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THE EFFECT OF CREDIT QUALITY ON PROFITABILITY (STUDY ON A MORTGAGE IN GARUT CITY)

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ABSTRACT

Penelitian Kata Kunci : Non Performing Loan (NPL) dan LabaThis study aimed to determine and analyze the effect of credit quality on profitability in one of the mortgages in Garut City. The research method is quantitative, with a descriptive and verification analysis approach. The data used are five-year financial reports from 2016 to 2020.

The study results show that the general description of Non-Performing Loans (NPL) and Profits is not optimal; non-performing Loans (NPL) correlate with Profits of 0.796, simple linear regression results that Y = -15.063 + 0.549. Non-performing Loans influence profit (Y) of 0.634 or 63.4%.

Keywords: Non-Performing Loan (NPL) and Profit

ABSTRAK

Tujuan dari penelitian ini adalah untuk mengetahui dan menganalisis pengaruh kualitas kredit terhadap profitabilitas di salah satu KPR di Kota Garut. Metode penelitian adalah kuantitaif dengan pendekatan analisis deskriptif dan verifikatif. Dengan data yang digunakan adalah laporan keuangan selama 5 tahun dari 2016 smpai dengan 2020.

Hasil Penelitian bahwa gambaran umum Non Performing Loan (NPL) dan Laba belum optimal, Non Performing Loan (NPL) mempunyai korelasi dengan Laba sebesar 0,796, hasil regresi linear sederhana bahwa Y = -15,063+ 0.549, dan Non Performing Loan memiliki pengaruh terhadap Laba (Y) sebesar 0,634 atau 63,4%.

Kata Kunci : Non Performing Loan (NPL) dan Laba

INTRODUCTION

Banking has a vital role in implementing national development to increase economic growth and community stability to improve people's standard of living. Banks are financial institutions that act as intermediaries between parties with excess capital and those needing capital. Regarding investment, the most crucial intermediary function banks carry is through the credit business. Therefore, the measure of a bank's success is its success in managing loans because the largest allocation of bank capital is in the credit industry.

With the increasing number of banks, competition is getting tougher. In a very competitive environment, good management is critical, especially in the financial aspects of the company. (Abbas et al., 2019) From this aspect, it can be seen to what extent the company can manage its assets effectively and efficiently to obtain maximum profit in a certain period. That way, the company can maintain its viability. The ability to generate profit/profit is referred to as profitability.

To achieve profitability, banks must always try to collect funds from third parties to fund lending activities in order to increase the interest on loans obtained and always try to reduce the level of Non-Performing Loans (NPL) given the significant value of Allowance for Earning Assets (PPAP) which has been determined according to with the amount of credit given based on collectibility.

Credit is a source of income and profit for banks; on the other hand, credit is also an investment activity which is often the main reason banks face big problems, namely when there are cases where customers cannot or can only make payments of part or even all of their obligations to the bank by what has been agreed upon. As a result, they promised to make the credit problematic or jammed. (Alonso-Conde & Rojo-Suárez, 2020)

The Corona Virus Disease (Covid-19) pandemic that occurred in early 2020 not only resulted in a global health emergency and affected all lines of business. The government has implemented a health protocol to overcome this pandemic, namely by implementing Large-Scale Social Restrictions (PSBB) and social distancing, which are expected to overcome the Covid-19 pandemic. However, the impact of this pandemic continues to spread and affect Indonesia, including the banking sector.

Banks need support for economic development, such as credit, in carrying out their activities. (Blessing Ebere et al., 2023) Credit benefits the community, but the bank will also receive several benefits which, of course, have been agreed upon by both parties. The success criteria for a bank can be seen if the bank can manage credit well. (Madugu et al., 2020) However, amid the Covid-19 pandemic, an increase in the distribution of credit funds currently carries a reasonably high risk. This is

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because the Covid-19 pandemic has impacted the world of work, where approximately 2.8 million workers have been affected by Covid-19, which can cause credit quality to change not to be smoothly. One of them is for debtors whose businesses have been affected by the spread of Covid-19, so debtors cannot fulfill their obligations every month, which results in banks having to carry out government regulations, namely carrying out credit restructuring.

Related to that, the government issued economic or credit sector policies, especially those related to this Extraordinary Event. They are, namely, making efforts to save credit during a pandemic to deal with debtors whose businesses have been affected by Covid-19.

Rural Banks (BPR) collect public funds through savings and time deposits without providing services in payment traffic. The provision of credit is primarily intended for small entrepreneurs and rural communities.

Profit is an indicator or measurement of achievement or performance whose magnitude appears in the financial statements. Non-Performing Loans (NPL) in the last five years have fluctuated where in addition to bad loans, there have been ups and downs, but they can still be suppressed so that profits can be stable even though they are not significant. As a result, profit and loss before tax can be increased, as seen in the table above. For example, in 2016, every quarter experienced the most significant increase in June, amounting to IDR 2,179,620,000 or an increase exceeding the target of 130%; in September 2017, it experienced an increase of IDR 1,613,341,000 or 47%; in June 2018, amounting to IDR 2,517,180,000 or 139%, in June 2019 amounting to IDR 2,406,114,000 or an increase of 115%, in June 2020 and IDR 2,018,612,000 or 89%, and decreased in March 2017 by 70%, March 2018 by 70%, March 20 19 of 66%, and March 2020 at 71%.

Several factors cause lousy credit, including: based on business prospects, business continuity is very doubtful, the industry is experiencing a decline, and it is difficult to recover. Losing the market is in line with the declining economic conditions. (Hoang et al., 2019) Fragile management. There was a labor strike which was very difficult to overcome. Based on the finances, the debtor suffered a significant loss. (Saleh & Abu Afifa, 2020) The debtor cannot fulfill all obligations, and business activities cannot be maintained. The debt-to-profit ratio is very high. New loans are used to cover operating losses. Based on the ability to pay, there are arrears in principal and interest payments that have exceeded 270 days, significantly affecting profit.

Bad Loans (NPL) are of particular concern to banks because the existence of NPLs has a significant impact on the condition of a bank. (Abdelaziz et al., 2022) A large Non-Performing Loan (NPL) value will negatively affect a bank, and a small Non-Performing Loan (NPL) value will positively affect a bank.

Then, in the last five years, a phenomenon has occurred where profits on one of the mortgages in Garut City have fluctuated, and many customers cannot pay their debts. In 2016 every quarter, it increased. The highest increase in 2018 was 8.42%, and in 2019 was 8.43, due to the impact of the covid 19 pandemic; we can see that in 2020, the highest was 7.46%.

Based on the problems that the authors have chosen, the problem of this research can be formulated as follows how much influence Non-Performing Loans (NPL) have on the Profits of one of the KPRs in Garut City? Therefore, it is hoped that this research can obtain data as a source of information to be processed and analyzed to determine the magnitude of the influence of Non-Performing Loans (NPL) on Profits in one of the KPRs in Garut City.

METHOD

The research method that will be used by the authors in this study is the descriptive method and the verification method, namely by collecting theory, processing, and analyzing data obtained during this research which will then be analyzed further based on the theory learned and this data will be tested with statistics.

This study's independent variable is Non-Performing Loan (NPL) or credit quality as "X1". The dimensions are substandard credit, doubtful credit, and bad credit. The dependent or dependent variable is the variable that is affected or becomes the result because of the independent variable (Independent). This study's dependent variable is profitability (profit) as "Y." The dimensions are income and all expenses.

Researchers took 20 samples derived from financial statements over five years with quarterly reports.

RESULTS and DISCUSSION

The descriptive analysis in this study aims to explain the description of Non-Performing Loans and Profits using SPSS 25. Considering that the research data used to test the regression model used in this study is feasible or not be used, it is necessary to test the classical assumptions.

Based on the data obtained, the magnitude of the Kolmogorov-Smirnov value is a significant level (Asymp. Sig. (1-tailed)) above 0.05, namely 0.200. Therefore, it was concluded that the data met the assumption of normality. Furthermore, the normality test results can also be seen through the Normal Probability Plots (Normal P-P Plots) with the result that the probability plot graph shows that the dots spread around the diagonal line, and the spread follows the direction of the diagonal line. Therefore, the research data is usually distributed because it fulfills the normality assumption.

The heteroscedasticity test aims to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another. The heteroscedasticity test used in this regression model is by looking at the graph plot between the predicted value of the dependent variable (ZPRED), and its residual (SRESID) where the Y axis is the predicted Y and the X axis is the standardized residual (Y prediction — Y actually). The heteroscedasticity test aims to test whether, in the regression model, there is an inequality of variance from the residuals from one observation to another. To test for the presence of heteroscedasticity symptoms, the scatterplot test method is used, and a good regression model is that there is no heteroscedasticity; the analysis is:

1. If there is a specific pattern, such as the dots forming a regular pattern ~~ (wavy, widens, then narrows), then it indicates that heteroscedasticity has occurred.
2. There is no heteroscedasticity if there is no clear pattern and the points spread above and below zero on the Y axis.

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In the scatterplot graph, the regression points spread in the area above and below the 0 points on the Y axis and on the right and left of the 0 points on the X axis, and no specific pattern is formed. Therefore, there is no heteroscedasticity in the research data.

The autocorrelation test is a statistical analysis conducted to determine whether there is a correlation between the variables in the prediction model with changes in time. Therefore, if the assumption of autocorrelation occurs in a prediction model, then the disturbance values are no longer independent pairs but are paired in an autocorrelation manner. Based on the data obtained, the Durbin Watson (Dw) value is 645, above +2. Therefore, there is an autocorrelation of the research data.

Regression analysis is an analysis that aims to determine the effect of a variable on other variables. The influencing variable is the independent variable, and the affected variable is the dependent variable. Based on the data, the results of the linear regression equation can be obtained as follows:

$$Y = -15{,}063 + 0.549$$

From the results of the multiple linear regression equation, it can be explained as follows:

A constant value of -15.784 states that if a Non-Performing Loan is 0 (zero) and there is no change, the profit level will be worth 0.549.

The coefficient of determination determines how much influence the independent variables have on the dependent variable. Based on the data obtained, the coefficient of determination is 0.634; this value (R Square) is obtained from squaring the R-value or the correlation coefficient, namely 0.796 x 0.796 = 0.634. Therefore, the coefficient of determination is 0.634 or 63.4%, indicating that the Non-Performing Loan variable influences Profit (Y) of 63.4%.

The significant level (significant level) often used is 5% or 0.05 because it is considered quite stringent in testing the relationship of the variables being tested or shows that the correlation between the two variables is quite natural. Finally, hypothesis testing is carried out to test the hypotheses made before to determine the effect of the correlation between the independent variables on the dependent variable, which is still temporary.

1. If t-count < t-table, then the independent variables do not affect the dependent variable (Ho is accepted).
2. If t-count> t-table, the independent variables individually affect the dependent variable (Ho is rejected).

Based on the data obtained, the effect of the independent variable on the dependent variable can be explained by the non-performing loan effect on profit. It is known that non-performing loans significantly affect profit, that t-count > t-table or 5.584 > 1.729 obtained from n-2.

CONCLUSION

The data processing results show that the coefficient of determination is 0.634 or 63.4%, indicating that the Non-Performing Loan variable has an influence on Profit (Y) of 63.4%.

Due to the influencing of 0.634 or 63.4%, one of the KPRs in Garut City must be able to increase the influence of NPL on profits so that the profit generated can be optimized according to the target.

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