

LOAN MANAGEMENT AND ITS *EX ANTE* & *EX POST* ROLE IN THE LENDING PROCESS

SOFIKA NAZAJ

CREDINS BANK

Rr. Ismail Qemali, no 29, Tirana Albania

E-mail: sofika.nazaj@bankacredins.com

ELVIN MEKA

Department of Finance, Faculty of Economy

EUROPEAN UNIVERSITY OF TIRANA

Blvd "Gjergj Fishta", Nd.70, H.1,

1023, Tirana, ALBANIA

E-mail: elvin.meka@uet.edu.al

Abstract

Bank loan management is crucial and it is instrumental in ensuring the success or failure of any credit institution. Albanian banking system as a relatively newcomer in the market economy, started to apply modern lending rules & procedures after the major loan portfolio was already created, whereas the key role of risk management and its respective procedures was mostly unknown for the majority of banks in Albania, during the credit boom. On the other side, Bank of Albania has been relatively late in taking up its role in controlling and monitoring the process of setting up the lending structure and regulation, as a mandatory standard, applicable in lending practices for commercial banks in Albania. The adjusted Basel I standards helped banks in Albania to weather the effects of the last financial crisis, but proved incomplete, in terms of ensuring long - term loan quality management.

The paper shed light on main reasons why Albanian banks lagged behind in terms of applying and implementing modern risk management practices and procedures, during the credit boom period and explain why applying rules, procedures, intending to correct mistakes done during lending process, or improving the low quality portfolio, proved to be costly and of less success. Also, the paper put emphasis on lack of properly qualified and well-trained credit officers, within Albanian banks, as most of them practiced "on job training", and only a few banks took care of training the staff, and arranging proper organizational structures, which were mostly focusing to sales rather than risk.

Finally, the paper provides some recommendations on improving internal lending practices and procedures, along with modern risk management principles and near-future full implementation of Basel II standards by Bank of Albania.

Keywords: Credit portfolio, loan quality management, Basel requirements, central bank supervision, NPLs- Non Performing Loan.