

IMPROVING THE ACCOUNTING OF MORTGAGE LOANS IN COMMERCIAL BANKS

Ashurov Feruzjon Erkinovich

Banking and finance academy of the Republic of Uzbekistan

Abstract: This article examines the current challenges faced by commercial banks in accounting for mortgage loans and outlines actionable strategies for improvement. By leveraging advanced technologies, refining internal processes, and fostering a culture of continuous learning, banks can achieve greater operational efficiency and strengthen their mortgage loan portfolios. The recommendations provided aim to align accounting practices with global standards while enabling banks to meet the demands of an increasingly complex financial landscape.

Keywords: *Mortgage loan accounting, commercial banks, risk management, regulatory compliance, IFRS, advanced accounting software, data management, impairment calculation, internal controls, financial transparency, operational efficiency, credit risk assessment, technological integration, banking sector stability.*

INTRODUCTION

Mortgage loans are a cornerstone of the banking industry, contributing significantly to both financial institutions' profitability and the economic development of nations by facilitating home ownership. However, the effective management and accounting of these loans are becoming increasingly complex due to evolving financial regulations, diverse loan structures, and the integration of advanced technologies. Inaccurate accounting not only undermines a bank's financial stability but also exposes it to risks such as regulatory penalties, impaired stakeholder trust, and operational inefficiencies.

The dynamic nature of the financial environment, characterized by frequent updates to international standards such as IFRS 9, demands a proactive approach to mortgage loan accounting. Banks must adopt innovative solutions and standardized practices to address challenges such as impairment calculation, data management, and credit risk assessment. Moreover, the transition from traditional accounting methods to technology-driven processes is imperative for ensuring compliance, enhancing accuracy, and improving decision-making.

Literature Review

The accounting of mortgage loans has been a focal point in banking and financial research due to its significance in ensuring financial stability and transparency. This literature review examines prior studies on the challenges, regulations, and advancements in mortgage loan accounting, focusing on the adoption of international standards, risk management, and technological integration.

International Financial Reporting Standards (IFRS), particularly IFRS 9, have been widely discussed in the context of accounting for financial instruments, including mortgage loans. Studies by Barth et al. (2008) highlight the importance of IFRS in standardizing accounting practices across jurisdictions, ensuring transparency and comparability. Additionally, impairment calculation under the expected credit loss (ECL) model has been a significant area of focus. Research by Bischof and Daske (2016) underscores the complexity of ECL estimation for long-term loans, particularly in diverse economic conditions.

Mortgage loans involve unique challenges, including their complex structures, varying repayment terms, and risk factors such as defaults and property value fluctuations. Studies by Liu and Ryan (2006) discuss the difficulties banks face in accurately recognizing interest income and loan impairments. Similarly, research by Chiramonte and Casu (2017) highlights the need for robust risk assessment frameworks to mitigate credit and market risks associated with mortgages.

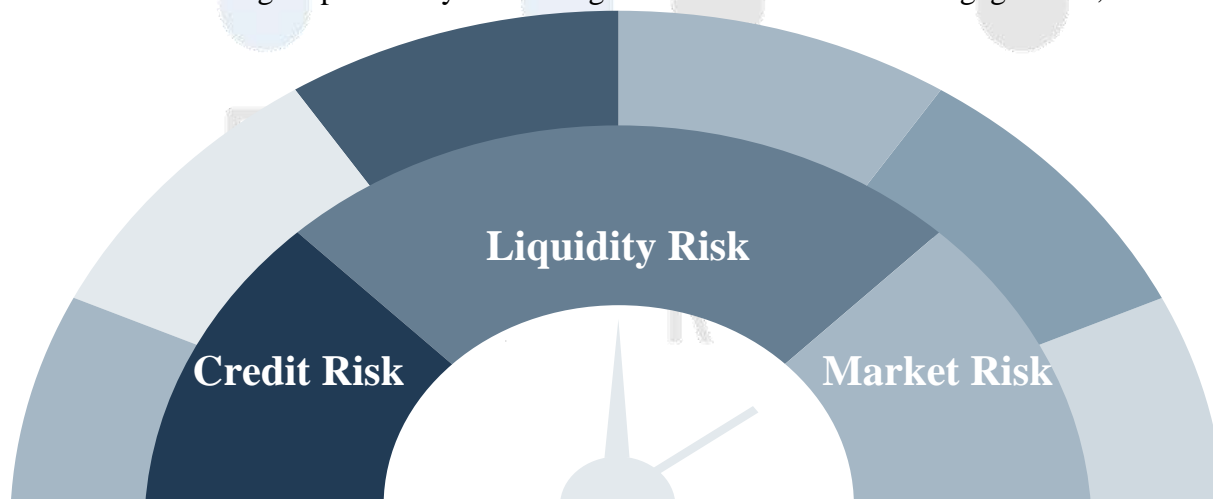
Technological advancements have significantly impacted the accounting of mortgage loans. Research by Brynjolfsson and McAfee (2014) emphasizes the role of automation and data analytics in streamlining accounting processes and improving accuracy. Artificial intelligence and machine learning tools are increasingly being utilized for risk assessment and fraud detection, as explored by Ghasemi et al. (2020). Blockchain technology has also been identified as a promising solution for ensuring transparency and security in loan documentation (Nakamoto, 2008).

Accurate accounting for mortgage loans is crucial for commercial banks, as it directly impacts their financial stability, regulatory compliance, and reputation. Mortgage loans often constitute a significant portion of a bank's assets, making their proper accounting a priority for internal management, stakeholders, and regulatory bodies. Below are the key reasons highlighting the importance of accurate accounting for mortgage loans:

Commercial banks operate under stringent regulatory frameworks, including international standards like IFRS and local banking laws. Accurate mortgage loan accounting ensures compliance with these standards, reducing the risk of penalties, legal issues, and reputational damage. For example, compliance with IFRS 9 requires precise impairment calculations using the Expected Credit Loss (ECL) model, which depends on accurate financial records.

Mortgage loans are long-term commitments that involve complex repayment structures. Accurate accounting provides a clear and transparent view of a bank's financial health, including its income from interest, outstanding loan amounts, and provisions for bad debts. This transparency builds trust among investors, customers, and regulators, enabling informed decision-making and fostering confidence in the banking system.

Accurate accounting helps identify and manage risks associated with mortgage loans, such as:



1-picture. Accurate accounting helps identify and manage risks associated with mortgage loans

Credit Risk: Monitoring borrowers' repayment capabilities and assessing loan impairments.

Liquidity Risk: Ensuring the bank has sufficient funds to meet obligations while maintaining lending capacity.

Market Risk: Evaluating the impact of property value fluctuations on mortgage-backed securities or loan recoverability.

A robust accounting system ensures that potential risks are detected early, allowing banks to take proactive measures.

Reliable accounting data provides insights into loan performance, profitability, and risk exposure, which are critical for strategic planning. For instance, accurate records help banks:

- Set appropriate interest rates.
- Allocate capital efficiently.
- Design mortgage products tailored to market demands.

This data-driven approach enables banks to make decisions that align with their financial goals and customer needs.

Accurate accounting reduces errors and discrepancies in financial records, saving time and resources that would otherwise be spent on corrections and reconciliations. Automated accounting systems further streamline processes, enabling faster loan processing, better reporting, and improved customer service.

Mortgage loans are a key asset class for banks, and their proper management reflects the institution's overall competence and stability. Accurate accounting reassures stakeholders, including shareholders, depositors, and rating agencies, that the bank's financial practices are sound and reliable.

Accurate mortgage loan accounting is essential for preparing comprehensive financial statements, including balance sheets, income statements, and cash flow statements. These reports are vital for:

- Monitoring financial performance.
- Meeting audit requirements.
- Providing insights for regulatory reporting and compliance.

Accurate accounting for mortgage loans is not just a regulatory necessity but a strategic imperative for commercial banks. It strengthens financial transparency, improves risk management, supports decision-making, and enhances operational efficiency. By prioritizing accuracy and leveraging advanced technologies, banks can ensure their mortgage loan portfolios remain a robust and reliable component of their overall financial ecosystem.

Conclusion

Improving the accounting of commodity-material reserves in commercial banks is essential for operational excellence, cost efficiency, and compliance. By adopting modern technologies, standardizing practices, and strengthening internal controls, banks can overcome existing challenges and ensure the effective management of their reserves. These improvements contribute not only to financial stability but also to enhanced stakeholder confidence in the organization's operational integrity.

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