



## Factors affecting the strategy of giving credits and its impact on non performing loan

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### Abstract

This study aimed to analyze the effect of Internal Condition bank of the Strategy Lending, analyze the influence of the Feasibility Debtor of the Strategy Lending, analyze the influence of external conditions the banks of the Strategy Lending, analyze the impact of Internal Condition bank to NPL, analyze the influence of the Feasibility Debtor to NPL, analyze the influence external conditions banks against NPL, analyze the impact of the NPL lending strategy, to analyze the influence of internal conditions banks against NPL through the provision of credit strategy, analyze the impact of the Borrower Eligibility to NPL through the provision of credit strategy, analyze the influence of external conditions on the NPL through bank lending strategy. The sample in this study as many as 37 RBs. The analysis showed bahwa Internal Condition banks positively affects Lending Strategy. Feasibility Debtor positively affects Lending Strategy. External conditions banks positively affects Lending Strategy. Internal conditions negatively impact bank Debtor bank to NPL. Kelayakan negative effect on the NPL. Bank external conditions negatively affect the NPL. Lending Strategy negative effect on the NPL. Credit granting strategy mediating influence on NPL. Strategi Internal Condition bank lending Borrower Eligibility mediating influence on the NPL. Strategies lending bank mediates the influence of external conditions on the NPL through the provision of credit strategy.

**Keywords:** the bank's internal conditions, the feasibility of the debtor, the external condition of banks, credit granting strategy, npl

### Introduction

Rural Banks (BPR) is a financial institution that accepts deposits only in the form of time deposits, savings deposits, and / or other equivalent form and distribute the funds as BPR effort. With a location that is generally close to the people who need it. Status BPR given to the Bank Village, Village Office, Market Bank, Bank Employee, Granary Pith Nagari (LPN), Village Credit Institutions (LPD), Bank Kredit Desa (BKD), Credit Agency Subdistrict (BKK), Business Credit Small People (KURK), the District Credit institutions (LPK), Bank Village Production work (BKPD), and institutions - other equivalent institutions based on law - banking law No. 7 of 1992 to meet the requirements of the procedures stipulated by government regulation. Such provisions enacted for considering that the institution - the institution has grown from Indonesian society, and they are treated by society, the existence of such institution recognized. Therefore, the Banking Act No. 7 of 1992 provides clarity of the status of the institution - the institution in question. To ensure the unity and uniformity in coaching and supervision, the requirements - requirements and procedures for granting status of the institution - the institution shall be stipulated by government regulations.

In determining the lending strategy, companies need to pay attention to the condition of the cause of the bad loans or non-performing loans which are basically caused by several factors, these factors can not be avoided given the multiple interests associated with them, thereby affecting the bank's business activities. Steps that must be done is to collect data impropriety debtor bank internal factors and external factors of the bank.

The existence of bad loans high to affect the performance of banks in general. The high NPL on a number of BPR is the impact of previous years, ie, since there is an increase in

fuel prices in 2005. The cause of the occurrence of bad debts among other declining economic activity which in turn affects the business entrepreneurs. Their purchasing power is getting low so difficult to make installment payments. There are also banks that pursue the target lending so doing excessive expansion in menyalurkan funds to customers.

To be able to act as a business entity a strong and independent, BPR through its lending business should be able to improve the effectiveness of the strategy on lending and trying our best to reduce the risk of credit failure. When examined in the failure of credit, seen from the high NPL mainly due to the lack of effective and efficient strategies used.

The importance of the strategy This in addition to the growing size and complexity of the company's operations, as well as this strategy is a method and procedure that are directly or indirectly minimize all forms of fraud and misappropriation that may be detrimental to the company. The objective of the strategy used should be applied at all stages of credit and can be achieved if the factors supporting the strategy itself is completely filled.

With the attainment of the objectives of credit granting strategy, it will support the creation of the principles of sound lending decisions covering various aspects of the borrower, to decide whether it is feasible given credit or not. The strategy goes well can support the performance of the bank credit. Furthermore, the principles of the appropriate credit decision will support the achievement of the implementation and application of the principle of 5C which includes character, capacity, capital, collateral, economic conditions for the realization of lending effective and efficient. In addition to the fulfillment of the principles and procedures for the provision of credit, lending a strategy can

be said to be effective and efficient if it can re-credit the appropriate time set by a predetermined rate.

The purpose of this study is to dig or search for data and information relating to credit granting strategy and its influence on non-performing loan. In accordance with the issues that have been raised, the purpose of this study was to: analyze the impact of Internal Condition bank of the Strategy Lending, analyze the effect Feasibility Debtor of the Strategy Lending, analyze the influence of external conditions the banks of the Strategy Lending, analyze the influence of Internal Condition bank to NPL, Borrower Eligibility analyze the effect on NPL, the bank analyze the influence of external conditions on the NPL, analyze the impact of the NPL lending strategy, to analyze the influence of internal conditions banks against NPL through the provision of credit strategy,

## 2. Literature Review

### 2.1. Understanding Credit

According to Law No. 7 of 1992 on Principles of Banking, definition of credit is the provision of cash or the equivalent, based on the consent or loans between banks and other parties that requires the borrower to repay the debt after a certain period with the amount of interest, rewards, or in sharing keuntungan. Meanwhile, according to the Banking Law No. 10 of 1998, the credit is the provision of cash or the equivalent, based on agreements between bank lending and other parties who require the borrower to pay off debt after a certain period of time with interest.

According to Bank Indonesia Circular Letter No.7 / 3 / DPNP on January 31, 2005 to all Commercial Banks conducting conventional business activities in Indonesia regarding the assessment of asset quality of commercial banks, the credit quality is classified into current, special mention, substandard, doubtful and loss according to performance, business prospects, the performance of the debtor and the ability to pay (Budisantoso and Triandaru, 2006).

### 2.2. Definition of Non-Performing Loans (NPL)

According to Slamet Riyadi (2006)<sup>[17]</sup> net Non-Performing Loan comparison between the amount of credit granted to the collectibility of which is non-performing loans compared to total loans granted by banks. Nonperforming loans are non-current loans or credit where the debtor does not meet the requirements of the agreement (Mudrajaddan Suhardjono, 2002), for example, interest payment terms, collection of principal interest, improving deposit margins, retention and enhancement of collateral, and so on. Ratio of Non-Performing Loan (NPL) or collectibility rate achieved reflects the effectiveness and efficiency of the implementation strategy of granting credit.

The potential NPL from early stages of the credit agreement, in particular the provision of credit is not healthy. In order NPL does not swell, the banks should be more cautious in lending. For example, lending to sectors that are air-NPL low and high business prospects (Infobank, 2003). It should always be remembered that changes in the credit classification of performing loans into NPL is gradually through propes decline in credit quality (Dunil, 2005)<sup>[7]</sup>. One of the risks posed by the increasing complexity of banking activities was the emergence of the Non-Performing Loan (NPL) ratio increases. In other words, the larger the scale of operations of a bank that aspects of

monitoring decreases, so the NPL greater or greater credit risk (Mawardi, 2005)<sup>[15]</sup>.

### 2.3. Causes of Non-Performing Loans

Banking failures between caused by non-performing loans and this gives a very serious impact for banks, if not handled properly then these problem loans is a source of potential losses for banks. Because it takes a systematic and sustainable handling. Nonperforming loans are basically caused by several factors, these factors can not be avoided given the multiple interests associated with them, thereby affecting the bank's business activities.

According Siswanto Sutoyo (2008: 18) Cause of problem loans can be tipped on three different sources namely:

Factor internal bank  
impropriety debtor  
Factor external bank

### 2.4. Hypothesis

**Hypothesis of this study are as follows**

- H<sub>1</sub>: Analyzing the effect of bank Internal Condition of the Strategy Lending.
- H<sub>2</sub>: Borrower Eligibility analyze the influence of the Strategy Lending.
- H<sub>3</sub>: Analyze the influence of the external conditions of the Strategy Lending bank.
- H<sub>4</sub>: Analyzing the effect of bank Internal Condition of the NPL.
- H<sub>5</sub>: Borrower Eligibility analyze the effect on NPL.
- H<sub>6</sub>: Analyzing the influence of external conditions banks against NPL.
- H<sub>7</sub>: Lending Strategies analyze the influence of the NPL.
- H<sub>8</sub>: Analyzing the effect of bank Internal Condition of the NPL through the provision of credit strategy.
- H<sub>9</sub>: Borrower Eligibility analyze the effect on NPL through the provision of credit strategy.
- H<sub>10</sub>: Analyzing the influence of external conditions on the NPL through bank lending strategy.

## 3. Research Methods

### 3.1. Research Design

Examine the factors that affect the high NPL Rural Banks (BPR) in Malang mainly from Stretegi Lending. By knowing these factors, the formulation of the provisions of the management will be more effective and efficient so as to steer the company in reducing non-performing loan, which is currently quite high.

### 3.2. Variables and Variable Operational Definition

**Dependent variables**

The dependent variable is the variable that is affected or which become due for their bebas. Variable dependent variable in this study is the Non-Performing Loan (NPL). According to Slamet Riyadi (2006)<sup>[17]</sup> NPL ratio is the ratio between the amount of credit given to the collectibility of substandard, doubtful and loss compared to the total loans granted by banks. Nonperforming loans are non-current loans or credit dimanadebiturnya not meet the requirements of the agreement (Kuncoro and Suhardjono, 2002)<sup>[12]</sup>. Total non-performing loans is the difference between the amount of non-performing loans with Allowance for Assets (PPAP), wherein PPAP PPAP is meant exclusively for loans classified as substandard, doubtful and loss (Riyadi, 2006)<sup>[17]</sup>. While total loans represent loans to third parties

(excluding loans to other banks). This variable was given the symbol Z.

## 2. variables intervening

Sugiyono (2013: 61) states intervening variables are variables that theoretically affect the relationship between the dependent and independent variables, but can not be observed and measured. This variable is a variable interrupters or between which lies between the independent and dependent variables, so the independent variables indirectly affect the change or the emergence of the dependent variable ".

Intervening variables in this study is the Bank's lending strategy. In conducting lending activities generally have the principles applied by the bank. The indicators used are:

1. The interest rate on credit
2. The repayment period
3. Target credit marketing
4. Achieve maximum results
5. Information and communication systems
6. Cooperation with outsiders

## 3. Independent variables

Independent variables are variables that affect or are the cause of the change or the emergence of the dependent variable (dependent) (Sugiyono, 2009) <sup>[19]</sup>. The independent variables in this study are as follows:

**a.** To measure the bank's internal condition variable used four indicators, developed from the company's policy that process credit information system and credit system of supervision and administration, analysis of credit worthiness, credit guarantees, the role of management in making lending decisions. Factor Internal bank can be the cause of the rise of non-performing loans are:

1. low the ability or the sharpness of the feasibility analysis bank credit proposed by the debtor.
2. Weak system credit information and credit supervision and administration system.
3. Excessive hand mix of shareholders in the Decree of the lending bank.
4. fastening less than perfect credit guarantees.

**b.** To measure the debtor impropriety variable used two indicators developed from individuals, companies or corporations. Debtor's bank consists of two groups:

### 1. Individual

Cause Another problem loans individuals closely associated with disruption to the personal debtor, such as accidents, sickness, death and divorce.

### 2. Company or corporation

Cause The troubled corporate loans is mismanagement (mismanagement), lack of knowledge and experience of the owner of the company in the field of business they run, and deceit (fraud).

**3.** To measure the external condition variable bank used two indicators developed by economic conditions, the success of

the debtor's business.

development economic or business debtors adverse business activities. For many companies, the impact of economic.

**1.** development or business they are not profitable is the decline in the number of the sales of goods or services.

**2.** Factor External that can affect the success of the business and the ability of corporate borrowers repay the loans are natural disasters such as earthquakes, floods, hurricanes, prolonged drought, fire, and so on. Such natural disasters often destroy or decrease the production capacity of the production equipment which is operated by the debtor.

## 3.3. Population and Sampling Techniques

Population to be studied in this study is an RB in Malang. The sampling technique used in this research is purposive sampling (samples intended). Purposive samples are carefully chosen samples that are relevant to the research. Samples aiming is done by taking the subject is not based on strata, random or region but based on specific objectives and this technique is usually performed for consideration the limitations of time, effort and money so could not take a large sample and distant. In addition purposive sampling was done on purpose to note that the sample should represent the (representative) of the population to be studied.

The scope of this study covers all RBs in Malang, but not carried out on the entire population, but based on a sample. In this case the sample was taken purposively as respondents are BPRs management in Malang that is in listed in Bank Indonesia website ([www.bi.go.id](http://www.bi.go.id)).

Malang in East Java has seven RBs were still active to this day, namely PT. BPR. Armino Kencana, PD. BPR. Tugu Artha, PT. BPR. Mount Ringgit, PT. BPR. Mount Arjuna, PT. BPR. Son Dana, PT. BPR. Source Arto and PT. BPR. Trikarya waranugraha (Bank Indonesia, 2013). (Data source: [ojk.go.id](http://ojk.go.id).)

## 3.4. Data analysis technique

Data analysis techniques used in this research is path analysis. analysis pathway is part of the regression model can be used to analyze the causal relationship between one variable to another variable. Used path analysis by using correlation, regression and pathways that can be known for up to the last dependent variable, should be through the direct path or through intervening variables (Sugiyono, 2013: 70).

## 4. Results and Discussion

### 4.1. Result

#### 4.1.1. Influence internal condition of the bank, the borrower and external conditions eligibility against bank lending strategy

To test the effect of the bank's internal conditions, the feasibility of the debtor and external conditions banks against strategy loans in live, land the magnitude direct effect with use method linear regression. The results calculation presented on table 1 following.

**Table 1:** The Influence of the Internal Condition of the Bank and The Debtor's Eligibility Lending Strategy

Variables	Coefficient Regression	t	Value P
Internal condition of banks	0.314	2,355	0,025
feasibility debtor	.310	2,157	0.038
Bank external conditions	0.317	2.337	0,026

R=750  
 R square (R2)=0.562  
 Adjusted R Squared= 0.522  
 value F=14,100  
 The p-value=0,000

Influence Internal condition of banks to strategy loans are significant at the level  $\alpha$  as big as 5% With a p value of 0,025, Regression coefficient of 0.314. that is to say Internal condition of banks effect on credit granting strategy, more and more Good internal conditions banks will increase lending strategy,

Influence feasibility debtor to strategy loans are significant at the level  $\alpha$  as big as 5% With a p value of 0,038, Regression coefficient of 0.310. This means that the debtor Eligibility affect the lending strategy, more and more Feasibility both debtors will increase strategy loans,

Influence External conditions banks to strategy loans are significant at the level  $\alpha$  as big as 5% With a p value of 0,026, Regression coefficient of 0.317. This means that the external condition of the bank affect the lending strategy, more and more Good external conditions banks will increase strategy loans,

The magnitude of the coefficient of determination shown by the model summary, where the value of *Adjusted R Squared*

amounted to 0.522 or 52,2% And the influence of other variables, namely 52,2%. This shows that the contribution of the effect of variable The bank's internal condition, Feasibility bank debtors and external conditions variable strategy loans amounted 52,2% while 52,2% variable strategy loans influenced by other variables.

**4.1.2. Influence Internal condition of the Bank, the Borrower Eligibility, External Condition and Strategy Bank Lending Against Non-Performing Loans**

To know the effect of the bank's internal condition, Feasibility debtor, external conditions and strategies bank lending to non-performing loans in live, land the magnitude direct effect with method using linear regression. The calculation results are presented in Table 2 below.

**Table 2:** Influence Internal Condition of the Bank, The Borrower Eligibility, Conditions and Benefits Strategy External Bank Loans Against Non-Performing Loans

variables	Coefficient Regression	t	Value P
Internal condition of banks	-0.531	-8.609	0,000
feasibility debtor	-0.158	-2.404	0,022
External conditions banks	-0.253	-4.043	0,000
Strategies lending	-0.244	-3.279	0,003

variables bound: Non-performing loans  
 R1=0,960  
 R1 square (R2)=0.922  
 Adjusted R Squared=.913  
 value F=94.954  
 The p-value=0,000

Influence Internal condition of banks to *non-performing loans* are significant at the level  $\alpha$  as big as 5% With a p value of 0.000, regression coefficient of -0.531. that is to say Internal condition of banks take effect to *non-performing loans*, more and more excellent internal condition of banks will reduce non-performing loans,

Influence feasibility debtor to *non-performing loans* are significant at the level  $\alpha$  as big as 5% With a p value of 0,022, Regression coefficient of -0.158. that is to say feasibility debtor effect on *non-performing loans*, more and more Feasibility both debtors will reduce non-performing loans,

Influence bank external conditions to *non-performing loans* are significant at the level  $\alpha$  as big as 5% With a p value of 0.000, regression coefficient of -0.253. that is to say bank external condition take effect to *non-performing loans*, more and more good external condition of banks will reduce non-performing loans,

Influence strategy loans to *non-performing loans* are

significant at the level  $\alpha$  as big as 5% With a p value of 0.003, regression coefficient of -0.244. that is to say strategy loans take effect to *non-performing loans* more and more good strategy the credit will reduce non-performing loans, The magnitude of the significance of the coefficient determination shown by the model summary, Where score *adjusted R Square* is of 0.913 or 91.3% And the influence of other variables, namely 91.3%. This shows that the contribution of the effect of variable The bank's internal conditions, eligibility debtor, external conditions and the bank's lending strategy variable *non-performing loans* amounted 91,3%, while 8.7% variable *non-performing loans* be affected by other variables that there is no in research this.

**4.1.3. Influence Internal Condition of the Bank, The Borrower Eligibility and External Conditions Bank of Non-Performing Loans Through Lending Strategy**

Method examination hypothesis done with path analysis, namely by using multiple regression and then filtering

based on statistical tests and significance. These statistical tests can be performed using a standardized coefficient beta coefficient ( $\beta$  standard). If the value of  $\beta$  significantly, then the path coefficients are significant. The path coefficients were not significantly dumped. Significance test can be done by comparing the significance of the pathway. If the value of the significance of the path coefficients

less 0.05 the coefficient is considered significant. Otherwise, if the value of insignificant coefficient greater than 0.05 it is considered insignificant. To see the effect of the bank's internal condition, Feasibility bank debtors and external conditions against non-performing loans through credit granting strategy presented in Table 3 below.

**Table 3:** Summary result analysis of Effect Direct, Indirect, and Total of Analysis

variables	Direct Impact	Prob	Indirect Influence	Effect of Total
Internal condition of banks → Strategies lending	0.314	0,025 *	-	-
feasibility debtor → Strategies lending	.310	0,038 *	-	-
External conditions banks → Strategies lending	0.317	0,026 *	-	-
Internal condition of banks → Non-performing loans	-0.531	0,000 *	-	-
feasibility debtor → Non-performing loans	-0.158	0,022 *	-	-
External conditions banks → Non-performing loans	-0.253	0,000 *	-	-
Strategies lending → Non-performing loans	-0.244	0,003 *	-	-
Internal condition of banks → Strategies lending → Non-performing loans	-0.531	-	X 0.314 -0.254 = -0.080	-0.611
feasibility debtor → Strategies lending → Non-performing loans	-0.158	-	X 0.310 -0.254 = -0.079	-0.237
External conditions banks → Strategies lending → Non-performing loans	-0.253	-	X 0.317 -0.254 = -0.081	-0.334

\* Significant at  $\alpha$  5%.

Based on Table 3, it appears that the total effect of the bank's internal condition variable against non-performing loans (-0.611) is greater than the direct effect (-0.531). Feasibility variable debtor's non-performing loans, in which the total effect is greater (-0.237) on the direct effect (-0.158). Similarly, for a variable external conditions banks against non-performing loans, in which the total effect is greater (-0.334) on the direct effect (-0.253). These results show that the strategy of credit status as an intervening variable in the influence of the internal condition of the bank, Feasibility debtor and external conditions banks against non-performing loans, for a total value greater than the direct effect.

**4.1.4. Examination Hypothesis**

**a. Test Hypothesis 1**

Based on Table 1 obtained value Conditions beta coefficient of 0.314 and the bank's internal amount to 2,355 and the value of p 0.025 smaller  $p = 0.05$  ( $\alpha = 5\%$ ), which means that the bank's internal conditions significant effect on the provision of credit strategy. Thus the first hypothesis is statistically proven.

**b. Test Hypothesis 2**

Score beta coefficient of 0.310 and a debtor eligibility amount to 2,157 and the value of p amount to 0,038 smaller  $p = 0.05$  ( $\alpha = 5\%$ ), which means that the feasibility of the debtors significant effect on the provision of credit strategy. Thus the second hypothesis is statistically proven.

**c. Test Hypothesis 3**

Score beta coefficient of 0.317 bank external conditions and amounting to 2.337 and the value of p 0.026 smaller  $p = 0.05$  ( $\alpha = 5\%$ ), which means that the external conditions of banks significant effect on the provision of credit strategy. Thus the third hypothesis is statistically proven.

**d. Test Hypothesis 4**

Score Internal condition of banks beta coefficient of -0.531 and  $t$  by -8.609 and the value of p 0,000 smaller  $p =$

0.05 ( $\alpha = 5\%$ ), which means that the bank's internal conditions significant effect on the non-performing loan. Thus the fourth hypothesis is statistically proven.

**e. Test Hypothesis 5**

Score Feasibility debtor beta coefficient of -0.158 and  $t$  by -2.404 and the value of p 0.022 smaller  $p = 0.05$  ( $\alpha = 5\%$ ), which means that the feasibility of the debtors significant effect on the non-performing loan. Therefore the fifth hypothesis is statistically supported.

**f. Test Hypothesis 6**

Score beta coefficient of -0.253 bank external conditions and  $t$  by -4.043 and the value of p 0,000 smaller  $p = 0.05$  ( $\alpha = 5\%$ ), which means that the external conditions of banks significant effect on the non-performing loan. Therefore the sixth hypothesis is tested.

**g. Test Hypothesis 7**

Score beta coefficient of -0.244 lending strategy and  $t$  by -3.279 and the value of p 0,003 smaller  $p = 0.05$  ( $\alpha = 5\%$ ), which means that the strategy of lendings significant effect on the non-performing loan. Therefore the sixth hypothesis is tested.

**h. Test Hypothesis 8**

Strategies lending status as an intervening variable that can mediate variable internal condition of the bank, because the value of the total influence over the amount of (-0.611) than the direct effect (-0.531). Thus the eighth hypothesis is statistically proven.

**i. Test Hypothesis 9**

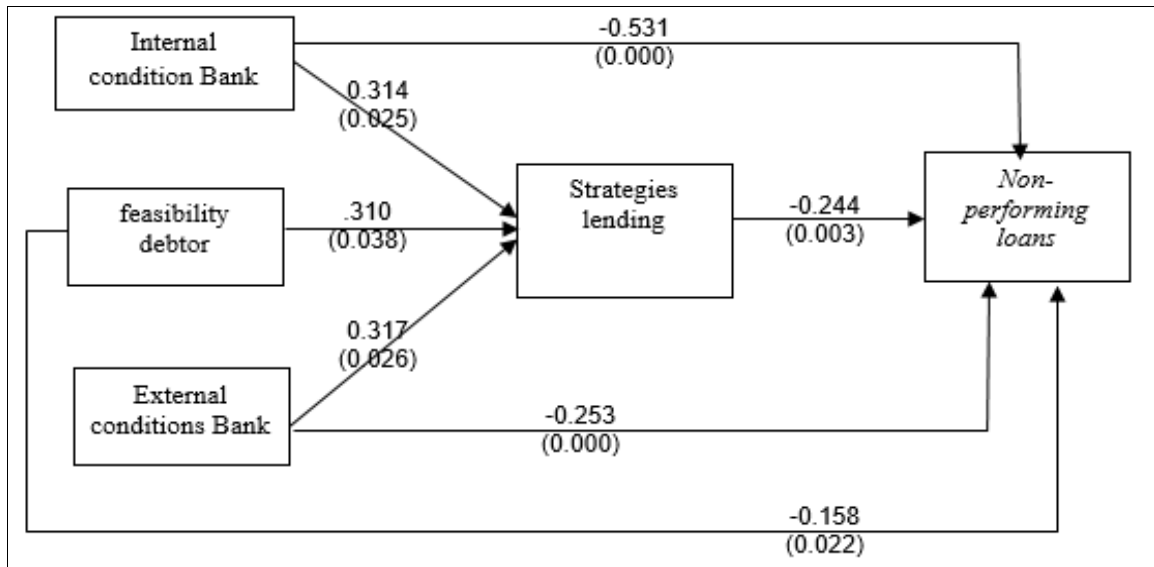
Strategies lending status as an intervening variable that can mediate the debtor eligibility variable, because the value of the total influence over the amount of (-0.237) than the direct effect (-0.158). Thus the ninth statistical hypothesis testing.

**j. Test Hypothesis 10**

Strategies lending status as an intervening variable that can mediate variable external condition of the bank, because the

value of the total influence over the amount of (-0.334) than the direct effect (-0.253). Thus the tenth hypothesis is statistically proven.

Based on the description of hypothesis testing, then the model of the track in the path analysis is presented in Figure 1 below.



Source: 1 Primary data processed.

Fig 1: Path Analysis Results

4.2. Discussion

4.2.1. Effect of Internal Condition bank of the Strategy Lending

Internal conditions affect the bank's lending strategy, which means that the better the internal condition of banks can increase lending strategy. This indicates that the BPR Malang has a good internal condition. The internal condition of banks is reflected in the up to this time, the loan approval process in RBs where work is not given if the candidate receiving the credit does not meet all the requirements Crediting, there are a lot of complaints from customers about the Terms of Lending at BPR place to work, employees in BPR workplace for this is undoubtedly his ability, making the decision to grant credit by BPR Management in place during this work is also supported by accurate information on the source of the debtor, the credit control process in BPR workplace no significant obstacles, and loan collection targets in the RB where work is always achieved, so the impact on lending strategy. Indicators internal conditions of banks that provide the largest contribution to the increase in credit granting strategy is up to date, in the loan approval process in RBs where work is not given if the candidate does not meet all loan recipients Crediting requirements. The principles of the appropriate credit decision will support the achievement of the implementation and application of the principle of 5C which includes character, capacity, capital, collateral, economic conditions for the realization of lending effective and efficient. The results are consistent with the Voordeckers and Steijvers (2003) [22], Nataliya Fedorenk O, Dorothea Schäfer, and Oleksandr Talavern, (2007) which states that the internal conditions affect the strategy bank lending. But the results are not in line with the Ono and Uesugi (2005) and Leora Klapper (2001) which states that the company's internal conditions negatively affect the lending strategy, which is too much interference from the owners / managers in implementing strategy pursued so many strategies that are made for personal gain.

4.2.2. Borrower Eligibility influence of the Strategy Lending

Feasibility debtor affect the lending strategy, which means that the more worthy borrowers can increase lending strategy. Feasibility debtor reflected on all this time, credit customers in BPR workplace always act in a cooperative in resolving his credit, credit granted by RB place of work used by the credit customers in accordance with the original purpose of the provision of credit and credit customers in RBs where work always pay off the loan on time thereby increasing lending strategy. Feasibility indicators gives debtors the largest contribution to the increase in credit granting strategy is for this, credit customers in BPR where work always pay off the loan on time. This means that BPR in the analysis and decision making lending objective and consistent prosecuted on the analysis results by adhering to the principles of credit worthiness. The results are consistent with the Gabriel Jiménez, Jose A. Lopez, and Jesús Saurina (2007) [9] and Kyaw (2008) [13] which states that the feasibility of the debtor affect the lending strategy. The results of the study are not consistent with Elsas and Krahn (2002) [8] which states that the condition of debtor does not affect the lending strategy. The results of this study are also not in line with Felix Takang Achouand Claudine Ntui Tenguh (2008) [1] which states that the condition of borrowers RB negatively affect the strategy of granting credit.

4.2.3. Influence of External Conditions Against Bank Lending Strategy

External conditions affect the bank's lending strategy, which means that the better the external conditions of banks can increase lending strategy. Bank external conditions reflected the natural conditions in Malang not much give a disruption in credit payments, economic growth in Malang quite rapidly, and the number of competitors (institutions other funding) of RBs where work is not much, So the impact on the provision of credit enhancement strategy. Indicators of

external conditions of banks that provide the largest contribution to the increase in credit granting strategy is during this time, economic growth in Malang quite rapidly. An in-depth analysis of external conditions because banks play an important role in the analysis of external conditions BPR can find new core competencies in line with the globalization that BPR can still have a sustainable competitive advantage. External conditions eg general market conditions mempengaruhi management participated in setting the strategy to be carried out by the RB. The results of this study are consistent with Leora Klapper (2001), Gabriel Jiménez, Jose A. Lopez, and Jesús Saurina (2007) <sup>[9]</sup> which states that environmental conditions BPR positive influence on the strategy of granting credit. However, the results of research Wim Voordeckers and Tensie Steijvers (2003), Felix Takang Achou and Claudine Ntui Tenguh (2008) <sup>[1]</sup> shows that conditions Lingkungan RB negatively affect Lending Strategy.

#### **4.2.4. Effect of Internal Condition Bank to NPL**

Internal conditions negatively affect the bank's NPL, which means that the better the internal condition of banks can lower the level of NPL. Internal condition indicator that provides the largest contribution to the NPL is in the process of credit approval in RBs where work is not given if the candidate receiving the credit does not meet all the requirements crediting. The bank's internal condition is a factor which occurred in the bank and can influence the decision of the bank's management closely in policy making and operational strategy of the bank. Operational activities of banks as intermediary institutions that collect funds and distribute credit that will be able to create an asset for the company through the bank's asset growth rate, the growth rate of credit portfolio and third party fund growth.

#### **4.2.5. Borrower eligibility influence to NPL**

Feasibility debtor negatively affect the NPL, which means that the more worthy borrowers can lower the level of NPL. Indicators of debtor eligibility largest contribution to the decline in NPL is at BPR credit customers where work always pay off the loan on time. Installment payments on time reflects that the bank had not conducted an analysis in lending to customers, so that customers need credit again if could be a consideration for rural banks to lend again. Activities lending or credit is expected to be the largest revenue contribution to the bank, lack of revenue coming in also becoming a factor that led to the NPL.

#### **4.2.6. Influence of external conditions bank to NPL**

External conditions negatively affect the bank's NPL, which means that the better the external conditions can decrease the level of NPL. Bank external conditions are factors beyond the control of banks that may affect its operation. Indicators of bank external conditions that contribute to the decline in NPL is at BPR credit customers where work always pay off the loan on time. Timely payments showed that credit quality is classified to be smooth. As Simorangkir opinion (2004) that the credit is considered substandard if installment payments of principal and / or interest on time, have an active account mutations and partially loans secured by cash collateral (cash collateral). BPR before giving credit to the debtor analyze the extent to which the debtor's ability to pay the loan principal plus interest charges on loans granted by reference to the principle of 5 C and the

conditions specified in each loan product. It is intended to reduce the level of NPL. External conditions eg general market conditions did influence the management in determining a strategy that will be run by RB.

#### **4.2.7. Influence strategy lending to NPL**

Strategy crediting negative effect on NPL, which means that the better strategy of lending by banks to lower the NPL. Bank lending strategy is reflected by the up to now, there are no banyakkeluhan from customers about the level of lending rates in the RB where respondents work over the years, there are a lot of complaints from customers about the time period of loan repayment in RBs where respondents work, targeted marketing of credit in RBs where work is always achieved, the work of employees in BPR where work has always been to achieve maximum results, there are many problems with information systems and communication in RBs where respondents work, and cooperation has been established RBs where the respondent worked with outside parties did not encounter obstacles, so the impact on the NPL. Cooperation has been established RB place to work with outside parties did not encounter significant obstacles. Formation of teamwork is considered the best solution to achieve success in the BPR. Cooperation in the bank becomes a necessity in achieving the success of the BPR. Cooperation in bank can be an impetus which has the energy and synergy for individuals who are members of the cooperative. Without the good cooperation will bring good ideas. Indicators lending strategies that contribute to the decline in NPL is not a lot of problems with the system of information and communication in the workplace BPR. Communication has an important role, especially in establishing an effective and efficient bank. The results are consistent with Jhony P. Chen (2003) <sup>[6]</sup> which states that the strategy crediting a negative influence on the Non Performing Loan. The results of this study are inconsistent with Michael Manove, A. Jorge Padilla and Marco Pagano (2001) <sup>[14]</sup>, Jessica Petersson and Isac Wadman, 2004 stating that the strategy crediting negative effect on non-performing loans.

#### **4.2.8. Effect of internal condition bank to NPL through lending strategy**

The bank's internal conditions affect the NPL through the provision of credit strategy. This means that NPL can be reduced if the internal condition of the bank in good condition that can create credit granting strategy. Continually living a bank is strongly influenced by the size of loans for most banks in Indonesia still rely on credit to meet operational needs and gain. In the practice of lending, credit quality itself must be considered. That is, the quality of loans granted or deserved to be distributed will minimize the risks of a credit crunch.

Credit default management becomes an important factor to be considered by a bank because of health related bank in the BPR Malang. Bank Indonesia has set a limit of reasonable levels of non-performing loans, which amounted to 5%. Of course, each BPR needs to abide by the rules that have been established by Bank Indonesia to maintain the level of non-performing loans. In addition, to avoid the risk of non-performing loans that could interfere with the soundness of BPR which will eventually hamper the bank's operations. Bad loans in large numbers directly have a negative impact on credit growth, due to the limited funds

and the resulting psychological impact that is less profitable for banks.

**4.2.9. Borrower eligibility influence on the NPL through lending strategy**

Credit granting strategy mediating influence NPL debtor's credit worthiness. This suggests that one of the causes of the NPL that is debtor is unable to do his business, where revenue fell and was unable to repay loans. However, if the creditor is considered feasible in accordance with criteria such as credit granting strategy 5C analysis which includes character, capacity, capital, collateral and condition. Character is the nature or character of the individual in this case the debtor. Capacity, to look at the ability of a borrower to pay the loan associated with its ability to manage the business and its ability to seek profit. Capital is to find sources of financing to businesses owned by their customers which will be financed by the bank. Collateral, a prospective customer guarantees given both physical and non-physical. Collateral should exceed the amount of credit granted. Condition, in a less stable economic conditions, we recommend the provision of credit to certain sectors should not be given in advance and, if so granted should also see the business prospects in the future.

Every RB lending there must be a policy that became the foundation or conditions to determine which eligible borrowers in obtaining credit, as do the BPR Malang, which has implemented the principle of 5C as the provisions of Bank Indonesia. Although lending policy has been set, but credit problems still arise, which would damage the health of the banks themselves. There are several factors that led to the NPL. One attempt was made to avoid any indication of credit bermasalah, namely a policy of granting credit of principles 5C, and not only that of the credit analysts should have the ability to understand the principles of 5c in order to obtain the debtor has the ability to repay a loan or credit. Besides that,

**4.2.10. The influence of external conditions on the bank's NPL through lending strategy**

Strategies lending debtor mediating influence of external conditions on the NPL. This shows that NPL can be lowered if the external conditions the debtor can be controlled and supported by strategi good credit. Banks in lending activities generally have the principles applied by the bank. The fall in NPL was due to the precautionary principle related kebijakan applied crediting Bank city of Malang and account officer in determining the ability of borrowers who have the ability to repay the loan. Credit granting policies have a strong influence on non-performing loans, because in determining the proper debtor would have to go through the rules set BPR Malang related lending policy, namely the principle of 5C (character, capacity, capital, collateral and condition). One policy lending should be on every bank that is the policy in rescue loans (non-performing loans). This policy needs to be in a bank as this will have an impact on all aspects of the bank.

**5. Conclusions and Suggestions**

**5.1. Conclusion**

Based on the result of research and discussion it which is conducted it can be concluded with the following:

Internal condition of banks positively affects Lending

Strategy, which means that the better the internal condition of banks can increase lending strategy. RB internal condition status analyzed before formulating a strategy is necessary, because the complete information about the internal state of the RB, the RB can exploit all the capabilities as well as the inability owned so formulated strategies can be more effective and efficient to run.

Feasibility Debtor positively affects Lending Strategy, which means that the more worthy debtor conditions can increase lending strategy. Conditions mampengaruhi debtor management participated in determining a strategy that will be run by RB.

External conditions banks positively affects Lending Strategy, which means that the better the external conditions of banks can increase lending strategy. Market conditions mampengaruhi management participated in determining a strategy that will be run by RB.

Internal Condition bank bank negative effect on NPL, which means that the better the internal condition of banks can reduce the NPL.

Feasibility Debtor negative effect on NPL, which means that the more worthy credit borrowers are now receiving visits from analysis 5C includes the character, capacity, capital, collateral and condition can reduce the NPL.

External conditions negatively affect the bank's NPL, which means that the better the external conditions of banks can lower the NPL.

Lending Strategy negative effect on NPL, which means the better strategy may decrease NPL loans. Lending strategy adopted by the RB is a means to control the development of the credit being thrown into the market by the RB. Lending strategy adopted by the RBs used by the RB to minimize the credits goes into the category of trouble.

Strategies lending bank mediating influence Internal Condition of the NPL.

Strategy crediting the Debtor Eligibility mediating influence on the NPL.

Strategies lending bank mediates the influence of external conditions on the NPL through the provision of credit strategy.

**5.2. Suggestion**

In connection with the matters described above, it can be given suggestions as follows:

The BPR management is expected to maintain the internal condition of the banks to loan collection targets to be reached by using the principle of 5C and 7P.

BPR to provide credit in accordance with the agreements on lending and credit utilized by the customer in accordance with the original purpose of the loan.

In carrying out the internal condition of BPR, should be monitoring the lending strategy, this is because the strategy is a variable lending either directly or indirectly affecting the NPL. If not monitored properly will have an impact on the NPL.

BPR maintain performance in order to compete with other rural banks and customers do not switch on the other RBs.

So that the RB Malang maintain lending strategy adhering to the principle of prudence when lending and create a policy that is not burdensome to the debtor in repayment of loans.

For further research, is expected to undertake research development using other independent variables such as amount of credit, so as to give better effect to the credit



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