

THE EFFECT OF COLLATERAL AND CHARACTER ON BAD LOANS OF BANK XYZ.

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ABSTRACT

Introduction/Main Objectives: *This study aims to determine (1) The Effect of Collateral on bad loans (2) The Effect of Character on bad loans (3) The Effect of Collateral and the Effect of Character on bad loans. This study used quantitative methods with a sample of 44 respondents to customers of bank xyz guesthouses through questionnaires. The data analysis technique uses multiple linear regression tests. The results of this study show that Collateral (X1) has an influence on bad loans (Y) as evidenced by the calculated t value of $4,783 > t \text{ table } 2,0153$; Character (X2) has an influence on bad loans (Y) proven through t count $4,238 > 2,0153$; there is a significant influence between the influence of Collateral, Character on bad debts. What is seen through F count $> F \text{ table}$ where the values are $196,070 > 3,2092$ means together (Simultaneous).*

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1. Introduction

The presence of sharia-based banks in Indonesia is still relatively new, namely only in the early 1990s. The main purpose of the establishment of this sharia financial institution is none other than the efforts of Muslims to underlie all aspects of their economic life based on The Qur'an and As-Sunnah. One of the institutions engaged in the field of sharia is Bank XYZ, Bank XYZ Syariah is a financial institution in meeting the needs of the community for financing transactions Based on sharia principles which in its activities not only provide payment services, but also have a role like other commercial banks, one of the important roles (Bank XYZ) is distribute funds to the community.

Establishing a business requires a lot of capital. Businesses that have been established still need capital so that the business can develop. This causes limited capital to become a problem that often occurs in business activities. Therefore, banks offer credit or financing as an alternative to additional capital for customers who have a business and need capital to develop their business.

The public's need for additional capital has increased interest in credit offered by banks. The popularity of banking credit causes fierce competition between banking institutions and each other in attracting customers. The high interest in banking credit requires bank analysts to be more careful in analyzing credit applications submitted by prospective debtors. This is considering that credit activities are one of the banking activities that have high risks.

Bad loans can be prevented if banks are more careful in making credit decisions. A credit decision is a decision that determines whether a customer is eligible or unworthy to be given a loan in the form of credit. Banks must be able to make the right credit decisions to avoid losses.

Collateral or collateral in the form of the availability of collateral that is appropriate and balanced with the amount of loan given so that the bank does not need to worry when there is a bottleneck in loan repayment because the collateral can be a substitute for the repayment of stuck loans (Kasmir, 2010).

According to Hillary Yohana Saroinsong, et al. (2022), guarantees have a positive and significant effect on bad loans. This means that the low guarantee given by the debtor to the bank to The amount of credit provided by the bank to the debtor, the bad credit will increase. Meanwhile, according to Made Egar Dirotsaha Putra, et al. (2022), collateral partially has a negative and significant effect on bad loans.

The assessments that must be carried out by the bank before approving a financing request for smooth repayment of financing include, namely character assessment, meaning that the bank carefully examines the character of the customer. Assessing character is the most difficult job in analyzing financing. The character assessment of prospective financing customers is carried out to conclude that the financing customer is honest, in good faith, and will not cause difficulties for the bank in the future.

According to Andi Nursyahriana (2017) The character of the debtor has a negative and significant effect on the existence of Bad Loans. This means that if the debtor's character is getting better, it will reduce the risk of bad credit, and vice versa, if the debtor's character is bad, it will increase the risk of bad credit. Meanwhile, according to Regilia Asri Cahyaningtyas (2019), Character does not have a negative effect on bad credit. Therefore, based on the description above, the author is interested in conducting a study entitled "THE EFFECT OF COLLATERAL AND CHARACTER ON BAD LOANS OF BANK XYZ".

2. Literature Review

Bad credit can be interpreted as a loan that has difficulty repaying or paying due to internal or external factors, as for the internal factor, namely the lack of thoroughness of the lender in providing loans to customers, while the external factor is that there is an element of intentionality which means that the customer deliberately does not pay the credit that has been given which results in bad credit.

Definition of bad credit Tondok (2022) broad meaning of bad credit or non-performing credit can be characterized as non-current credit or credit whose borrower defaults on the terms at the beginning of the agreement. Rifatul, Jeni and Budi (2019:93) said bad credit is a situation where debtors, either individuals or companies, are unable to pay bank loans on time. From this understanding, it can be concluded that bad credit is a loan that has difficulty in settlement by customers to banks due to internal and external factors.

Collateral

Setiono, Herry, and Satriyani (2021) stated that in a credit agreement, the existence of an object as collateral for the debtor's credit is one of the factors that is quite important to reduce risk and provide more certainty for creditors that have been given to the debtor. The provision of credit guarantees is a confidence for banking institutions in the ability of debtors to repay loans in accordance with what is agreed. So, a guarantee is a guarantee for a prospective debtor given to the bank to convince the bank in providing the requested amount of credit. The guarantee can be in the form of guaranteeing the bank to trust the prospective debtor in paying his credit.

Character

According to Andrianto (2019), character is the state of disposition or nature of the customer, both in personal life and in the business environment. The purpose of this character assessment is to find out the extent of the customer's willingness to fulfill his obligations in accordance with the agreement that has been set. Character assessment is the dominant factor, because if the customer is able to settle his debt but does not have good faith, it will certainly bring various difficulties for the bank in the future. The provision of financing must be based on trust, while the basis of a trust is the belief from the bank, that the borrower has morals, character, and positive and cooperative personal traits. In addition, they have a sense of responsibility, both in their personal life as a human being, their life as a member and in carrying out their business activities.

3. Method, Data, and Analysis

The method used in the study is a quantitative method. According to Adhi Kusumastuti (2020), the quantitative method is a method to test certain theories by examining the relationship between variables. Variables are usually measured with research instruments so that data consisting of numbers can be analyzed based on statistical procedures.

According to Sugiyono (2020), population is a generalization area consisting of objects or subjects that have certain qualities and characteristics that are determined by the researcher to be studied and then drawn conclusions. The population in this study is all Bank XYZ customers totaling 44 people.

Data analysis is one of the research processes carried out after all the data needed to solve the problem being studied has been obtained completely. To determine the effect of Guarantee and Character on bad loans with the help of SPSS software, the data analysis techniques used are as

follows: (1)Validity test, (2)Reliability test, (3)Classroom assumption test, (4)Multiple linear regression test, (5)Hypothesis test.

4. Result and Discussion

Hypothesis test

1. Test Result t (Partial)

The statistical partial (t) test is intended to test the partial influence between independent variables on dependent variables on the assumption that other variables are considered constant with a confidence level of 95% ($\alpha = 0.05$). The following partial test results can be seen in the table below:

**Tabel 2 Uji Parsial (Uji t)
Coefficients^a**

Model		Unstandardized Coefficients		Standardize d Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.694	.750		3.593	.001		
	<i>Collateral</i>	.631	.132	.518	4.783	.000	.197	5.082
	<i>Character</i>	.531	.125	.459	4.238	.000	.197	5.082

a Dependent Variable: bad_loans

Number of samples (n) = 44, number of model parameters (k) = 3, $df = (n-k) 44 - 3 = 44$, then at the error rate $\alpha = 0.05$, $T - table = 1.98472$ is obtained. Based on the results of the t-test in table 4.10, the results were obtained:

- A. The Collateral variable (X_1) has a coefficient of 0.202 with a positive value, with $T - count (4.783) > t - table (1.98472)$ and significant $(0.00) < (0.05)$. Thus, the Collateral variable has a positive and significant effect on bad loans.
- B. The Character variable (X_2) has a coefficient of 0.112 with a positive value, with $T - count (4.238) > t - table (1.98472)$ and significant $(0.000) < (0.05)$. Thus, the Character variable has a positive and significant effect on bad loans.

2. Test Result F (Simultaneous)

The F test was intended to test whether the independent variable simultaneously had an effect on the dependent variable, with a confidence level of 95% ($\alpha = 0.05$). The following test results can be seen in the table below.

**Tabel 1 Test Simultaneous (F)
ANOVA^b**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	160.822	2	80.411	196.070	.000 ^a
	Residual	16.815	41	.410		

Total	177.636	43		
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a Predictors: (Constant), Character, Collateral

b Dependent Variable: bad_loans

Based on the data above, there is a value from the F data calculation and the significance for the F value of the table in the study, which can be calculated from the SPSS application. Thus, if F is calculated greater than F of the table, it will have an effect, but if F is less than F of the table, it has no effect. F calculated: 196,070 is greater than F table: 3,081 then H3 is simultaneously influential and the significance value of 0.000 is less than 0.05, then H0 is rejected and Ha means that the collateral and character variables simultaneously have a positive and significant effect on bad loans.

3. Determination test results

The determination coefficient (R²) essentially measures how far the model is able to explain the variation of dependent variables. The value of the determination coefficient is between zero and one. A small R² value means that the ability of dependent variables to explain independent variations is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the dependent variables. The following R² test results can be seen in the table below:

Tabel 3 Determination Test Result (R²)
Model Summary^{a,b}

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.951(a)	.905	.901	.64040

a Predictors: (Constant), Character, Collateral

b Dependent Variable: bad_loans

Based on table 4.12, the determination coefficient is $0.901 \times 100\% = 90.1\%$. This means that the collateral variables (X1), character (X2) have an effect on bad loans (Y) by 90.1%, while the rest ($100\% - 90.1\% = 9.9\%$)

5. Conclusion and Suggestion

1. Based on the results of partial analysis, it is known that Collateral has a positive and significant influence on bad loans. This can be interpreted that the existence of guarantees provided by borrowers has a positive and significant impact on bad loans. In other words, the existence of collateral strengthens the lender's confidence that the loan will be returned properly, thereby reducing the risk of bad credit. And vice versa, it can be interpreted that the absence of collateral has a negative and significant influence on the possibility of bad loans. This means that without collateral, the lender may consider the loan to be riskier and more likely to experience bad credit.

The results of this study are in line with previous research by Rifqah Harahap (2022), guarantees have a positive and significant effect on the amount of bad loans. This can be seen in the results of the study where the significance value is $0.000 < \alpha \text{ level } 0.05$ and

the guarantee coefficient value is 1.423. This means that when the collateral increases by one unit, the number of bad loans will increase by 1,423.

2. Based on the results of partial analysis, it is known that Collateral has a positive and significant influence on bad loans. This means that Characters who have credit or loans have a positive and significant impact on bad loans. In other words, lenders tend to believe that individuals with good character are more likely to repay credit or loans on time, thus reducing bad credit. And vice versa, individuals with poor character have a negative and significant influence on bad credit. This means that individuals who lack good character are considered more at risk of experiencing bad credit.

This research is in line with (Hillary Yohana Saroinsong 2022), Character has a positive and significant effect on bad loans. This can be seen in the results of the study obtained a value of T – count = 3.486 with a significant level of 0.001, with a significant limit of 5% = 1.995, then the significant limit value of 1.995 > 0.001, then the H2 hypothesis can be accepted that the Character factor positively has a significant effect on bad loans.

3. Based on the results of the F test, it can be seen that there is a significant influence between the influence of collateral and character on bad loans. And it can be seen from the Pvalue value > 0.05 where at a value above 0.00 < 0.05 or it can be through F calculate the > from F table where the value is 196,070 > 3,081 ari, together with the independent variable to the dependent variable. In this case, it also answers H3 which reads collateral, Character together has a positive and significant effect on bad loans. Then H0 is rejected and H1 is accepted. Other indicators that can be a benchmark in bad loans are economic conditions, namely the assessment of the prospects of the business sector financed should really have good prospects so that the possibility of the credit being in arrears is relatively small, Capacity, namely the debtor's ability to provide clarity to the lender to the extent that the amount of income of the prospective debtor is, it is hoped that he will be able to repay his credit.

This research is in line with (Hillary Yohana Saroinsong 2022), that the influence of Collateral and Character has a positive and significant effect on bad loans, this can be seen in the results of the research, namely, Based on the results of the simultaneous test from the table above, it is shown that the Fcal is 8.886 while the result of F - the table in the distribution table with an error rate of 5% (0.05) is 2.35. This means that F counts > F table (8.866 > 2.35). In the table above, we can also see that the significance value of 0.000 is less than 0.05 because the significance value is less than 0.05, so the regression model can be used to predict Bad Loans or it can be said that Internal Factors in the form of Guarantees, and External Factors in the form of Debtor Character together (simultaneously) affect Bad Loans in PT. Bank Sulut Go Main Branch.

Suggestion

Based on the results of the research on the influence of Collateral and Character on bad loans at Bank XYZ, the author tries to provide suggestions as consideration for further development, including:

1. Based on the results of the study, the results of the influence of Collateral and Character on bad loans were obtained. Therefore, bank XYZ is expected to be able to improve the valuation procedure so that it can run well and effectively, namely by increasing accuracy and prudence so that the assessment of Collateral and Character does not make adverse mistakes and internal parties must be firm in making decisions on bad loans.
2. Customers are expected to increase their awareness of their rights and obligations in terms of applying for credit to the bank. Customers are expected to be more honest in completing credit application requirements. Therefore, customers must equip themselves with knowledge about credit procedures from the stage of application, disbursement, supervision, to repayment so that no party is disadvantaged in credit activities.
3. This research is expected to be carried out in general and broadly, so for the next researcher it is hoped that it can add and replace research subjects other than Collateral and Character which if it has an influence on bad loans.

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