

## INTERNAL IMPACTS OF BANK AND DEBTORS ON PROBLEM CREDIT AT SEVERAL GENERAL BANK BRANCHES IN JAYAPURA

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### ABSTRACT

*This study aims to gain significant empirical evidence about the influence internal factors and internal factors debtor's bank to the credit crunch. This research will test the influence of internal factors and internal factors debtor against problem loans, quantitative descriptive analysis method by means of multiple linear regression statistical analysis. Statistical tests of regression shows that internal factors the bank is positive and significant impact on non-performing loans was due to the variable credit analysis does not refer to the guidance and control the level of credit, while the variable interest of staff of the bank and the debtor positive influence, as well as the credit disbursement is not in accordance with the bank provisions but no significant negative effect on problem loans. Furthermore, internal factors debtor positive and significant effect on problem loans is variable from misuse of credit by the debtor and debtor management weaknesses, while the variable behavior of the debtor which is not good positive effect, but not significantly.*

**Keywords:** internal impact, bank, debtors, problem credit

### Introduction

Business entities are given permission by the government to provide services in credit and money supply and bank payment traffic is. But the Indonesian banking industry in its development has always ups and downs. Ebb and flow of national banking industry due to the wide range of government deregulation began, pushing the banking industry developed rapidly during the period 1988-1996. Furthermore, in mid-1997 finally collapsed as the impact of the monetary crisis and the economic crisis that hit the Indonesian economy.

Banks that act as suppliers of funds in the form of a credit to the company always expected interest income. In addition, banks also earn revenues from other services, such as on the remittance, collection of accounts receivable, profit on sale and purchase of foreign exchange and so on. Interest income is the main income components from the bank compared with income from other services. Meanwhile, the people or the business world, credit is a very important source of funds of any business activity (True Pudjo Mulijono: 1993, p.2). Although lending is the primary source of revenue for the bank, but the bank is also exposed to the risk of loss due to breakdown or not the return of loans, According to Bank Indonesia Circular Letter No. 22/12 / BPPP, dated 28 February 1991 that the credit cannot be readmitted within 21 months after classed as doubtful loans are bad loans.

Bad loans are not only detrimental to the bank, but also harmful to society because of loans granted by the bank comes from savings and public deposits. Besides, the loss of an opportunity society obtained a credit facility, due to its resistance bank funds will be lent to the bad credit borrowers. In providing credit, the bank must pay attention to the principles of prudence or prudential banking, in the proper management in the management of credit, so that the loan repayment and interest acquisition can proceed smoothly and there is no congestion. For the management of the bank must assess the credit worthiness will be given fair and exercise control over the credits granted. If a bank has provided loans in large numbers, then if the credit jammed to return, it will be difficult for the bank for bad loans entwined. As a result of the bank's revenue slumped down and the bank will suffer losses, and in turn will reduce the bank's asset quality. If this condition is prolonged, then eventually the bank will face bankruptcy. If a bank went bankrupt then the parties concerned directly against the bank (depositors, depositors, creditors, shareholders and employees) will be harmed.

The problem of nonperforming loans has been unfolding over the past ten years in the banking industry including the banking industry in Papua, it is seen many banks were liquidated and merged. To avoid a credit crunch early in the decision-making aspects of the debtor's credit called by 5C principle, namely; character, capacity, capital, collateral and condition (Benton, Fraser and Kolari: 1989, p. 173). Bambang RJ (1993: p. 162) to simplify these principles into the 3R: return, repayment, capacity and risk-bearing ability. Based on study results Economic Development and Finance of Papua Province in the fourth quarter of 2001 by BI Jayapura explained that the general development of the credit quality showed improved conditions, because in 1999 the majority of troubled loans transferred to the Indonesian Bank Restructuring Agency (IBRA).

Many views were expressed by various experts on the factors that cause this problem loans, but there are three causes of problem loans advanced by Teguh Pudjo Mulijono (1993: p. 440), namely; (1) The internal problems of the bank, (2) internal matters of the debtor, and (3) issues the macro economy. More concrete, Media Accounting No. 6 / THN II / 1995 (1995: p. 5) on the topic of focus we argued that there are several factors that may be the cause of the problem loans, among others:

1. Internal bank either of the employees of the bank (credit analysis), systems / regulatory requirements as well as key officials in the credit environment banks (bankers)
2. Internal debtor because the element of intent or intentionally. Element of chance such as; losses resulting debtors were forced arrears interest and loan principal payments, bankruptcy or debtor dies. While the element of intent may be; the practice of window dressing, the debtor left the country, using fictitious companies to obtain credit, credit use is not in accordance with the conditions set, the debtor does not give correct information about the credit is concerned, provide data and guarantee certificate fake, and obtaining credit from other banks without notice to the first bank with the same collateral.
3. The national economic conditions such as; Package Deregulation October (Pakto) in 1998, a tight monetary policy and market conditions in the country that is already saturated with certain products or overseas markets increasingly competitive demands superior products, so companies cannot compete with the stringent will be bankrupt businesses and ultimately unable to pay its debts.

Even though, it viewed by the internal factors of the debtor, it is known that the procedure of investigation and analysis of creditworthiness for credit decision requires banks must assess the security of the repayment of credit, because of the credit as a service business bank to generate continuous income. Thus the pressure of the credit analysis is not only focused on the value of collateral (collateral and guarantee company or personal guarantees), but also regarding the feasibility assessment or attestation to balance sheet, income statement and cash flow. To assess the feasibility projections, the required analysis of the financial condition of potential borrowers the past, the business plan with the assumptions underlying, debtor management performance and other aspects covered by the internal factors of the debtor.

In addition to internal factors of the debtor, the likelihood of problem loans is influenced by the bank's internal factors, such as; 1) lack of ability of the staff are a credit analyst in analyzing accounting information and use it in predicting the financial condition and cash flow of the debtor, 2) pressure from external parties, including government officials and the majority shareholder influence over the policies taken by the bank, business continuity bank and the official position of the bank itself, and 3) the financial interests of bank officials (self-dealing) which is not formally on the debtor, including the commissions earned from the debtor and the bank officials to use the majority of credit for the benefit of private bank officials. Another factor that is important influence in non-performing loans problem is macro economic conditions. It is said that because of the economic crisis that hit Indonesia has done much to weaken the nation's financial capability, so many bankrupt. The weakening of its financial capability and bankruptcies experienced by many firms in itself affect congestion loan repayment with interest.

The three factors causing the problem loans of the two factors (internal bank and internal debtor) will be used as a variable of this study, so that can know empirically whether there is significant influence of each variable (internal factors of the bank, and internal factors debtor) to the non-performing loans in some commercial banks branch offices Jayapura Papua Province. Some factors from economic conditions will put another factor as an influence to the incidence of non-performing loans.

#### Methodology

The study was conducted in Jayapura and bank selected as samples are banks operating in Jayapura Papua Province. The banks that serve as the object of research is a bank lending rate is high enough, potential problem loans is quite high as well as the ease of researchers to obtain data that a high level of reliability. Some respondents in this study is a head of the credit department at selected banks, staff at the credit analysis, and the staff in the credit control.

#### Results

This research is analysis the results about the influence between internal factors and internal factors debtor bank to the credit crunch. Regression analysis full method (enter) blocks on the bank's internal factors (X1) and internal factors of the debtor (X2) on loans (Y) shows that: Bank internal factors have a significant effect and is strong enough against the emergence of problem loans with borrowers assuming internal factors and other factors are constant.

This is demonstrated by the multiple regression coefficient (multiple R) obtained at 0.953 or 95.3% and F ratio of 97.473 at a significance level of  $p < 0.05$  shows the influence of all independent variables internal factors ie bank credit analysis does not refer to the guidelines set (X<sub>11</sub>), the control level after loan disbursement (X<sub>12</sub>), the interests of the bank staff with the debtor (X<sub>13</sub>), as well as the credit disbursement is not in accordance with the provisions of the bank (X<sub>14</sub>) is significant and quite strong.

Furthermore, the coefficient of determination (R<sup>2</sup>) were obtained at 0.909 or 90.9% showed levels of accuracy (goodness of fit) regression lines were established from the data on the observation of 90% or dependent variable (Y; NPL) is explained by the bank's internal independent variables ; credit analysis does not refer to the guidelines (X<sub>11</sub>), the control level after loan disbursement (X<sub>12</sub>), the interests of the debtor bank staff (X<sub>13</sub>), as well as the credit disbursement is not in accordance with the bank (X<sub>14</sub>) amounted to 90.9%, while not described by 9.1 %. Adjustments to the coefficient of determination (adjusted R-square) were obtained for 0,900, or 90%, showed that the influence of the independent variables on the dependent variable that has not been included in the research model as adjusted to 10%. Internal factors for debtors are significant effect to the emergence of problem loans with the assumption that the bank's internal factors and other factors are constant.

This is demonstrated by the multiple regression coefficient (multiple R) which amounted by 0.953 or 95.3% and amounted by 131.748 F ratio at a significance level of  $p < 0.05$  shows the influence of all independent variables debtor internal factors namely:

misuse of credit by the debtor ( $X_{21}$ ), poor management of the debtor ( $X_{22}$ ) and the behavior of the debtor that is not good ( $X_{23}$ ) is significant and quite strong. Furthermore, the coefficient of determination ( $R^2$ ) were obtained for 0908, or 90.8% showed levels of accuracy (goodness of fit) regression lines were established from the data on the observation of 90.8% or the dependent variable ( $Y$ ; NPL) is explained by the independent variable internal namely the debtor; misuse of credit by the debtor ( $X_{21}$ ) poor management of the debtor ( $X_{22}$ ) and the behavior of the debtor that is not good ( $X_{23}$ ) of 90.8%, while 9.2% are not described. Adjustments to the coefficient of determination (adjusted R square) obtained at 0.901 or 90.1% indicates that the influence of the independent variables on the dependent variable that has not been input to the research model as adjusted to 9.9%. Based on the results of separate regression analysis above, it can be said that both factors (internal and internal bank debtors) both have a strong influence on the emergence of non-performing loans.

#### Conclusions

This study aims to examine the influence of internal bank ( $X_1$ ) which consists of: credit analysis does not refer to the guidelines ( $X_{11}$ ), the control level after loan disbursement ( $X_{12}$ ), the interests of the bank staff with the debtor ( $X_{13}$ ), as well as the credit disbursement is not in accordance with the provisions of the bank ( $X_{14}$ ), as well as internal factors debtor (variable  $^2$ ) consisting of: misuse of credit by the debtor ( $X_{21}$ ), poor management of the debtor ( $X_{22}$ ), and the behavior of borrowers who are not good ( $X_{23}$ ) on the incidence of problem loans at 5 ( five) banks operating in Jayapura Papua Province. The conclusion that can be awarded based on the results of this study are:

##### 1. Effect of Internal Factors Against Bank Credit Problem

- a. Credit analysis does not refer to the guidelines set significant and positive impact of the credit crunch.
- b. The degree of control after the credit disbursement significant and positive impact of the credit crunch.
- c. The interests of the debtor bank staff with a positive but not significant effect on problem loans.
- d. Credit disbursement which is not in accordance with the bank and no significant negative effect on problem loans.

##### 2. Effect of Internal Factors Debtor to Non Performing Loans

- a. One of a credit by the debtor significant and positive impact of the credit crunch.
- b. Debtor management weaknesses in the management of its business significant and positive impact of the credit crunch.
- c. Behavior that is not good debtor significant effect on problem loans, but not significant positive effect on Non-performing loans.

3. Even though the program also influence the evaluation of the national banking prudential rate for every bank in lending, but did not rule deviates from the policy management staff, and the staff are a credit analyst and credit watchdogs staff so that non-performing loans continues to this day.

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