



ANALYSIS OF FACTORS CAUSING NON-PERFORMING LOANS AT PT. BANK NAGARI SITEBA BRANCH

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ABSTRACT

The objective of this study is to analyze the factors contributing to non-performing loans at PT Bank Nagari Siteba Sub-Branch. The research employs a quantitative approach with a descriptive analytical method, utilizing observation and interview techniques to examine the factors that lead to non-performing loans at the institution. The findings indicate that PT Bank Nagari Siteba Sub-Branch experienced fluctuations in non-performing loans during the 2021–2024 period. These fluctuations are attributed to both internal and external factors. Internally, there was a lack of accuracy in document verification and in the analysis of customers financial statements. Externally, customers demonstrated a lack of transparency toward the bank, particularly in the use of credit facilities for instance, loans initially declared for business purposes were, in practice, used for consumption. Additionally, improper utilization of credit and the submission of inaccurate financial data by customers further contributed to the occurrence of non-performing loans.

Keywords: *Bad Credit, Bank, non-performing loans*

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INTRODUCTION

Currently, the financial needs of society, especially in developing countries, are increasing along with the rise in mobility and socio-economic activities. Various aspects of people's lives cannot be separated from banking transactions. This is reflected in the growing consumer demand to open new accounts, conduct both cash and non-cash transactions, and apply for loans.

Therefore, banks are required to be able to meet the diverse needs of customers in order to maintain their operational sustainability. One notable phenomenon is the increasing public interest in applying for loans at banks. Some people use loans for investment purposes, while others use credit facilities to fulfill consumptive needs.

Banks are financial institutions that play a strategic role in promoting a country's economic growth. Based on Law Number 7 of 1992 concerning Banking, which has undergone several amendments, most recently through Law Number 4 of 2023 concerning

the Development and Strengthening of the Financial Sector, a bank is defined as a financial institution whose main activities are collecting funds from the public and redistributing them in the form of credit, as well as providing various other banking services.

Thus, the main function of banks as financial intermediary institutions includes collecting funds from the public, channeling funds back to the public, and providing services in the form of banking services (Supit et al., 2019). Non-performing loans (NPLs) refer to situations in which debtors experience difficulties in fulfilling their obligations to creditors. One common example of a non-performing loan is late payment, which may result in penalties and a decline in credit scores. A non-performing loan can also be defined as a condition in which customers are no longer able to pay part or all of their obligations to the bank as agreed. Based on the provisions of Bank Indonesia Regulation Number 7/2/PBI/2005 concerning the Assessment of Commercial Bank Asset Quality, non-performing loans are classified into the categories of Substandard (KL), Doubtful (D), and Loss (M). Conceptually, non-performing loans can be defined as loans that encounter difficulties in the repayment process, either due to intentional factors on the part of the debtor or because of conditions beyond the debtor's control.

PT. Bank Nagari Siteba Branch is a specialized banking service provided by Bank Nagari to assist customers in borrowing money under specific terms and conditions, particularly for the purchase of jewelry such as rings. This credit service is designed to meet borrowing needs that cannot be fulfilled through conventional or commercial loans. Credit is an agreement in which the lender (creditor) provides a sum of money or goods to the borrower (debtor) with the understanding that the debtor will repay the principal amount along with interest within an agreed period of time. It is a financial instrument that enables individuals and companies to purchase goods and services on credit, which are then repaid over a predetermined period.

At PT. Bank Nagari Siteba Branch, non-performing loans generally occur because customers do not provide transparency to the bank. For example, customers may claim that the loan will be used for business purposes, while in reality it is used for consumptive needs. In addition, the misuse of credit facilities and the failure of customers to provide accurate information also contribute to the occurrence of non-performing loans. The following is the total amount of non-performing loans at PT Bank Nagari Siteba Branch for the 2021–2024 period.

**Table 1 Amount of Non-Performing Loans PT. Bank Nagari Siteba Branch
Period 2021–2024
(in IDR 000)**

No	Year	Amount of Non-Performing Loans
1	2021	10.361.794.065
2	2022	11.735.387.480
3	2023	11.869.409.214
4	2024	10.331.469.227



Source: PT. Bank Nagari Siteba Branch.

Based on Table 1 above, in 2021 the total non-performing loans amounted to IDR 10,361,794,065. In 2022, this figure increased to IDR 11,735,387,480, and in 2023 it rose again to IDR 11,869,409,214. However, in 2024, the amount decreased to IDR 10,331,469,227.

Credit

According to Law Number 10 of 1998, credit is the provision of money or claims that can be considered equivalent to money, based on a lending and borrowing agreement between a bank and another party, which requires the borrower to repay the debt along with interest within a specified period. According to Amelia and Marlius (2018), credit is the provision of benefits such as money or goods in exchange for a counter-performance that will be fulfilled in the future. For the recipient of credit (the debtor), this represents a form of trust that creates an obligation to make payments according to the agreed timeframe (Turuis, 2017). Widayati and Maiwati (2019) further add that credit is the provision of money or receivables equivalent to money, based on an agreement between a bank and a borrower, in which the borrower is obliged to repay the obligation after a certain period with a predetermined interest rate.

Functions of Credit

The function of credit is to meet financial needs, both in personal contexts and business activities. In its early development, credit served as a mechanism that encourages both parties to help each other in fulfilling needs, whether for business purposes or daily necessities (Alanshari & Marlius, 2018). Credit can also help improve the economy and the standard of living of the community (Tumalun & Pangerapan, 2019). One of the elements involved in granting credit is the creditor and the borrower. Credit has several functions, including: a. helping to achieve financial goals, b. enabling the purchase of expensive goods or services, c. improving the efficiency and productivity of money usage, d. contributing to the smooth circulation of money in society, e. increasing the usefulness and distribution of goods, f. serving as a tool for economic stability, g. facilitating and improving the smooth flow of trade, production, consumption, and services, h. helping to enhance international relations, i. increasing public enthusiasm and motivation in conducting business activities, and j. contributing to the increase of per capita income (Income Per Capita/IPC) of the community.

RESEARCH METHODS

Method of collecting data

a. Library Research

This research was conducted by collecting data and using theories obtained from several books related to the problems discussed in this research.

b. Field Research

This research was conducted through observation and interviews with PT Bank Nagari.

Data Analysis Methods

In analyzing the data, the author used a mixed methods approach, analyzing both quantitative and qualitative data. According to (Sugiyono, 2019), mixed methods research is a research method that combines quantitative and qualitative methods in a single research activity, with the goal of obtaining more comprehensive, valid, reliable, and objective data. The use of mixed methods was carried out because quantitative and qualitative data have their respective advantages and limitations. Therefore, by combining the two approaches, researchers can complement each other's research results.

a. Quantitative Method

The quantitative method uses a growth formula to analyze data obtained from the PT Bank Nagari.

$$\text{Growth (\%)} = \frac{X_t - X_{t-1}}{X_{t-1}} \times 100\%$$

Explanation:

X_t : Value in a given year

X_{t-1} : Value in previous year

b. Qualitative Method

Qualitative methods were used to describe, understand, and explain data from research conducted by researchers at the PT Bank Nagari. Data from interviews and observations were analyzed descriptively by reducing, presenting, and drawing conclusions.

RESULTS AND DISCUSSION

Principles of Credit Assessment: 5C, 7P, and 3R

The 5C, 7P, and 3R principles are criteria used by banks to assess the eligibility of prospective borrowers in obtaining credit. The 5C principles are: a. Character – the customer's character or behavior in personal life, work, or business. b. Capacity – the customer's ability to manage their business to generate the expected profit. c. Capital – the amount of funds or own capital owned by the customer. d. Collateral – assets or objects provided by the customer as security for the credit received. e. Condition – political, social, economic, and cultural conditions that affect the economic situation. Meanwhile, the 7P principles consist of: a. Personality –Evaluates the borrower's character, honesty, and willingness to repay the loan,Includes reputation and past credit behavior b. Party – Assesses the classification or type of borrower,Determines whether the borrower is an individual, company, or institution, and their credibility level. c. Purpose – Identifies the purpose of the loan,Ensures the loan is used for productive and legitimate activities d. Prospect – Evaluates the future potential of the borrower's business or income, Looks at growth opportunities and sustainability. e. Payment – Assesses the borrower's ability and plan to repay the loan, Includes repayment schedule and cash flow analysis.f. Profitability – Measures the potential profit generated from the borrower's business or project, Ensures the loan benefits both the



borrower and the lender. g. Protection –Refers to safeguards for the lender, such as collateral or guarantees, Minimizes risk in case of default. The 3R principles are: a. Returns –Evaluates the potential return or income generated from the loan, The business or project must be able to produce sufficient profit to repay the loan and provide benefits to the borrower b. Repayment – Assesses the borrower’s ability to repay the loan on time, Focuses on cash flow stability, income sources, and repayment schedule. c. Risk bearing ability – Evaluates the level of risk associated with the loan, Includes business risk, market conditions, and the borrower’s financial stability.

Credit Feasibility Analysis

Credit feasibility analysis is the process of assessing a prospective borrower’s eligibility to obtain a loan (Novianti, 2017). This analysis is conducted by financial institutions to determine whether a prospective debtor is worthy of receiving credit. Credit assessment involves a series of important aspects evaluated by financial institutions before granting a loan, which are known as the 7P principles (Mubin, 2022). The following is a detailed explanation of the various aspects of credit assessment:

- a. Legal/Juridical Aspect, which considers the validity and legal compliance of the loan transaction. The evaluation is conducted on contract documents, the existence of legally valid collateral, and an assessment of potential legal risks that may arise during the loan process.
- b. Market and Marketing Aspect, which examines the stability and trends of the market related to the borrower’s sector or industry. The evaluation includes an analysis of market competition, the borrower’s business growth prospects, and the planned marketing strategies..
- c. Financial Aspect, where the borrower’s financial condition is carefully evaluated. This involves analyzing financial ratios, cash flow, profitability, and liquidity to understand the borrower’s ability to repay the loan.
- d. Technical/Operational Aspect, which involves observing the operational and technical processes of the borrower’s business. This includes evaluating the management system, technology used, infrastructure, and existing operational procedures.
- e. Management Aspect, which evaluates the quality of the borrower’s management, including experience, competence, risk management policies, and business strategies implemented by the management team.
- f. Socio-Economic Aspect, which assesses the socio-economic impact of the loan on the surrounding environment and the community involved. These factors include social sustainability, positive or negative social impacts, and contributions to local economic development.
- g. Environmental Impact Assessment (AMDAL) Aspect, which evaluates the environmental impact of the borrower’s business activities. This aspect ensures that the credit provided does not harm the surrounding environment and complies with sustainability standards.

Overall, these aspects help financial institutions conduct a holistic assessment of loan eligibility, minimize credit risk, and consider its impacts on various dimensions, including legal, economic, social, and environmental factors.

Definition of Non-Performing Loans

Non-performing loans are a type of credit that has the potential to cause losses due to debtors who are unwilling or unable to fulfill their obligations to the bank. This condition can occur due to various factors, including financial difficulties, changes in economic conditions, or other unforeseen events. In simple terms, non-performing loans reflect the debtor's inability to repay their debt according to the agreed schedule.

Causes of Non-Performing Loans

Non-performing loans occur when a debtor is unable to fulfill loan repayment obligations in accordance with the agreed contract. The causes of non-performing loans can come from both internal and external factors. The following are some of the main factors that often lead to the occurrence of non-performing loans:

Factors from the Debtor's Side:

- a. **Poor Financial Management:** A lack of proper financial planning can cause debtors to be unable to manage income and expenses effectively, resulting in difficulties in paying loan installments.
- b. **Misuse of Loan Funds:** Using loan funds for purposes that are not aligned with the original intention, such as consumption instead of investment or business capital, can increase the risk of default.
- c. **Decline in Income or Job Loss:** Economic changes, such as unemployment or reduced income, can hinder the debtor's ability to fulfill loan repayment obligations.
- d. **Business Failure:** For debtors who use credit as business capital, failure in their business can lead to an inability to repay loan installments.

External Factors:

- a. **Changes in Government Policies:** Modifications in government regulations or policies that negatively affect the debtor's business sector can impact their ability to repay credit obligations.
- b. **Natural Disasters:** Unexpected events such as natural disasters can damage the debtor's assets or sources of income, thereby hindering their ability to fulfill loan repayment obligations.

Techniques for Resolving Non-Performing Loans

According to Fernos (2018), the stages of loan settlement include:

- a. **Monitoring Stage**
The bank carries out intensive and disciplined monitoring of the entire credit portfolio to anticipate potential risks of loss. Activities conducted at this stage include:
 - 1) Assessing the overall quality of the credit.
 - 2) Involving Internal Audit in the credit monitoring process.
 - 3) Identifying debtors whose credit quality has changed, such as from current to special mention, substandard, doubtful, or loss.
- b. **Supervision Stage**
The bank conducts periodic analysis of problems and evaluations to improve credit quality by implementing, establishing, and determining credit management work units as follows:



Clarification of Credit Categories:

- 1) Credits classified as current and special mention are managed by the Branch Credit Working Unit (*Satuan Kerja Perkreditan Cabang – SKPC*).
- 2) Non-performing loans—including substandard, doubtful, loss, and off-balance sheet credits—are managed by the Special Credit Working Unit (*Satuan Kerja Perkreditan Khusus – SKPK*) at the branch level, with support from the Special Credit Working Unit at the head office.

Growth Rate of Non-Performing Loans at PT. Bank Nagari Siteba Branch

**Table 2 Growth Rate of Non-Performing Loans at PT. Bank Nagari Siteba Branch
Period 2021–2024
(in IDR 000)**

No	Year	Amount of Non-Performing Loans	Growth (%)
1	2021	10.361.794.065	0
2	2022	11.735.387.480	13,26%
3	2023	11.869.409.214	1,14%
4	2024	10.331.469.227	-12,96%

Source: PT. Bank Nagari Siteba Branch (processed data)

Based on Table 2 above, during the 2021–2022 period there was an increase in non-performing loans of 13.26%. In the 2022–2023 period, non-performing loans increased by 1.14%. Then, in the 2023–2024 period, non-performing loans decreased by -12.96%.

Factors Causing Non-Performing Loans at PT. Bank Nagari Siteba Branch

Based on the description above, non-performing loans at PT. Bank Nagari Siteba Branch fluctuate. This condition is caused by:

- a. Internal bank factors, where there is a lack of thoroughness in examining documents and analyzing customers' financial statements.
- b. External factors, where customers do not provide transparency to the bank. For example, they claim the loan will be used for business purposes, but in reality it is used for consumption. The improper use of credit and the failure of customers to provide accurate financial reports also contribute to this issue.

Techniques for Resolving Non-Performing Loans at PT. Bank Nagari Siteba Branch

The resolution of non-performing loans at PT. Bank Nagari Siteba Branch can be carried out through various efforts, such as early warning, collection activities, and credit restructuring. Efforts to resolve non-performing loans include:

- a. Early warning: A notification system to inform customers when a loan shows signs of becoming non-performing
- b. Collection: PT. Bank Nagari Siteba Branch conducts collection efforts by reminding and demanding customers to fulfill their obligations related to non-performing loans.
- c. Credit restructuring: An agreement between the creditor and debtor to modify the terms or conditions of the loan.
- d. Rescheduling of payments: Bank Nagari Siteba Branch reschedules loan repayments to ease the debtor's payment burden.
- e. Reconditioning: Monitoring and evaluating progress toward the objectives of the financing program.
- f. Legal settlement of non-performing loans: Non-performing loans can be resolved through legal procedures.
- g. Civil litigation: Non-performing loans may be filed as civil cases in court.
- h. Criminal aspect: Non-performing loans may fall under criminal law if they meet elements of criminal acts such as fraud, embezzlement, or for forgery.

CONCLUSION

Based on the results of the research and discussion that have been explained, the conclusion of this study is as follows: the growth rate of non-performing loans at PT. Bank Nagari Siteba Branch fluctuated during the 2021–2024 period. The increase and decrease in NPLs were influenced by both internal and external factors. Internal factors included inadequate accuracy in document verification and weaknesses in analyzing customers' financial statements. External factors were mainly related to customers' lack of transparency regarding the use of loan funds, improper utilization of credit facilities, and the submission of inaccurate financial information. To minimize the occurrence of non-performing loans, the bank should strengthen its credit assessment process, improve monitoring systems, and enhance customer supervision. These measures are expected to reduce credit risk and maintain the quality of the bank's loan portfolio.

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