

FACTORS INFLUENCING THE QUALITY OF CREDIT APPRAISAL FOR INDIVIDUAL CUSTOMERS AT JOINT STOCK COMMERCIAL BANKS

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Abstract: *In the context where individual lending plays an increasingly important role in the operations of joint stock commercial banks (JSCBs) in Vietnam, credit appraisal has become a decisive factor in determining lending quality and risk management. This paper focuses on analyzing the factors influencing the quality of credit appraisal for individual customers. On that basis, several recommendations are proposed to improve credit appraisal quality, thereby contributing to reducing non-performing loans and promoting sustainable development for JSCBs in the integration era.*

• Keywords: credit appraisal; individual customers; joint stock commercial banks; credit risk; appraisal process.

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1. Introduction

In the contemporary banking environment, credit activities remain the most fundamental and profitable operation of commercial banks, especially in developing countries such as Vietnam. Among the different segments of credit, lending to individual customers has been growing rapidly and gradually becoming a strategic business orientation for joint stock commercial banks (JSCBs). The expansion of individual lending not only contributes significantly to banks' income diversification but also plays an important role in stimulating domestic consumption, promoting household investment and fostering inclusive economic growth. However, the individual customer segment is characterized by relatively small loan sizes, large customer numbers and high heterogeneity in income sources, spending habits and repayment capacities. These features make the lending process to individuals inherently more complex and riskier compared to corporate lending (Luu Phuoc Ven, 2022).

Credit appraisal is widely acknowledged as the most crucial stage in the credit process because it provides the foundation for lending decisions and risk control. A high-quality appraisal process enables banks to assess the creditworthiness of borrowers, anticipate potential risks and set appropriate lending terms, thereby ensuring the safety of credit portfolios. Conversely, weak or superficial appraisal may lead to inaccurate lending decisions, increasing the probability of non-performing loans (NPLs), impairing bank profitability and undermining financial system stability. In recent years, although JSCBs in Vietnam have made significant improvements in risk management

frameworks, credit appraisal quality remains uneven across institutions and is often challenged by limitations in data transparency, information asymmetry and reliance on manual appraisal practices.

The issue becomes even more pressing in the context of Vietnam's deeper integration into the global financial market. The growing competition among banks, the rapid development of financial technology (FinTech) and the rising expectations of customers for faster and more convenient loan services require banks to balance between lending expansion and risk mitigation. This raises an urgent question: what factors influence the quality of credit appraisal for individual customers at JSCBs and how can these factors be managed to ensure both efficiency and safety? Addressing this question is critical not only for the sustainability of each bank but also for the resilience of the entire Vietnamese banking sector. From the theoretical perspective, previous studies worldwide have identified various determinants of credit appraisal quality, such as the availability of customer information, the capacity and ethics of credit officers, the sophistication of appraisal methodologies, the effectiveness of legal frameworks and the overall macroeconomic conditions. However, in the Vietnamese context, research on credit appraisal has primarily focused on corporate lending, while the individual lending segment - despite its rapid growth and high potential - has received comparatively less academic attention. This creates a research gap that calls for a systematic analysis of the factors affecting credit appraisal quality for individual customers in Vietnam. Therefore, this paper aims to systematize and analyze the key factors influencing the quality of credit appraisal for individual customers at JSCBs in Vietnam. By

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categorizing these factors into internal elements (such as customer information, credit officer competence, appraisal procedures and bank policies) and external elements (such as legal framework, credit information systems and macroeconomic environment), the study seeks to provide a comprehensive theoretical basis for evaluating the effectiveness of current appraisal practices. On that foundation, the paper proposes several recommendations to strengthen credit appraisal quality, thereby reducing credit risks, controlling non-performing loans and supporting the sustainable development of Vietnamese JSCBs in the integration era.

2. Definition and characteristics of credit for individual customers

In the modern banking sector, credit activities are not limited to enterprises and organizations but have expanded significantly to serve individual customers. The development of credit for individual borrowers has become a strategic focus for many joint stock commercial banks, especially as retail banking grows in both scope and sophistication. Credit for individual customers refers to the provision of loans by commercial banks to individuals or households for personal consumption, housing, education, medical treatment or small-scale business activities. This type of credit is typically characterized by relatively small loan amounts, shorter repayment terms and more flexible procedures compared to corporate lending (Le Van Te, 2009). It is governed by general banking regulations and specific provisions concerning consumer credit issued by the State Bank of Vietnam and other regulatory authorities.

According to Circular No. 39/2016/TT-NHNN issued by the State Bank of Vietnam, a credit relationship is established when a financial institution agrees to lend money to a customer based on certain terms and conditions, which include a specific repayment period, a defined interest rate and legally acceptable purposes for using the funds (State Bank of Vietnam, 2016). In the context of individual lending, the sources of repayment typically derive from the borrower's regular income such as salaries, profits from small-scale business operations, rental income or other legitimate personal earnings.

Credit for individual customers is distinct from corporate credit in several key ways. First and foremost, individual customers often lack detailed and verifiable financial statements, making it more difficult for banks to assess their financial capacity objectively. As a result, banks rely heavily on income verification documents (such as salary slips, employment contracts or tax records), credit history from the Credit Information Center (CIC) and in many cases, personal interviews

or on-site inspections to evaluate the borrower's creditworthiness.

Another characteristic of individual credit is its relatively high risk level. Compared to corporate clients, individual borrowers tend to have less financial resilience to economic shocks such as job loss, illness, inflation or changes in interest rates. Moreover, they often possess limited collateral and may have less understanding of financial obligations, which can lead to delayed payments or defaults.

On the other hand, credit to individual customers provides banks with significant benefits. Retail lending contributes to the diversification of the credit portfolio, reduces dependency on a few large corporate clients and typically earns higher interest margins. The volume of individual borrowers also creates opportunities for cross-selling other banking products such as insurance, credit cards, savings and digital banking services.

Despite its advantages, individual credit management requires banks to invest substantially in human resources, risk management systems and modern technologies such as credit scoring models, big data analytics and automation tools. Properly managing and appraising loans to individuals is essential to maintaining credit quality and preventing an increase in non-performing loans (NPLs).

3. Definition, objectives and role of credit appraisal

Credit appraisal is a critical step in the credit granting process. It refers to the systematic assessment of a prospective borrower's financial condition, credit history, repayment capacity and purpose for borrowing, carried out by the bank before approving a loan (Nguyen Minh Kieu, 2009). The primary purpose of this process is to evaluate the level of risk associated with a credit request and to support decision-making regarding whether a loan should be approved, under what terms and to what extent.

In the context of lending to individual customers, credit appraisal involves collecting and analyzing both quantitative and qualitative information. This includes income levels, debt obligations, employment stability, credit history, character references and, where applicable, the value and legal status of collateral. The process aims to determine the borrower's willingness and ability to repay the loan in full and on time.

3.1. Objectives of credit appraisal

The primary objective of credit appraisal is to assess the level of risk associated with lending and to ensure that the credit extended by a bank is both safe and recoverable. In the case of individual customers, the process aims to evaluate the borrower's ability and willingness to fulfill their debt obligations based on a

thorough analysis of income, expenses, employment stability, credit history and overall financial behavior. An important goal is to determine whether the customer possesses adequate and sustainable income to service the loan without creating financial distress. Furthermore, credit appraisal seeks to verify the legality and feasibility of the loan purpose, ensuring that the funds will be used for acceptable and productive purposes aligned with the bank's credit policy. Another critical objective is to minimize the potential for default and credit losses by identifying high-risk applicants early in the process. In doing so, credit appraisal contributes directly to maintaining the quality of the bank's loan portfolio and controlling the level of non-performing loans (NPLs). In addition, the appraisal process ensures compliance with internal regulations and external legal frameworks, thereby reinforcing prudent banking practices. Lastly, it provides a reliable foundation for informed decision-making by loan officers and credit committees, supporting the bank's strategic goals in balancing growth with risk management.

3.2. The role of credit appraisal in personal lending

Credit appraisal plays a vital role in the personal lending process, serving as a foundational tool for risk assessment and decision-making in banks. For individual borrowers—who often lack detailed financial documentation and may have varying levels of income stability—the credit appraisal process provides a structured approach to evaluate their creditworthiness. It enables banks to assess not only the financial ability of borrowers to repay loans but also their intent and reliability, helping prevent potential defaults. Through careful analysis of income, debt obligations, credit history and other personal information, banks can differentiate between high-risk and low-risk applicants and tailor loan conditions accordingly. Moreover, a well-implemented appraisal process minimizes credit risk, ensures the safety of bank assets and enhances the overall quality of the loan portfolio. Beyond mitigating risk, credit appraisal also supports customer segmentation and strategic product offerings, allowing banks to better serve the needs of different client groups while maintaining financial discipline. Additionally, it ensures compliance with regulatory standards and internal credit policies, fostering transparency and accountability in lending practices. In essence, credit appraisal acts as the first line of defense against non-performing loans and plays a strategic role in the sustainable development of retail banking.

4. The credit appraisal process for individual customers

The credit appraisal process for individual customers is a systematic and structured procedure that banks

undertake to evaluate loan applications before granting credit (Nguyen Minh Kieu, 2014). While specific procedures may vary slightly across institutions, the general process typically includes the following key stages: information collection, preliminary screening, detailed evaluation and final decision-making. In the first stage, banks collect all relevant documents from the customer, including personal identification, income proof (such as salary slips, bank statements or business records), credit reports and documents related to the purpose of the loan (e.g., purchase agreements, tuition invoices or business plans). The preliminary screening assesses whether the applicant meets the basic lending criteria in terms of age, citizenship, income level and creditworthiness. If eligible, the application proceeds to a more comprehensive evaluation stage.

During the detailed appraisal, the bank analyzes the borrower's financial capacity through income-to-debt ratio analysis, cash flow projection and existing liabilities. The customer's credit history is examined using internal records and external databases like the Credit Information Center (CIC) to identify any prior defaults, overdue payments or behavioral patterns. The bank also evaluates the legality and feasibility of the loan purpose and, if applicable, conducts a valuation and legal verification of collateral. In many cases, banks may also conduct interviews or home/business visits to verify the accuracy of the submitted information.

The final stage involves compiling all assessment results into a credit appraisal report, which includes a recommendation regarding loan approval, proposed terms (loan amount, tenor, interest rate) and risk mitigation measures if needed. This report is reviewed by a credit committee or authorized officer who makes the final lending decision. The thoroughness and objectivity of this appraisal process directly influence the quality of the loan portfolio and play a key role in reducing the incidence of non-performing loans. In an increasingly digital banking environment, many banks are also integrating automated credit scoring systems and data analytics tools into this process to enhance efficiency, consistency and accuracy.

5. Evaluation criteria of credit appraisal effectiveness

Evaluating the effectiveness of the credit appraisal process is essential to ensuring that lending decisions are both sound and aligned with the risk management objectives of the bank. A well-functioning appraisal system should not only reduce the occurrence of bad debts but also enhance operational efficiency, customer satisfaction and regulatory compliance. One of the primary indicators of appraisal effectiveness is the non-performing loan (NPL) ratio within the individual lending portfolio. A consistently low NPL ratio

suggests that the appraisal process has been successful in identifying creditworthy borrowers and filtering out high-risk applicants. Another key metric is the approval rate-the proportion of loan applications approved after appraisal. While a high approval rate may indicate efficiency, it must be balanced with prudent risk control to avoid compromising credit quality.

In addition, the accuracy and timeliness of the appraisal process are critical. Delays in processing loan applications can lead to customer dissatisfaction and lost business opportunities, while inaccurate or overly subjective assessments may result in poor credit decisions. Therefore, banks often monitor the average turnaround time (TAT) for appraisals and implement service-level agreements (SLAs) to standardize procedures. The rate of restructured loans-loans that have to be modified due to repayment difficulties-can also serve as a signal of ineffective credit appraisal if found to be high.

Furthermore, customer feedback and post-disbursement loan performance offer qualitative and quantitative insights into the effectiveness of the appraisal process. Banks may also conduct internal audits and periodic reviews of appraisal reports to ensure compliance with policy and detect errors or inconsistencies. In the context of digital transformation, the integration of automated scoring models and risk analytics tools is increasingly being used to benchmark and improve appraisal effectiveness. Overall, a robust evaluation framework helps banks refine their credit appraisal processes, align them with strategic goals and maintain a strong and resilient retail lending portfolio.

6. Factors influencing the quality of credit appraisal

The quality of credit appraisal for individual customers is influenced by a combination of internal and external factors that determine the thoroughness, accuracy and reliability of the appraisal outcomes (Berger, A. N et al., 2002). Among the internal factors, the most significant is the qualification and professional competence of credit officers. Appraisal quality depends heavily on their ability to analyze financial documents, assess repayment capacity, interpret credit reports and detect potential risks. Insufficient training or lack of experience may lead to subjective or inconsistent evaluations, thereby increasing credit risk. Another key internal factor is the availability and quality of information systems, including access to accurate databases, credit history from institutions like the Credit Information Center (CIC) and modern tools such as credit scoring models and automated underwriting systems. Banks with integrated digital infrastructure tend to perform faster and more accurate appraisals.

Additionally, internal credit policies and risk management frameworks directly shape how appraisal processes are designed and executed (Basel Committee on Banking Supervision, 2000). Institutions with clear lending criteria, well-defined workflows and consistent risk classification systems are better equipped to maintain appraisal quality. Moreover, organizational culture and sales pressure may also affect appraisal integrity. When loan officers are overly incentivized by sales targets, it may result in relaxed appraisal standards and moral hazard.

On the other hand, external factors such as macroeconomic conditions-including inflation, interest rate fluctuations and employment trends-can impact a borrower's future repayment ability and therefore influence the appraisal outcome. Regulatory requirements also play an important role; compliance with national banking laws, consumer protection regulations and central bank guidelines ensures that the appraisal process is legally sound and transparent. Furthermore, the borrower's own characteristics, such as transparency in financial disclosure, income volatility and attitude toward debt, significantly affect the appraisal outcome.

In sum, ensuring high-quality credit appraisal requires not only skilled personnel and robust internal systems but also adaptive policies that respond effectively to economic and regulatory changes. A comprehensive understanding of these influencing factors enables banks to improve their appraisal practices, strengthen their credit risk management and promote responsible lending in the personal finance sector.

7. Some proposals to improve the quality of credit appraisal for individual customers at joint stock commercial banks in Vietnam

In the context of Vietnam's increasingly integrated and competitive economy, lending to individual customers has become one of the key business segments of joint stock commercial banks (JSCBs). However, ~~this is also a segment that contains many potential risks,~~ as individual customers often have unstable income sources, financial capacity and repayment ability compared to enterprises. To improve the quality of credit appraisal, minimize risks and ensure sustainable development, JSCBs in Vietnam should consider the following solutions:

First, improving the customer information system and credit database.

Credit appraisal can only be accurate when banks have access to complete, objective and updated information. JSCBs should strengthen cooperation with the Credit Information Center (CIC) and also

exploit supplementary sources such as tax authorities, social insurance agencies, electricity companies and telecom providers to verify income and consumption behavior of customers. In addition, banks should build an advanced internal database to store credit history, transaction habits and repayment records of customers to support analysis and credit scoring.

Second, applying digital technology and artificial intelligence (AI) in credit appraisal.

The adoption of Big Data, AI and Machine Learning allows banks to analyze financial behavior, forecast repayment capacity and identify risks at an early stage. AI-based credit scoring models can combine traditional data (income, occupation, assets) with non-traditional data (spending patterns, online shopping habits, digital banking usage). This not only shortens appraisal time but also increases accuracy and reduces subjectivity from credit officers.

Third, enhancing the competence and professional ethics of credit officers.

Credit officers play a decisive role in determining credit quality. Banks should regularly organize advanced training programs on financial analysis for individuals, collateral evaluation and recognition of non-financial risks (psychological, behavioral and ethical aspects of customers). At the same time, internal control mechanisms should be strengthened to prevent conflicts of interest and ensure that officers do not bypass appraisal procedures in pursuit of lending growth targets, thereby reducing potential non-performing loans.

Fourth, standardizing the appraisal process and diversifying evaluation criteria.

Banks should design transparent, detailed appraisal procedures tailored to different customer segments (salaried employees, household businesses, freelancers, etc.). In addition to traditional criteria such as income, collateral and credit history, banks should incorporate new factors such as customer loyalty, digital banking engagement and social credibility to achieve a more comprehensive and accurate assessment of repayment ability.

Fifth, strengthening supervision and post-disbursement monitoring.

Credit appraisal should not end at the approval stage but must continue throughout the loan cycle. Banks need to implement mechanisms for regular monitoring through scheduled inspections, automated repayment reminders and mobile banking applications that allow customers to track repayment schedules. In addition, post-disbursement checks should be intensified, especially for loans showing early signs of risk, so that timely recovery measures can be applied.

Sixth, fostering a strong risk management culture across the organization.

Improving the quality of credit appraisal must go hand in hand with establishing a culture of risk management within each bank. This requires strong commitment from top management and assigning responsibility for credit quality control to every department and individual. Banks should balance lending growth objectives with capital safety, considering risk management as the cornerstone for sustainable development.

Conclusion

Credit appraisal plays an essential role in the sustainable development of personal lending activities in joint stock commercial banks. As retail banking continues to expand and diversify, the need for robust, accurate and efficient credit appraisal systems becomes increasingly critical. Through the theoretical foundations discussed in this paper-including the definition, objectives, contents, procedures, evaluation criteria and influencing factors-it is evident that credit appraisal serves not only as a risk mitigation tool but also as a strategic component of credit portfolio management. A comprehensive and well-structured appraisal process enables banks to make informed lending decisions, tailor credit products to individual customer profiles and maintain asset quality in a competitive and dynamic financial environment. Moreover, by understanding and addressing the factors that affect appraisal quality-ranging from staff expertise to technological infrastructure and regulatory compliance-banks can enhance the overall effectiveness of their credit assessment systems. In doing so, they not only reduce the risk of loan defaults but also improve customer satisfaction and operational efficiency. As Vietnam's banking sector continues its digital transformation, the integration of advanced analytics and automated credit scoring tools will further strengthen the credit appraisal process. In conclusion, continuous improvement in credit appraisal practices is vital for joint stock commercial banks to manage risk proactively, comply with evolving regulations and achieve long-term stability in personal lending operations.

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