OF LOAN PRICING PROCEDURE AS REGARDS TO THE NUMBER OF PERSONNEL IN THE LOAN AND CREDIT SECTION OF THE BANK**

The respondents assessed the level of importance of the loan pricing procedure and the data. As indicated, all the five (5) specific procedures in loan pricing are regarded as important. This is attested by a general weighted mean of 4.20. In the case of the number of personnel in the loan and credit section of the bank, it could be noted that this loan pricing procedure is an important procedure regardless of the number of personnel in the loan and credit section of the bank. This finding imply that the loan pricing procedure is a must to be observed by all the private commercial banks in the four cities of Region 02 regardless of the number of loan and credit section personnel. This is a good indicator that private commercial banks observed strictly the procedures of pricing of loans.

### **LEVEL OF IMPORTANCE OF THE DOCUMENTATION OF CREDIT PROCEDURE AS REGARDS TO THE NUMBER OF PERSONNEL IN THE LOAN AND CREDIT SECTION**

The assessment of the respondents with regards to the documentation of credit procedure as regards to the number of personnel in the loan and credit section of the bank is shown .

The analysis of the respondents assessment on documentation of credit procedure in relation with the number of personnel in the loan and credit section of the bank reveals that the procedure is an important procedure to be observed. As a result, the obtained general weighted mean is 4.19.

Based on the obtained data, the specific procedures dealing with the advise to applicant regarding approval of loan as well as the verification for the authenticity of the documents were regarded as very significant procedures. Considering as very important specific procedure is the submission of supporting papers for documentation. Likewise, the preparation for a credit proposal and endorsement to credit committee are important procedures. Somewhat important is on the advice to applicant regarding approval of loans.

As to the number of personnel in the loan and credit section of the bank, the documentation of credit procedure was considered important regardless of the number of personnel in the loan and credit section of the bank.

It could be inferred from the obtained data that private commercial banks in the four (4) cities of Region 02 observed the importance of documenting credit procedures regardless of the number of personnel on the loan and credit section of the bank.

### **LEVEL OF IMPORTANCE OF THE LOAN APPROVAL PROCEDURE AS REGARDS TO THE NUMBER OF PERSONNEL IN THE LOAN AND CREDIT SECTION OF THE BANK**

The respondents assessed the level of importance of the loan approval procedure of the banks. The analysis of the data in relation to the number of personnel in the loan and credit section of the bank is found.

Based on the result of the analysis, it could be noted that all the four (4) specific procedures relative to loan approval were regarded as important procedures.

With respect to the number of personnel in the loan and credit section of the bank, those with 1-2 and 4 to 5 personnel considered the loan approval procedure as very important procedures in loan approval.

Those with 3 to 4 and 6 to 7 or more personnel considered the loan approval procedures as important. As observed, these were fewer number of personnel in the loan and credit section of the bank who have higher perception on the level of importance of loan approval procedures than those with bigger number of personnel in the section of the bank. This means therefore that those banks with lesser number of personnel observe very strictly loan approval procedures. Thus, they considered the procedures as either very important and important as the case may be.

### **LEVEL OF IMPORTANCE OF THE RELEASE OF LOAN PROCEDURE AS REGARDS TO THE NUMBER OF PERSONNEL IN THE LOAN AND CREDIT SECTION OF THE BANK**

The analysis of data obtained from the responses of the respondents on the level of importance of the procedure in the release of the loan. It could be noted that in general, all the specific procedures relative to the release of loan is regarded as important procedures. This is attested by a general weighted mean of 3.90. This result indicates that these specific procedures



are strictly observed by the bank as these are the proper and correct procedures in the release of loans.

In terms of the number of personnel in the loan and credit section of the bank, those with 1- to personnel regarded three (3) specific procedures as very important while the procedure that pertains to discounted interest, this was considered only as important procedure. Those banks with 3 to 4 personnel in the loan and credit section, the personnel claimed that the specific procedures are somewhat important in the release of loan whereas those belonging to higher number of personnel such as those with 4 to more than 7 personnel, the release of loan procedure was only an important procedure to be observed or complied by them.

This finding implies that those with lesser number of personnel were more concerned and strictly observant on the procedures of releasing the loan compared to those with bigger number of personnel in the loan and credit section of the bank.

#### **LEVEL OF IMPORTANCE OF PRICING PROCEDURE AS REGARDS TO THE LOAN OPERATION MANUAL**

Loan pricing procedures as previously mentioned have various specific procedures. The data on this aspect together with the loan operation manual data are indicated.

As indicated, all the specific loan pricing procedures were considered as important. This is evidenced by a general weighted mean of 4.20. This means that the loan pricing procedures were strictly observed and complied with by the banks.

Those banks with loan operation manual, considered the loan pricing procedure as important. On the other hand, those banks with no loan operation manual, they considered the loan pricing procedure as least important.

This finding implies that those with no loan operation manual could not strictly observe the procedures of loan pricing since they don't have the loan operation manual to base their procedures in loan pricing. On the other hand, those with loan operation manual strictly observed the procedures in loan pricing.

#### **CONCLUSION AND RECOMMENDATION**

Banks are indeed imperative in any business establishments. Here are some key recommendations of bank lending procedures based on the result of the study.

**Mitigating risks:** Banks are responsible for ensuring that they do not lend to individuals or companies that are high risk. Bank lending procedures ensure that adequate due diligence is carried out to determine the creditworthiness of the borrower and the likelihood of the default.

**Protecting customer interests:** Bank lending procedures are designed to ensure borrowers are aware of the terms and conditions of their loans, including the interest rates and any fees or penalties that maybe charged.

**Promoting financial stability:** Bank lending procedures play an important role in promoting financial stability by ensuring that loans are made to individuals and companies that are likely to honor their debt obligations

**Ensuring compliance with regulations:** Banks are regulated by various regulatory bodies and are required to comply with specific regulations governing lending standards. Bank lending procedures ensure that banks comply with these regulations.

**Supporting economic growth:** Bank lending procedures provide access to credit, which business need to expand and invest in the new projects. This in turn, can lead to economic growth and job creation.

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