

CHAPTER I

INTRODUCTION

A. Background

As a developing country, Indonesia's economy is affected by the fluency of banking stream. The role of banks is significant to assist the venture capital provision in the form of credit. Business in Indonesia, both small and large enterprises are still depending their capital source on bank lending. According to Undang-Undang Perbankan No. 10 Tahun 1998, "Banks are business entities that raise funds from the public in the form of savings and channel them to the public in order to improve the living standards of many". Following the law, banks have important role as an intermediation institution (connector) between customers who have surplus saving, and others who are in deficit saving condition. When the first customers put their excessive capitals in bank, the bank then distribute it. As a reward to the service, banks assign the second customer to pay interest upon the loan.

Credit has become an important activity for every bank. Because, usually banks obtain bigger income from credit than other bank services. The interests becomes banks' source of income, provision, and administrative costs. "In simple, credit is all kinds of loan which have to be repaid with the interest by debtor in accordance with the agreement that has been agreed."

(Hasibuan, 2010:87). Definition of credit according to Undang-Undang No. 10 Tahun 1998:

"Credit is a provision of money or bill that can be equalized with it, according to agreement and deal of borrowing and lending between bank and other parties, which requires the debtor to settle his debt after certain term by giving interest, reward, or profit share that has been set. According to the definition, consequences for the bank and the debtor on money provision or something equivalent to it, credit repayment obligation, repayment term, debt, reward or profit share payment, as well as credit agreement."

According to Firdaus (2009:6-9), the banks' role to provide credits is important in general is as one instrument of economy stability, enhancement of venture passion, as well as equitable distribution of income. The distribution of credit in economy sector by bank makes the flow of things and services from producers to consumers more fluent. However, in particular, credit is one means for meeting the variegated needs while the ability to meet it is limited.

One central element in the social welfare needs of the community are in the areas of board or housing. According to Undang-Undang No. 4 Pasal 1, paragraph (1) Tahun 1992 on "Housing and Human Settlements, is determined that the house is a building that serves as living quarters and housing for family coaching."

Housing needs at the present time this is a national problem, especially in urban areas, who have to look for a solution either by the government together with the people, as entrepreneurs and as consumers of housing itself.

Corporate developers (developers) as the private parties involved to find solutions to housing, business activity is to build and sell housing to consumers.

In-depth analysis on perspective debtors should be done by bank to find out the purpose of the funds usage and to minimize credit arrears. The analysis can be done according to principles of credit assessments 5 C, that is Character, Capacity, Capital, Collateral, Condition. These principles are beneficial for convincing the bank that the client is trustworthy. It is also useful to know the background of venture prospect, guarantee that is given, as well as other factors from the client or the company. The aim is to make the bank believe that the given credit is completely secure and the distributed fund is certain to be returned.

A company has a very important activity for its survival because the company, which includes financial institutions like banks, can get income or profit from this activity. Banks have basic activities to raise funds from people through savings, and to distribute the funds to society through providing credits. Hence, it is necessary to have an accounting system, such as accounting system of credit allocation.

Accounting system according to Mulyadi (2001:3) is, "organization form, notes, and report which is coordinated in such a manner to provide financial information which is required by management to ease the company management".

The system and procedure of credit allocation aims to give easiness in credit application process for prospective debtors, as well as to give clear guide on credit application requirements; therefore, it is necessary to have credit allocation system, whose procedures and requirements used to apply the credit are easy to comprehend. Accounting system of credit allocation is an accounting system which is used by bank employees as an operational guide in serving prospective debtors' credit applications.

The accounting system of credit allocation consists of five procedures, which is credit application procedure, procedure of prospective debtor investigation, credit analysis procedure, decision-making procedure on credit application approval, and credit disbursement procedure. The aim of credit allocation is to ensure the credit worthiness, so bank can approve or dismiss credit application. Thus, in every step, bank always evaluates deeply to cut down risks of credit arrears. Accounting system of credit allocation is run by several functions like Account Officer, Credit administrator, Credit analysis, Credit committee, Cashier, and Accountancy.

Accounting system can work well, effectively, and efficiently if it is supported by good internal controlling system as well. Internal controlling system is one means which useful for securing the sources or assets of banks, checking the accuracy and the validity of accountancy data, increasing bank operational, as well as preventing deviation towards regulations that have been set. According to AICPA in Baridwan (2002:12), internal control is

"Internal monitoring includes organization structure and all manner as well as instruments that are coordinated and used in a company to keep the company asset security, to check the accuracy and validity of accountancy data, to advance the efficiency in the operation, and to help to keep the sequacity of management regulation which has been set."

The success of the internal control system is affected by several factors, which are good organization structure to separate the responsibilities accurately, system of accounting procedure for doing enough accountancy evaluation on company assets, debts, incomes, and costs as well as healthy practices that have to be run in every part of an organization and employees' capability level which fits their responsibilities. Employees' capability can be considered as the most important factor, because the organization structure, authority system, accounting procedure, as well as the healthy practice that is run highly depend on the person who runs it.

However, in the process of giving the credit to clients, bank requires the prospective clients some conditions and provisions that have to be obeyed in the credit application and allocation process. It is meant to ease the clients and bank in fund borrowing. Thus, people in the effort of getting the loan or credit are not given complicated procedures and requirements, and it also does not take long time to get the credit.

However, the frequency of activities that is done every day, especially in credit allocation, is possible to have errors and mistakes that are done by internal or external party. For instance, the act of identity fraud would not happen if "on the spot" is done before the credit agreement is signed.

As the object of this research is PT. Bank Tabungan Negara (Persero) Tbk. Sub-branch Sawojajar Malang which is one of banks that meet merits in giving services for society. One of services that the bank does is allocating credit to clients in need. The bank is one of banks that give wide opportunity for every client who wants to apply for credit. This can be observed from the success of the bank which has already had many clients in allocating credit that reflects people's trust on the services which are given by the banks. Therefore, the bank sets a system and procedure in allocating the credit.

From the analysis above, it is known that credit can give benefits for client and bank. On the other hand, credit can also cause disadvantages for bank with the credit arrears or bad credit. Therefore the bank need to establish systems and procedures for the granting of credit supported by good internal control to the application for awarding of credit submitted by prospective borrowers, so the existence of internal control of granting credit to avoid the occurrence of abuse of authority by the various parties and to avoid the practice of granting credit that is not healthy. Through the efforts of banks granting credit to be able to improve the effectiveness of the system of granting credit and try their best to minimize the credit risk by way of increasing the internal control systems and procedures for granting credit, bearing in mind that the onset of credit failure can be caused by weak internal control. In accordance with the background that have been elaborated on the importance of systems and procedures for granting of credit disbursed to

borrowers is supported with the implementation of internal control is good then try to discuss the research and analyzing the system and procedure of granting credit that was implemented at the State Savings Bank, PT (Persero) Sawojajar Malang Branches with title *"Analysis Procedures of Housing Loan (KPR) Allocation to Support Internal Control (Study on PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang)"*.

B. Formulation of Problems

According to the background above, the formulation of the problem in this research are:

1. How is the implementation of system and procedure of credit allocation by PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang?
2. How is the contribution of system and procedure of credit allocation to improve internal control in PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang?

C. Research Objectives

According to research problems above, the research objectives are:

1. To describe the implementation of system and procedure of credit allocation in PT. Bank Tabungan Negara (Persero) Tbk. Sub-branch Sawojajar Malang.

2. To describe how the system and procedure of credit allocation can increase internal control in PT. Bank Negara (Persero) Tbk. Sub-branch Sawojajar Malang.

D. Research Contribution

1. Academic contribution

- a) It can be used as an instrument to evaluate the ways in which the bank arranges and implements accounting system and credit allocation procedure.
- b) It can be used as a consideration to overcome issues related to the applied accounting system and credit allocation procedures.
- c) It can intensify understanding and knowledge about all things related to credit allocation system, credit allocation procedure, and internal control, and it is useful as a consideration conduct further the same topic.

2. Practical contribution

- a) This research is expected to be useful in suggesting banks to improve decisions in allocating credits to clients, to manage existing problems related to credit allocation system and procedure in order to increase bank internal control.

- b) It is expected to add and complete current understanding of banking and credit allocation system; then it can be used as references further studies.

E. Systematic Presentation

Bellow is the general arrangement of analysis and presentation of the research:

Chapter 1: INTRODUCTION

This chapter explains the background research problems, objectives, contributions, and a framework of this thesis.

Chapter 2: LITERATURE REVIEW

This chapter contains basic theory related to research title, a review of previous studies the theory of banks, system and procedures, accounting system, and theory of credit. This also covers theory of accounting system on credit allocation, internal control, and controlling credit which will be used for further explanations. The use of the theories allows this study to analyze data of the bank in the next chapter.

Chapter 3: RESEARCH METHOD

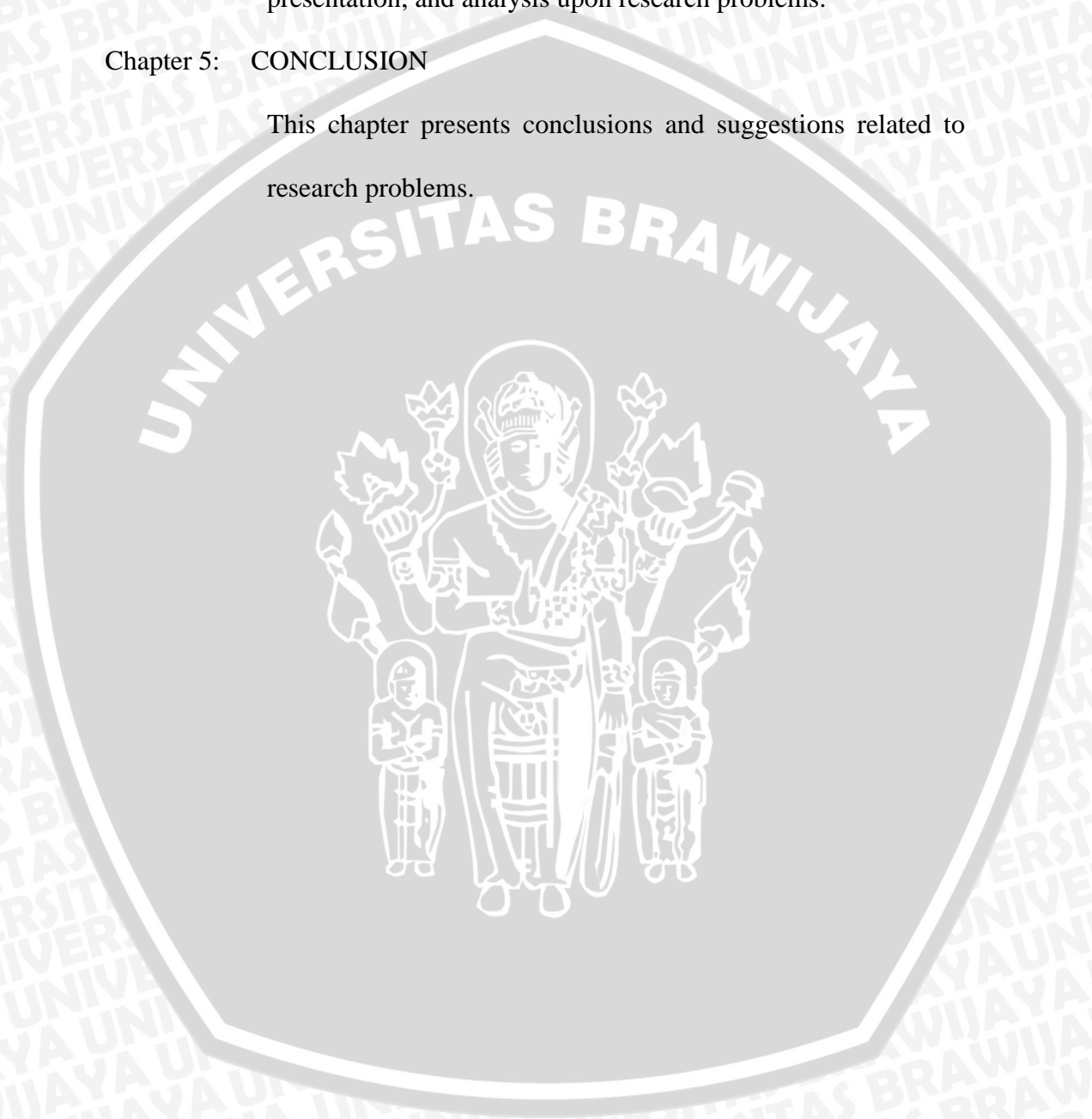
This chapter explains the method of research which contains the type of research setting, sources, data collection techniques, research instruments and data analysis.

Chapter 4: RESULT AND ANALYSIS

This chapter explains general overview of the bank, data presentation, and analysis upon research problems.

Chapter 5: CONCLUSION

This chapter presents conclusions and suggestions related to research problems.



CHAPTER II

LITERATURE REVIEW

A. Preliminary Study

1. Empirical Study

a. Hening Winda Dwi Astuti 0810320277 "Analysis of System and Procedure of Working Capital Lending to Increase Bank Internal Control" 2012

Accomplished in PT. Bank Rakyat Indonesia (Persero), Tbk. Kawi Malang Branch, the study aimed to explain the implementation of system and procedure of working capital lending in order to advance credit control effectively. The study applied descriptive research method and qualitative approach focusing on analysis of system and procedure of working capital lending, and the internal control, involving processes of credit application, credit analysis, withdrawal and credit monitoring process. The study explained that a set of system and procedure of working capital lending that has worked well. However, there are still some weaknesses in the lending process, they are the dual task performed by Account Officer, monitoring process or credit monitoring done through "on the spot" method was not completed regularly, the unavailability of registration form of prospective debtors, and the complicated procedure which caused the disbursement process took a longer time and even exceeds the specified deadline.

b. Yenni Arisa 0510323163 "Evaluation of System and Procedures of BRIGuna Loan and Briguna Installment Cash Receipt In support of Internal Control" 2010

The research was accomplished in PT. Bank Rakyat Indonesia (Persero), Tbk. University of Brawijaya Malang sub branch. It aimed to illustrate the implementation of accounting system of BRIGUNA Loan including the installment cash receipt at the bank, and comprehend whether the accounting system and installment cash receipts have supported internal control process. The research used descriptive research method and conducted a qualitative approach and focused on organizational structure, accounting systems of BRIGUNA loan and BRIGUNA installment cash receipts, documents and good practice related to the loan and installment cash receipts, and the implementation of internal control applied in the bank. The study showed the presence of several weaknesses: the proof of submitted credit application not published soon at the time of credit application, there were overlapping activities among staffs (for examples appraisers offered guarantees and credit analysis services), the information be included in the forms that used in the system of credit allocation and installment credit acceptance to BRIGUNA is still not complete, the forms are also not equipped with barcode printed, the deposit slip still not to explain the description of Branch Office (*KC* or *Kantor Cabang*) / Sub-branch Office (*KCP* or *Kantor Cabang Pembantu*)

is useful to know where the transaction occurred, and not yet conduct direct inspection because it only carried out periodically every end of the year.

c. Prima Ayu Nugrahani 0810320355 "Evaluation of Systems and Procedures of Working Capital Loan to Increase Internal Control" 2012

The research was accomplished in PT. Bank Jatim Kediri Branch and aimed to explain and evaluate the system and working capital lending procedures at the bank in order to improve the internal control at the bank.

The research used descriptive method with qualitative approach that focused on the systems and procedures of working capital loans and the internal control systems and procedures applied for working capital loans at the bank. The found the presence of weaknesses such as lack of checking documents of prospective debtors at the application stage, Account Officer has a very dominant role in the provision of credit, lack of internal controls for loan disbursements, Loan Administration Officer have a dual role in performing their duties, the need of improvement on the role of auditors conducting intense monitoring of working capital loans and the need to improve efficiency and effectiveness of using forms in the process of working capital loan.

B. Banking Theory

1. Bank Definition

According to Kasmir (2003:2), at bank is simply interpreted as the "financial institutions whose business activity is to compile funds from public and distribute the funds back into the community and provide other services".

Hasibuan (2007:2) also define that "bank is a financial institution, the creator of money, funds collector and loan distributor, manager of payments traffic, monetary stabilizers, and the dynamic factor of economic growth".

Based on the definition above, it can be concluded that the bank is a financial institution that mediates the people who have extra funds and communities that lack of funds, in which to become the intermediary, bank also provides banking services.

2. Types of Banks

The types of banking in Indonesia can be distinguished based on several aspects as follows:

a. Based on the functions

According to the Law No. 14 of 1967 on Banking, the types of banking based on its functions consist of:

- 1) Commercial Banks,
- 2) Development Banks,
- 3) Savings Bank,
- 4) Market Banks,
- 5) Employees Banks and other banks.

Then banking regulation is strengthened by the enactment of the Law No. 7 of 1992 on Banking and reinforced by the Decree Law number 1 of 1998, the regulation consists of:

- 1) Commercial Bank
 - 2) Bank Perkreditan Rakyat (BPR)
- b. Based on the ownership.
- 1) State-owned banks, it is a bank whose establishment certificate or bank capital is owned by the Indonesian government, therefore the entire profit of the bank is owned by the government. Examples of state-owned banks are:
 - a) 46 Bank Negara Indonesia 46 (BNI),
 - b) Bank Rakyat Indonesia (BRI),
 - c) Bank Tabungan Negara (BTN), and
 - d) Bank Mandiri.While the Bank Pemerintah Daerah (BPD) represents the region, level the representative in each province are:
 - a) BPD DKI Jakarta,
 - b) BPD Jawa Barat,
 - c) BPD Jawa Tengah,
 - d) BPD Sulawesi Selatan, and
 - e) Other BPD.
 - 2) Privately owned bank. It is a bank which is wholly or majority owned by private national, since private sectors hold the banks' establishment certificates the profits are for private.

Some Privately-owned bank includes:

 - a) Bank Bumi Putra,
 - b) Bank Central Asia,
 - c) Bank Danamon, and
 - d) Other Privately-owned Bank
 - 3) Foreign bank. It is a branch of the existing bank abroad, either foreign private or government-owned. The ownership was clearly owned by foreigners (overseas).

Examples of foreign banks are:

 - a) ABN AMRO Bank,
 - b) American Express Bank,
 - c) Bank of America,
 - d) Bank of Tokyo, and
 - e) Other Foreign Bank
 - 4) Joint venture banks. It is a bank owned jointly by foreign parties and nationwide private parties. Indonesian citizen must hold the majority stake.

Examples of joint venture banks include:

 - a) Bank Finconesia,
 - b) Merincrop Bank,
 - c) Bank PDFCI,
 - d) Bank Sakura Swadarma, and
 - e) Other Joint Venture Banks.

c. Based on the status.

Based on the ability to serve financial product to public and the range product offered, banks can be classified into:

1) Foreign exchange bank

This bank can carry out transactions using both domestic or foreign currency.

2) Non foreign exchange bank

This bank does not have permission to conduct foreign.

exchange transactions, therefore it can not carry out foreign exchange transactions.

d. Based in terms of how to determine cost of capital.

There are two types of banks based on how the bank determines cost of capital, either the selling price or the purchase price:

1) Banks based on the conventional principle (Western)

The majority of banks in Indonesia follow conventional principles. In the search for profit and determine of price to the customers is done by setting the interest rate as the price of selling, both for demand deposits, savings or deposit.

For other banking services by implementing a variety of costs in nominal or a certain percentage such as rent, administrative and other costs.

2) Bank based on Sharia (Islamic).

Bank pricing is based on Islamic principles to products with the rules of Islamic law based on the agreement between the bank and other parties both in terms of funding or financing to keep the business or other activities. In determining the price or profit, the banks based on Islamic principles are:

- a) Funding based on the principle of profit-sharing (Mudaraba)
- b) Funding based on the principle of equity (Musharaka)
- c) Funding of capital goods based on pure rental without selection (Ijara)
- d) Or with the option of transfer of ownership of the leased item from the bank by the other party (Ijara wa iqtina). (Kasmir, 2010:18).

3. The Function and Role of Banks

According Kasmir (2003:3-4) the function and the role of banks are:

- a. To raise funds (money) from the public in the form of deposits.

It means that banks as a place to save money or invest for the community. The main goal why public save their money usually is for money security, while the second goal is to invest in the hope of obtaining interest from the savings. Another aim is to ease payment transaction.

- b. To distribute funds to the community.

It means that banks lend (credit) to community who apply for the credit. In other words, the bank provides funds to communities in need. Of course before the credits are given, banks firstly must evaluates whether the loan worth to be given or not.

- c. To provide other banking services.

Such as remittances (transfers), billing securities originating from the city (clearing), billing securities from out of town and overseas (collection), letter of credit (L / C), safe deposit box , bank guarantees, Bank notes and other services.

C. Accounting System

1. Definition of System and Procedure

According to Mulyadi (2001:5)

"System is a procedure network made according to integrated patterns to perform basic activities of an enterprise. The procedure is a sequence of clerical activity, usually involving several people in a department or more which is made to ensure uniform handling of enterprise transactions that occur over and over."

Definition of systems and procedures according to Cole in Baridwan

(1998:3) is

"The system is a framework of procedures that are interconnected which are prepared in accordance with a comprehensive scheme, to carry out an activity or a major function in the company. The procedure is a sequence of clerical jobs (clerical), usually involves several people in one or more sections, designed to ensure uniform treatment of the corporate transactions that occur frequently ".

From some definitions, it can be concluded that system is a network of several procedures that are inter-related and connected and aimed to achieve a certain goal, while procedure is clerical activities performed by a part or more within an organization or company to treat transactions that occur from the company's operations uniformly.

2. Definition of Accounting System

According to Settler's opinion cited in Baridwan (1998:4), definition of accounting system is

"Accounting systems are forms, records, procedures, and tools that are used to process the data on the economic unity of business in order to produce feedback in the form of the reports required by management to oversee its business, and for the other parties concerned such as shareholders, creditors, and government institutions to assess operating results".

Meanwhile, according to Mulyadi (2001:3) "The accounting system is the organizational forms, records, and reports that coordinated in such a way to provide the financial information needed by management in order to ease the management of the company".

From some definitions put forward by the experts above it can be concluded that accounting system is an organization of forms, documents, and accounting records that used by a company in conducting transactions or operations that can be used as information in making decisions or analysis of the company's management.

3. Goals of Accounting System

Accounting system is developed and implemented by all members of the organization or company to achieve its goals. Some common goals in developing the company's accounting system are as follows:

- a. To provide information for the management of new business activities.

- b. To improve the information generated by the existing system, either regarding the quality, accuracy of presentation, and structure information.
- c. To improve internal accounting controls and checks, which are to improve the reliability of accounting information and to provide a complete record of the company's liability and property protection.
- d. To reduce clerical costs in the administration of the accounting records. (Mulyadi, 2001:19)

4. Elements of Accounting System

Based on the definition of accounting system that has been described in the definition accounting systems section above, it can be seen that the elements of accounting system include:

- a. Form

According to Mulyadi (2001:4) form is a document used to record the transactions, examples of forms are sales invoice, credit application form, proof of cash and checks. In the accounting system, the presence of a form has several benefits:

1. To determine the responsibility of the company's business transactions.
2. To record corporate business transaction data.

3. To reduce the possibility of error by stating all the events in writing.
4. To deliver basic information from one person to another within the same organization or to another organization.

Terms of processing accounting data, classified into two kinds of forms. Among others, the source document is the document used as the basis for recording into a journal or subsidiary ledger. For example, a sales invoice is used to record sales transactions, and supporting documents is a document that accompanying the source document as proof of the validity of transactions recorded in the source document. (Mulyadi, 2010:95).

b. Journal

Mulyadi (2010:101) stated "Journal is the first permanent accounting records used to record the financial transactions of the company." There are two kinds of journals: general journals and special journals. A company uses general journals if the types of transactions are little; therefore general journals with two columns, debit and credit columns, are sufficient as the first accounting records. While, a company uses special journals if the company grows, and the amount of transactions is bigger so that general journals are no longer able to accommodate a variety of transaction and the higher frequency of the occurrence. Special journals are intended to save times required to

record each of the transactions and to make checking the accuracy of recording in the ledger easier.

c. General Ledger

Definition of general ledger according to Baridwan (2004:49) is "the pad in the journal which will be transferred to the appropriate accounts. The accounts are prepared according to an arrangement that will facilitate financial reports. Collection from accounts is called the general ledger".

Moreover, Mulyadi (2010:121) defines general ledger as "... is a collection of accounts that are used to sort and summarize information that has been recorded in the journal".

The process of sorting and transferring the data into the general ledger is called posting. In a manual system, posting activity requires four steps that are:

- 1) Making journal recapitulation.
- 2) Sorting the account that will be filled with the recapitulation data.
- 3) Recording the recapitulation data in the accounts concerned.
- 4) Returning the account to the records of the original sequence.

(Mulyadi, 2010:122).

d. Subsidiary Ledgers

Definition of subsidiary ledger according to Mulyadi (2010:139) is "... is the group account that is the certain account details in the general ledger, which was created to facilitate and expedite the preparation of reports and trial balance sheets."

According to Mulyadi (2010:141) sorting process and the transfer of data into the general ledger and subsidiary ledger referred to posting. Posting to the general ledger and sub-ledger can be done with one of the 4 methods:

- 1) Posting journal to the general ledger with hand-writing and posting source document to the subsidiary ledger accounts in the same way.
- 2) Posting source document to the subsidiary ledger account which results the journal as a posting copy to the account.
- 3) Posting to the subsidiary ledger as a result of the charging source documents, which also results journal as posting copy.
- 4) Bookkeeping without subsidiary ledger (ledger less bookkeeping).



D. Credit

1. Definition of credit

According to the Law No. 10 of 1998 on Banking Chapter 21 verse 11, Credit is "... the provision of money or equivalent based on the approval or agreement between the bank and other parties the agreement requires borrowers to pay off debts after a period of time with a grant of interest."

In addition, many experts expressed their opinions on the definition of credit. One of which is quoted by Mac Leod and Ariyanti Firdaus (2009:2) "credit is an individual's reputation, which allows it to obtain money, goods or labor / workers, trade them with the promise to pay in the future". Hasibuan (2007:86) also expressed the opinion that "credit is any type of loan to be paid back with interest by the borrower in accordance with the agreements that have been agreed upon".

2. Elements, function, and goals of credit

a. Elements of credit

As explained by Kasmir (2003:103), in the credit word, there are many elements that become the base of lending.

1) Trust

Trust is a conviction of the lender that the given thing (in the form of money, goods or services) is really received back in the coming days following the term of the loan.

2) Deal

This deal is set forth in the agreement where the lender and the loan recipient agree to sign the rights and obligations of each. The agreement is then stated in the credit agreement and signed by both parties before the credit is launched.

3) Term

Each credit is given for a certain period. It may be either short-term (under 1 year), medium term (between 1 years to 3 years), or long-term (over 3 years). Term is a loan installment repayment deadline that has been agreed by both parties.

4) Risk

Due to the grace period, the loan repayment will allow a collectability risk or a bad credit granting. The longer the loan period, the greater the risk, and vice versa. This risk becomes bank responsibility, either deliberate risk by customers, or by unintentional risks, such as natural disasters so that customers are no longer able to repay the loan obtained.

5) Fringe Benefit

For bank, fringe benefit is profit or revenue for the provision of a loan. Besides a fringe benefit in the form of bank interest, banks also charge a credit administration fee to customers which are also bank profits.

b. Goal and function of credit

Along with the goals of the bank, the provision of credit has several goals. Kashmir (2003:105) defines several goals of providing loans:

1) To seek profit

The main goal the provision of credit is to make a profit. This advantage results obtained in the form of interest earned by the banks as a reward and credit administration fees charged to customers. This advantage is important for the survival of the bank, besides that it also can increase the profits of banks.

2) To help customers' business

Credit is expected to help customers' business who need funding, both for investment funds as well as funds for working capital. With these funds, they will be able to develop and expand their business.

3) To help the government

For the government, the more loans extended by the banks, the better it is, since the more credit means the disbursement of funds in order to increase development in various sectors.

Besides having the aim of giving a facility, credit also has a very wide function. According to Rachmat Firdaus (2004:4), "The credit function is basically to services fulfillment to serve the needs of the people in order to

encourage and expedite trade, encourage and facilitate the production, services and even consumption".

According to Kasmir (2003:107), the function of lending is:

1) To improve the usability of money

Credit can improve the usability of money. It means that if the money just kept it in the house, it will not produce anything useful. By giving a loan, the money is being useful to produce goods or services by credit recipient. Then, it also can provide additional income to the owners of the funds.

2) To improve the circulation and traffic of money

In this case, the money given or distributed will circulate from one area to another.

3) To improve usability of goods

Loans granted by the bank will be able to be used by the debtors to process of goods that useless to be useful or beneficial goods.

4) To increase the circulation of goods

Credit is able too boost the circulation of goods, especially trade credit or export credit.

5) As a tool of economic stability

Credit can be regarded as a tool of economic stability, because the existence of loans will increase the amount of goods

needed by the people. Credit can also help to export domestic goods out of the country so it can increase state income.

6) To heighten the excitement of business

By getting loans, customers are passionate to enlarge or expand their business.

7) To improve the distribution of income

The more credit is granted, the better it is, especially in terms of raising income. If a credit is given to build a factory, then the factory would need workers so it can also reduce unemployment.

8) To improve international relations

In this case, international loan will be able to increase the mutual need between the debtor and the lender. Lending by other countries will increase cooperation in other fields.

3. Types of credit

There are several types of credits offered by commercial bank lends. It varies over different debtors and a wide range of business sectors. Below are several types of credits according Kashmir (2008:103-106):

a. In terms of usability

1) Investment credit

Investment credit is used for business expansion or building projects / new factory or for rehabilitation purposes.

2) Working capital loans

Working capital loans are used for the purposes of increasing production in the company's operations.

b. In terms of credit goal

1) Productive credit

This credit is used to increase the business or production or investment. The credit is given to produce goods or services.

2) Consumptive credit

This credit is used for personal consumption, so there are no additional goods and services produced.

3) Trading credit

This credit is used for trading, and purchase merchandises whose the payment is expected to come from the sale of merchandises.

c. In term of credit term

1) Short-term credit

This loan has maturities of less than one year or a maximum of one year, which is usually used for working capital purposes.

2) Medium-term credit

This loan has a term of credit one two years, usually used for investment.



3) Long-term credit

This is a credit whose repayment term is the longest which is over three years or five years, usually used for long-term investment.

d. In terms of security

1) Credit with guarantee

This credit is given with a guarantee, either tangible or intangible goods or warranties person. That is, the credit issued by the bank will be protected worth of guarantees given by the debtor.

2) Unsecured Credit

This is a credit which provided without warranty of goods or a particular person. Credit is given by seeing the prospects for the business and the character and loyalty of the debtors.

e. In terms of business sector

1) Agricultural credit

This is a financed credit to smallholder agriculture and plantation sector.

2) Farms credit

This is a credit to the farm sector; the credit is usually a short or long-term credit.

3) Industry credit

This credit is used to finance small-scale, medium or large industries.

4) Mining credit

This credit is for mining usually long-term credit, for example is oil and gas mining.

5) Education credit

This credit is granted to build educational facilities or credit for students.

6) Professions credit

This credit is granted for professionals such as teachers, doctors or lawyers.

7) Housing credit

Credit used to finance the construction or purchase a home.

Additionally, Firdaus, Rachmat and Maya Ariyanti (2009:10-29) also expressed their opinion on the types of credit which is:

a. Credit based on the purpose of usage.

The point is to know the use of the funds received from that bank, whether used for additional capital for business or for personal needs debtors. Credit based on the purpose of usage, among others:

- 1) Consumptive credit is loans used to finance the purchasing of goods or services, which can provide immediate satisfaction to human needs. Examples of consumptive credits Housing Credit (*Kredit Pemilikan Rumah* or *KPR*) and Education Credit (*Kredit Pendidikan*).

- 2) Productive credit is a credit that is used for productive purposes in the sense that it may cause or increase the usefulness (utility), good usability either in form of place, time and possession usability. Examples of productive credit are investment credit, working capital loans and liquidity credit.
- 3) Trade credit is a credit that is used for funding activities and generally to purchasing merchandises, whose payment is taken from the sale of such merchandise.

b. Based on its usage

Categories of credits based on its usage are as follow:

- 1) Investment credit, which is used to finance the purchase of fixed capital and durable goods such as factory machinery, land, vehicles etc.
- 2) Working capital, which is intended to finance working capital needs which usually out in one or several production process or the business cycle. Examples are credit for the purchase of raw materials, salaries / wages of employees, rent buildings / offices.
- 3) Liquidity credits are credits that do not have permanent direct consumptive purposes, nor productive purposes. but the goal is to help companies that are current in liquidity problems, in the framework of maintenance needs or to briefly be said if this credit is a loan used to finance the motif just in case.

c. Based on the term.

Credit based on the term means as classifying of credits according to the length of settlement, ranging from the first time credit is given to the repayment of the loan. Types of credit that are based on the term are:

- 1) Short-term credit, which is a credit with a maturity of up to one year and used to finance working capital needs.
- 2) Medium-term credit, which is a credit with a term of between one year to three years and usually in the form of working capital loans and investment loans, which are relatively not too big.
- 3) Long-term credit, which is a credit with a maturity of more than three years and usually in the form of investment loans whose number is relatively big and home purchase loans.

d. Based on the guarantee / collateral.

Whenever will provide a credit facility, at bank will ask the debtor to provide a protection for the loans in the form of valuables or securities equals to the loans granted. Types of credit based on collaterals or guarantees given to the bank by the debtors are:

- 1) Credit without guarantee (unsecured loan), which is granted based trust alone, so it does not demand any guarantee at all. The provision of the credit is usually seen from the debtors' business

prospects, as well as the loyalty of prospective debtors to the bank concerned.

Unsecured credit can be used for various purposes of the applicant such as: Home Renovation Costs, Wedding Costs, Education Costs, Medical Expenses, Travel Costs, Purchase Electronic Equipment and Home Appliances, Venture Capital / Business, and other financial needs. In addition, the advantages of credit without collateral are:

- a) Terms easy and fast process
- b) Not using collateral / Guarantees
- c) Free use of the loan in accordance with the requirements
- d) Fixed interest rate (no change during the loan contract)
- e) Loan term up to 36 months
- f) Monthly installments
- g) Get insurance coverage: Credit Protector Guard & Life

(kaka_blog : 2009)

2) Credit with collateral (secured loan), this is a credit given by the bank with particular collateral either in form of tangible or intangible assets to protect credit issued.

e. Based on the size of the debtor.

Businesses that require additional funding and applying for loans to banks have a variety of sizes not only small businesses but also

developed or large business. Thus, the types of loans can be distinguished based on the size of the debtor as follows:

- 1) Credits for Small and Medium Enterprises (*Usaha Mikro Kecil dan Menengah* or *UMKM*), which is granted to debtors who have a business which is still competing in the local environment and in the operation, it is still using simple tools so that the production is still limited or not too much and the usual number of loans granted is relatively small. This credit also gives credit to the credit cooperatives that are also often referred to Small Cooperation business credit and Medium Enterprises (*Usaha Mikro Kecil, Koperasi dan Menengah* or *UMKKM*).
- 2) Corporate loan, which is a loan in a large amount and is for debtors who own a business that has been developed and has been competing in the national or even international level.

4. Procedure of credit provision

According to Kashmir (2006:123) in general lending procedures by legal entities are as follows:

- a. Filing papers

In this case, the credit applicant applies for credit as outlined in the proposal. Then, attaching the other files needed.

- 1) Submission of a proposal should contain:

a) A brief description of the company is background, the type of business, corporate identity, the name of the board as well as knowledge and education, development of the company and its realization with parties the government and private sector, include of experience in working on a variety of businesses over the years.

b) Purpose and objectives

Whether to enlarge sales revenue or to increase production capacity or to establishing a new factory (the expansion) as well as other destinations..

c) The amount of credit and term

In this case, the applicant chooses the amount of credits to be obtained and the time period.

2) Attaching required documents:

a) Deed of notaries

b) Company Registration (*Tanda Daftar Perusahaan* or *TDP*)

c) Taxpayer Identification Number (*Nomor Pokok Wajib Pajak* or *NPWP*)

d) Balance and income statement of latest 3 (three) years

e) Self evidence of leadership companies

f) Copy of certificate of guarantee

3) Assessment towards the firm's financial performance using the following ratios: Current ratio, acid test ratio inventory turnover, sales to receivables ratio, profit margin ratio, return on the worth, and working capital.

b. Investigation of loan files

The goal is to determine whether the proposed file is complete and correct as required, including investigating the validity of the file.

c. Initial interview

The banks needs to prospective debtors and to check whether the required paperwork is appropriate and complete. This interview also wants to know the real needs of customer's desire.

d. A review of the location (On The Spot)

An examination of the activities directly to the location by reviewing the various objects that will be used as the business or warranties.

e. The second interview

This is an activity of file repairing, if there may be deficiencies when the on the spot is done in the field. Notes on application at interview I is matched with on the spot to know if there is agreement and contains a truth. Results on the spot are matched with interviews I.

f. Credit decision

Credit decision in this case is to determine whether credit will be granted or denied. Usually the credit decision that will be announced



includes: The amount of money that will be received, the loan terms, the costs to be paid, and time of credit disbursement.

g. Signing of loan agreement / other agreement

This activity is a continuation of the credit decision, then before the loan disbursed, the prospective costumers sign credit agreement, binding guarantee by mortgage and promissory note or statement deemed necessary. Signing executed between the bank and the debtors directly and through a notary.

h. Loan disbursement

Loan disbursements are given after signing the loan agreement and required document by opening a checking or savings account at the bank.

i. Distribution / withdrawal of funds

It is disbursement or withdrawal of money from the account as a realization of the provision of credit and can be taken according to the requirements and purpose of the loan; once or gradually.

5. Principles of Credit Assessment

There are several principles of credit scoring or credit assessment by banks, i.e 5C, 7P and 3Rs principle. However the common principle applied in the credit assessment process is the 5C principle:

a. Character

A team of credit analysis in a bank examines prospective debtors whether they are eligible to receive credit or not. The team clients' collects information from references and other banks regarding the behavior, socially honesty, and obedience to fulfill the payment transaction.

b. Capacity (ability)

This ability is connected with the educational background and experience in managing its business. It represents "ability" of the debtors to repay outstanding loans. Capacity is often referred as capability.

c. Capital

The team also analyzes the size firm's capital structure, liquidity, profit ability, and solvency level. They are visible from the work sheet. Results of the analysis will provide an overview and guidance whether the company is healthy or not.

d. Economic condition

The team examines in whether the macro economy situation of business provides a good prospect to grow.

e. Collateral

Collateral, either physical or not physical, is an assurance provided by the applicant is credit both. The value should exceed the amount of

credit granted. The team examines the validity and precision of collateral; therefore if there is a problem of payment process the bank can seize the collateral shortly. (Kasmir, 2010:117).

6. Aspects of credit assessment

Following Kasmir (2010:120), there are several aspects of credit assessment related to the business activities of prospective debtors that must be considered:

a. Juridical or legal aspects.

Legal aspect are the legality of the business entity and licenses owned by companies that apply for credit. Assessment begins by examining the validity and completeness of certificate of incorporation, therefore the bank acknowledges the firm's owners, amount of owners' capital, and the validity of documents such as:

- 1) Industrial Business License (*Surat Ijin Usaha Industri* or *S.I.U.I.*) for the industry sector.
- 2) Trading License (*Surat Ijin Usaha Perdagangan* or *S.I.U.P.*) for the trading sector
- 3) Company Registration (*Tanda Daftar Perusahaan* or *TDP*)
- 4) Taxpayer Identification Number (*Nomor Pokok Wajib Pajak* or *NPWP*)
- 5) The validity of the letters warranted such as land certificates and certificates of deposit.

6) The important documents such as *Identity* (ID) cards.

b. Aspects of marketing

In this aspect, things considered are the size of the demand for the products produced now and in the future, so the prospect of marketing the product known. Things that need to be examined in this aspect are:

- 1) The sales or production of at least 3 (three) months or 3 (three) years ago.
- 2) Sales and production plans at least 3 (three) months or 3 (three) years to come.
- 3) Power map of existing competitors, such as the market share held.
- 4) Prospect of the overall product.

c. Financial aspects.

Financial aspects involves sources of funds owned to finance the business, how the use of these funds, and the cash flow. From the cash flow, the bank will recognize the amount of revenue, expenses, expected benefits and the value of company. The financial aspects typically includes: liquidity ratios, solvency ratios, profitability ratios, payback period, Net Percent Value (NPV), Profitability Index (PI), Internal Rate of Return (IRR), and Break Even Point (BEP).



d. Technical aspects / operation

This aspect addresses issues related to production, such as the lay out of the building, rooms specific machine; the capacity of machine used, the location of the headquarters, branch, or warehousing.

e. Management aspects

Massessment towards management aspects covers the company's organizational structure, available human resources and its educational background and its experience. Experiences of the corporate in managing a variety of projects also becomes important consideration.

f. Socio-Economic aspects

Banks requires to determine whether providing credits will allow the business to have a good impact on both social and economic aspects of local community. The aspects involve:

- 1) Increasing exports of goods or otherwise reducing dependence on imports.
- 2) Reducing unemployment.
- 3) Increasing incomes.
- 4) The availability of infrastructure.
- 5) Opening the Isolation of certain areas.

g. Environmental Impact (*Analisis Mengenai Dampak Lingkungan*)

Banks need to analyze the environmental impact of the business activity. Enviromental analysis includes assessing, land, water, air and

human health if the project is executed. This analysis have to be done before the credit is distributed, so that the project financed will not cause pollution of the surrounding environment. Pollution that often occur includes:

- 1) Impaired human health.
- 2) Soil / land became infertile, erosion.
- 3) A foul-smelling wastewater, changing the color or taste or cause flooding.
- 4) Air pollution, dusty, noisy and heated.
- 5) Change the arrangement of the local customs.

E. Credit Control

1. Credit control definition

According to Hasibuan (2006:105), "Credit monitoring is the efforts to keep the credit remains smooth, productive and not swamp down". Smooth and productive credit means that can be pulled back along with the interest stated in with the agreement that has been approved by both parties.

2. The role of credit control

According to Hasibuan (2006:105), the roles of internal control are:

- a. Keep the credit extended stay safe.
- b. Find out if the credit is distributed smoothly or not.
- c. Perform actions to avoid the resolve nonperforming loans or bad debt.

- d. Evaluate whether the credit procedure is performed has a perfect or require further.
- e. Fix the mistakes of the employees credit analysis and see to it that such errors do not happen again.
- f. Knowing the percentage of the collectability of the disbursed credit bank.
- g. Improve the moral and responsibility for the employee of credit analysis.

3. Systems and types of internal control

According to Hasibuan (2004:105), banks need to implementan appropriate system to simplify the process of credit monitoring. A system of credit monitoring consist of some aspects below:

- a. *Internal control of credit* is system of credit control carried out by the employees the bank. Its covers methods to avoid and resolve nonperforming loans.
- b. *Audit control of credit* is system of credit control or aimed to monitor the truth of bookkeeping activities.
- c. *External Control of Credit* is system of credit control is carried out by outside parties, both Bank Indonesia and public accounting.

There are several types of credit controlling (Hasibuan, 2006:106):

a. Preventive control of credit, this is a credit control which done with precautions before such non-performing loans. This precaution actions use several tools:

1) Determinating profer of credit plafond, banks used to define a maximum limit of loans that can be borrowed by debtors. A plafond must be specified objectively and approved by both parties before credit extention is credit done. Credit plafond is a result of credit analysis.

2) Monitoring the debtors, the bank must monitor the economic growth of the company after the credit is given. If economic aspect of the company is improving the loan would be paid off smoothly. However, if the performance is declining, the amount of billing should be enlarged before it becomes bad loans.

3) Coaching debtor, the bank may provide a counseling to the debtors to improve the firm's ability to manage the company. Because, if the company performs good, the credit payment will be done smooth.

b. Represive control of credit, is credit control actions conducted through billing / settlement after the stalled credit. specifically stalled debts should be settled by the relevant seized collateral to repay loans.

4. Credit Control Measures

There are several methods of credit controlling (Hasibuan,2006:105):

- a. Direct control is a control conducted by the bank. The bank directly accomplishes an inspection toward the business activities of debtor in order to be able describe the actual performance of the firm.
- b. Indirect control is a controlling method in which bank requests financial reports of debtors and monitor the balance sheets and income statement.
- c. Combination of direct and indirect control, is a method of controlling in which the bank conducts direct investigation and requests periodic reports upon debtors' performances.

5. Aspects of credit control

Credit controlling shold consider several aspects (Tawaf, 1997:270):

- a. A good internal controlling system has is a separation of functions between the officials who approve loans. who make payments to the debtor, billing, analysis credit, credit administration, and collateral transaction.
- b. There is a written credit policy that has been approved by the board of directors. In every branch, the bank should mention limits of loans' provisions, and limits of its approval, the provisions concerning the type of prohibited, provisions regarding loan period (maximum and minimum), the provisions on the level of interest

and the provision, the provision on comparisons between loans with guarantees, financial information must be obtained by the debtor, concentration of credit and understanding of non-performing loan and how to handling.

c. There must be competent personnel who will process the credit.

That means, the credit manager in the bank must have sufficient knowledge and skills are adequate in dealing with the credit issues, both relating to the provisions of the internal bank, the provisions of Bank Indonesia, as well as in terms of dealing with the problems of its customers.

d. There should be a review of the credit that was given and the management should always monitor the implementation of that review. In this connection, implementation of the review and monitoring of follow-up to the problem should be performed on a continuous basis and are built with an organized system, so being able to do early detection of problems that exist here the handling of follow-ups.

6. Elements of credit control

Credit control is the act of directing the activities, including the correction of existing shortcomings, as well as adjustment of activities in order to be equal to the goals set. To achieve these objectives, internal control

contained in the elements of credit control in the process of credit according to Tawaf cited in Rakhmadani (2011:29) can be seen in the following table:

TABLE 1
CONTROL MANAGEMENT IN THE PROCESS OF CREDIT

Aspects of controlling	Process of Credit			
	Applying stage	Processing stage	Examination Stage	Monitoring stage
1. Competent truthful and personnel	Personnel must know the terms and data submitted by customers, types of credit required by customers, etc	Have knowledge and capability to analysing credit, honest and the objective.	Have knowledge about juridical & control of credit guarantees. Have any knowledge of the origin of the funds so that guaranteed the provision of funds and the realization of withdrawal.	Know and understand to comprehend the business report for the customers. Have the initiative when you find things that deviate from the requirement bank.
2. The separation of duties.	Distinguishing officers assigned to assessment stage from officer for analyzing credit by <i>operational company</i>	Result of credit analysis are assessed by higher bank officials.	Officers who approve of credit withdrawal are different from officers who providing the funds.	Officer who provide funds are different from the person who monitor debtor's performances .
3. Authorization proper procedures.	Credit application procedures are equipped	Noting the authority termination of credit	Only officials bank in authority who can grant	Loan officers noticed the notes and bank officials

	through the process in the Organization of the bank.	and condition specified bank.	authorization in withdrawal for credit customers.	authorized on customer reports.
4. Document and record adequate.	<ul style="list-style-type: none"> The completeness of data credit application for customer. The others information recorded. 	Analysis based on data or information as complete as possible.	<ul style="list-style-type: none"> Comprehensiveness and standardization of documents, clearance bank as well as the device administration of bank. 	Credit files are cared include of credit file and data about the customer.
5. Physical control of assets and records.	<ul style="list-style-type: none"> On the spot on business / project customer as well as a guarantee of credit. 	Analysis based on the examination on the spot.	<ul style="list-style-type: none"> The withdrawal of credit attention to stock and note receivable or attention to the customer's financial needs. Document owned by customers used as collateral to the bank stored at a safe place. 	Held a reexamination between report of customer and examination on the spot.
6. Inspection work independently.	To ensure proper functioning of the control system in lending activities, as described in point 1 to 5, then there needs to be an independent examination conducted by the Internal Audit Working Unit (SAKI), recommendations on the results of the investigation are essentially provides impetus to further minimize control.			

Source : Rakhmadani (2011:29)

7. Credit Rescue Techniques

According to Suyatno (2003:115) rescue against non-performing done with means the following:

a. Reschedulling

This policy relates to the period of credit so that the desired relief that can be given are:

- 1) Extend the term of credit.
- 2) Extend the distance of time in installments, for example originally set installment every 3 months, then became 6 months later.
- 3) Decrease in amount for each installment that result in the extension of the term of credit.

b. Reconditioning

In this case the aid given is in the form of desire or change credit requirements are as follows:

- 1) Capitalization of interest, that interest was made the principal debt so the customer for a specific time does not have to pay interest, but later the debt anyway can exceed the approved ceiling.
- 2) Delays payment of interest, fixed interest calculated, but billing or expense to the customer not enforceable until the customer has the ability to paid it.
- 3) Decrease in interest rates, namely in terms of the customer are assessed is still able to pay interest on time, but interest rates are too high for the level of activity and results of the effort at the time.

- 4) Exemption of interest, is in terms of the customer are judged not able to pay interest because of customer businesses only reaches the level of return of principal.
- 5) Converting short-term loans into long-term loans with terms that are lighter.

c. Restructuring

If the trouble is caused by factors of capital, then the rescue is to review the situation and conditions of capital, both of capital (fund) for working capital purposes or in the form of capital goods.

d. Combination

Rescue actions can also be a combination, for example; rescheduling with reconditioning, reschedulling with restructuring.

F. Internal Control

1. Definiton of internal control

According to Baridwan (2002:13)

”The internal auditing include organizational structure and all the ways and tools that are used in the company's coordinated with the purpose to maintain the security of the property of the company, checking the accuracy and correctness of accounting data, promote efficiency in operations, and help keep the obeyed the management discretion that has determined management first.”.

While according to COSO in Beyond COSO “Internal Control to enhance corporate governance” by Steven J. Root (1998) are as follows:

“Internal control is a process, affected by an entity’s board of directors, management and other personnel, design to provide



reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting, and compliance with laws and regulations”.

Based on the above understanding it can be concluded that internal control is a system of creation of organizational structure that can minimize all forms of cheating-cheating is authorized to one or several parts, and the selection of competent human resources, used by management of the company with the aim of keeping the wealth of the company.

2. Objectives of internal control

Internal control that was created in an company must have some purpose. The objectives of internal control (Zaki, 1999) namely:

- a. Maintaining the security of the property of the company.
- b. Checking the accuracy and correctness of accounting data.
- c. Advancing the efficiency of operations of the company.
- d. Ensuring the management wisdom obeyed.

3. Guidelines on internal control systems of banking

Control systems in the process of granting credit is essentially wants the credit target achieved for both banks and customers, as well as to avoid the occurrence of bad credit. According to SE No.05/22/DPNP Bank Indonesia, The implementation of internal control in banking is covering:

- a. Supervision by the management and control culture
 - 1) Board of Commissioners be active to ensure there is improvement of the bank's problems may reduce the effectiveness of the internal control.

- 2) Board of Commissioners reviewing your evaluation of implementation of internal control made by the internal auditor and the external auditor.
 - 3) Maintain the organizational structure that reflects the authority, responsibility and reporting relationships are clearly.
 - 4) Ensure that the activities of internal control functions have been implemented by the officials and employees who have adequate experience and ability.
- b. Identification and risk assessment
- Risk assessment is an action carried out by the Board of Directors in the framework of the identification, analysis and assessing the risks faced by a bank to achieve target business. Risks can arise and change according to the condition of banks, among other changes to the operational activities of the bank, change order, change the personnel information system, the rapid growth in business activity, technological developments, changes in accounting systems, and applicable law.
- c. Control activities and segregation of duties
- Control activities include the establishment of internal control policies and procedures as well as the verification process early to ensure that policies and procedures are consistently followed. Control activities include operational performance, phased management, control of information systems, asset control, documentation, physical separation of functions.
- d. Accounting System, Information and Communication
- 1) The process of reconciliation between the accounting data and management information systems is carried out at regular intervals. Any deviation quickly investigated and resolved the issue.
 - 2) Information systems must produce reports on business activities, financial condition, and risk management practices.
 - 3) Information systems should provide the data and information that is relevant, accurate, timely, and accessible to interested parties.
 - 4) Communication systems should be able to provide information to all stakeholders, both internal and external.
 - 5) Internal control Systems of banks to ensure there is effective communication channels so that all officials and employees understand and comply with the applicable policies and procedures.
- e. Monitoring and corrective action on deviations
- 1) Bank must make continuous monitoring of the effectiveness of the overall implementation of the internal control.

- 2) Banks should monitor and evaluate the adequacy of the internal control system relating to the internal and external conditions change.
- 3) Banks should conduct an effective internal audit and a thorough review of the internal control system.

4. Elements of internal control

According to Mulyadi (2001:164), internal control system consists of four basic elements of the policies and procedures designed and used by management to provide assurance that control objectives can be met. These four basic elements include:

- a. Organizational structure of the separate functional responsibility expressly.
- b. System authority and record-keeping procedures that provide adequate protection against wealth, debt, income and costs.
- c. A healthy Practice in carrying out the duties and functions of each organizational unit.
- d. Employees whose quality according to the responsibility. System of internal control is adequate for the company have different requirements, depending on the nature and circumstances of each company. In that sense there is no internal control system which is universal that can be used by the entire company.

CHAPTER III

RESEARCH METHODS

A. Types Of Research

Based on the background of research, the research problem, the types of objective, and the theories described in the previous chapters, this study uses descriptive research method. According to Hermawan (2003:3) “descriptive research method is a method of research aimed to identify and describe the characteristics of multiple variables”.

Based on the processing or analytical approach used, this research is a qualitative research. Sugiyono (2010:1)

“Methods of qualitative research is a method of research that used at the scientific object conditions, (as the opponent of experiment approach) where researchers are as a key instrument, data collection techniques are done on a combined, the analysis data is inductive, and the result of qualitative research more emphasizes on the significance than for generalization purpose”.

Qualitative research is intended to understand the phenomenon that would be experienced by the subjects of the research e.g. behavior, perceptions, motivations or actions continuously descriptive manner in the form of words and language, in a natural context by utilizing a variety of natural methods.

B. Research Focus

Research focus is defined restrict a study, therefore the object to be studied focused on research problems and not to stray from the subject of research. Based on the research background and formulation of research problem, then the research focuses of this thesis are:

1. The Procedure of credit provision implemented on PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang.
2. Internal control over credit allocation system and procedure implemented by PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang.

C. Research Location

Research location is the place where the researchers will conduct research; therefore researchers will obtain the data and information related to the themes, issues, and research focus. The research location for this study on PT. Bank Tabungan Negara (Persero) Tbk. Sub-branch Sawojajar Malang in Jl. Danau Toba No. 1 Malang. The reason to choose this location is because the bank has implemented an accounting system which the bank can provide credit funds with easy terms and suitable to the needs of local community such as low interest rates and quick withdrawing process.

D. Data Sources

Data sources refer to how the researcher obtains information used as the basis of analysis. Based on the description above, so that data obtained by researchers can be classified into two types, namely:

1. Primary data

Primary Data is data that is obtained through direct observation or collected directly by researchers from the source, for example by means of an interview or direct observation.

2. Secondary Data

Secondary data is existed data the researcher did not involve into the preparation. Secondary data can be obtained through forms or documents, notebooks, reports, books, literature, and other sources related to the problems studied.

E. Data Collection Techniques

According to Catherine Marshall and Gretchen B. Rossman in Subagyo (2003:63) "In qualitative research, data collection techniques are more widely used is direct observation, in-depth interviews and documentation."

The data collection techniques used in this thesis is as follows:

1. Observation

It is a means used by the researchers with the observe the implementation of the activities of the system and procedure of

credit provision on PT. Bank Tabungan Negara (Persero) Tbk. Sub-branch Sawojajar Malang. In doing observation researchers directly involved in the situation under study.

2. Interview

It is a way in which to obtain the data or information required by conducting an direct interview to the party that can provide the required information. In this activity, the interviews were conducted with relevant sections include parts of the account and the loan officer and branch manager of the bank. On the account officer interview conducted to know the description of the implementation of the provision of credit, while in the credit department interview conducted to know how to analyze the prospective borrowers and making loan after filing a letter agreement is approved.

3. Documentation

A method of data collection is done by studying the documents, reports and records BTN in the past associated with the data needed to be further investigated.

F. Research of Instrument

The research Instrument is a tool used by researchers to gather data and information and to find the data needed in research. To get the data and information required, researchers must come in person to the research

location for obtaining the actual figures of the object examined and then analyze the data obtained.

With respect to the data collection techniques, then the research instrument used in this research as a tool in doing data collection among other:

1. Guidelines for the interview

Guideline interview is the guide in the form of a question list that has been compiled previously and to be submitted to obtain information

2. Guidelines for the observation

Observation guidelines are guidelines conducted to collect data that is carried out by means of direct observation of the document and the associated parties on the bank.

3. Guidelines for the documentation

Guidelines documentation is guidelines in form of documents that already exist and used in operational activities in place the study and supporting data that can be used as a source of research.

G. Data Analysis

Analysis of data used to process the raw data obtained from research activities to be more meaningful in that presentation so as to provide alternative problem solving from the research conducted. The process of data analysis is the process of finding the answers that would be obtained for conducting research.

According to Arikunto (2002:313) “The data are qualitative, of the processing as compared with the standard or criteria that have been made by researchers, whereas the data are quantitative can be statistic and non-statistic”.

This study uses descriptive qualitative analysis of data analysis by providing an explanation with words or sentences to explain data for credit provision accounting system to improve internal control on PT. Bank Tabungan Negara (Persero) Tbk. Sub-branch Sawojajar Malang.

The stages in this study are as follows:

1. To analyze the implementation of system and procedure credit allocation.

Describes the process of credit allocation conducted by bank to prospective debtors and credit analysis that conducted by bank before giving the funds to prospective debtors.

2. To analyze the implementation of internal control system and procedure credit allocation based on the organizational structure that separates the functional responsibility expressly, the authority and the procedures of recording system that provides sufficient protection against wealth, income, debts and costs, a healthy practice in carrying out the duties and functions of each organizational unit, and employees of the quality in accordance with his responsibilities.

BAB IV

RESULT AND DISCUSSION

A. General Description of the Company

1. History

History of BTN Bank began on October 18, 1897 according to the koninklijkBersluit No. 1V, it was stated that in Netherlands East Indies was established postpaarbank based in Batavia. Postpaarbank has opened a branch office between 1928 to 1934, first four branch offices were established in Indonesia, among others in Makassar in 1928, Surabaya in 1931, Jakarta and Medan in 1934. In 1934 became known also as accounting machines and the introduction of Current Account Certificate. In 1945 the Dutch East Indies colonial powers taken over by the Japanese and it was devastating for the banking industry at that time because postpaarbank is stopped and replaced by TyokinKyoku precisely on April 1, 1942.

With the independence of Indonesia in 1945, TyokinKyoku eventually taken over by Indonesia and renamed as Postal Savings Office (KTP), on the initiative of Mr. S. Darmosoetanto, which also served as the first director of the post office savings. This bank was instrumental in currency exchange transactions of Japan currency with "Oeang Republic of Indonesia '(ORI). However, the Dutch military aggression II on December 19, 1948 postal savings office and branches can not operate (off).

On December 27, 1949 Mr. S. Darmosoetanto was appointed as the first indigenous served as director of the BTN Bank and is one of the new point rise of indigenous groups in banking sector in Indonesia. Appraisal basis that inspires February 9, 1950 as the day of birth of BTN Bank by decree of Directors No. 05/DIR/BIDIR/1993 dated on September 27 1993. In 1974, government established a policy for the development of the middle class of society. To support the success of the policy, BTN Bank appointed as House Financing Credit (KPR) based on the Decree of the Minister of Finance No. B/49/MK/IV / 1974 dated on January 29, 1974. Since 1950 until now, BTN Bank has been in bank sector for 48 years.

As a barrage of enactment of Law no. 7 of 1992 on Banking, BTN law changed to an individual company better known as PT. Bank Tabungan Negara (Persero). Establishment of PT. BTN (Persero) based on the deed No. 136 on July 31, 1992 made by Muhani Salam, SH, Notary in Jakarta. This change makes PT. BTN (Persero) freely. Previously, it emphasized as the Savings Bank and payment institutions change, since August 11, 1992 the field of activities expanded into commercial banks.

2. Company's Location

Determining the location of business entity or corporate office is needed careful consideration, because office is a place for all activities. PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang

strategically located in Jl. Danau Toba No. 1 Sawojajar, Malang, East Java.

This location was chosen based on the following considerations:

- a. Accessible for society and debtor. This is because the PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang is located in the residential area, which allows the debtors to perform credit application.
- b. PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang occupies a strategic location in the residential area is intended to be closer to the market, especially the market share of residences which is a huge potential market for the bank.

3. Vision, and Mission

a. Vission

The vision of PT. Bank Tabungan Negara (Persero), Tbk Malang is being a leading and profitable bank in housing finance.

b. Mission

Mission of dari PT. Bank Tabungan Negara (Persero), Tbk Malang are:

- 1) Providing superior service in housing finance and industrial for middle and lower levels of society, as well as providing products and services of other banking.
- 2) Preparing and developing qualified professional human resources and high integrity

- 3) Fulfilling a commitment to shareholders that generate high profit and earnings per share and supporting the national housing development program
- 4) Carrying out banking management in accordance with the principles of prudence and good corporate governance
- 5) Considering the interests of society and the environment.

4. Company's Logo



5. Organizational Structure

In a business entity, staffing levels is very needed where he/she is stated in the organizational structure. Organizational structure can help the tasks and activities of organization to achieve the goals set by the organization. It also clarify the organizational structure and lines of authority and responsibility and the right of each organization within company. Clear explanation about the duties and functions of each person in company, it is expected all the work or task can be carried out smoothly with awareness and a high responsibility and avoid confusion.

The organizational structure of PT. Bank Tabungan Negara (Persero), Tbk Malang is very simple because existing human resources has very high

professionalism, resulting in a number of human resources in accordance with the needs of the high performance results. The following is a flowchart of the organizational structure at PT. Bank Tabungan Negara (Persero), Tbk Malang, can be seen in Figure as follows:





The following is an explanation of the flowchart related to the division that handles credit allocation. Each of these description are:

1) Branch Manager

Duties and responsibilities of Branch Manager are:

- a) Ensuring the achievement of Performance Targets, Target Funds, and Credit Targets At Branch Office
- b) Ensuring that the Administration has done in an orderly
- c) Develop a subordinate directly according to the level of competence required
- d) Make decisions through the Credit Committee Meeting (*Rapat Komisi Kredit* or *RAKOMDIT*)

2) Consumer Loan Service

The located of Consumer Loan service in BTN Sub-branch Sawojajar Malang, they have duties and responsibilities:

- a) Responsible for the credit consumer services
- b) Responsible for quality of the data input of debtor into database
- c) Responsible for implementation of QSL

3) Consumer Loan Analysis

The located of Consumer Loan Analysis in BTN Branch Malang, they are has duties and responsibilities:

- a) Responsible produce consumer credit quality

- b) responsible for analyzing consumer credit financing support in the framework of cooperation with third parties

4) TP (*Transaction Processing*) and IT Support

The located of TP and IT Support in BTN Branch Malang, they are has duties and responsibilities:

- a) Do transaction processing of credit installment payment
- b) Do processing of maintenance KPR, Non KPR and General Credit
- c) Do process costs of pra-realization of credit
- d) Do process blocking the account balance
- e) Do processing of deposit transaction, savings and gyro
- f) Do other processing of transaction
- g) Processing of payments for staffing
- h) Processing of cash disbursement and others.

5) Loan Administration and Documentation Sub Unit

The located of Loan Administration and Documentation Sub Unit in BTN Branch Malang, they are has duties and responsibilities:

- a) Conduct supervision and examined process of OTS (*On The Spot*) and LPA (*Laporan Pemeriksaan Akhir*) for request of unit associated with good and right in accordance with the bank provision

- b) Conduct supervision and examined process of disbursement that related with credit to be continued and acted upon by the related units
- c) Conduct supervision and examined process reconciliation of SL – GL that related with Loan Administration
- d) Conduct supervision and examined process of credit data update for debtor with good and right in accordance with the bank provision
- e) Conduct supervision and examined process of correction for claims the debtor received from related units
- f) Conduct supervision and examined process of maintenance of the master collective ID for KPR collective payment then inform the work unit concerned to followed up

6) Loan Administration

The located of Loan Administration in BTN Branch Malang, they are has duties and responsibilities:

- a) Responsible for the implementation of the OTS (the feasibility and income) for debtor
- b) Responsible for the implementation of transaction value and reliability of collateral (LPA or through appraisal services)
- c) Responsible for the process of administration for credit disbursement

- d) Responsible for the process of managing the disbursement of guarantee fund and maintenance data
- e) Responsible for the process of managing the disbursement notary fund and appraisal or other parties based on branch office provision
- f) Responsible for application management of BAPERTARUM (*Badan Pertimbangan Tabungan Perumahan*)
- g) Responsible for the settlement of claims in the system debtors
- h) Responsible for the process of credit re-structurization into system
- i) Responsible for the formulation of the collector ID and Developer ID into system
- j) Responsible for the process of updating static data that is required by the other party is authorized
- k) Responsible for credit information that is required by the other party is authorized
- l) Responsible for reconciliation SL - GL process of guarantee fund that is required with Loan Administration Unit
- m) Responsible for selection process and the appointment of the bank counterparty that related with credit based on Bank provision (*Appraisal, Notary, Etc*)
- n) Responsible for administration-run or credit programs

7) Loan Document

The located of Loan document in BTN Branch Malang, they are has duties and responsibilities:

- a) Responsible for the settlement of documents credit have not received Bank
- b) Responsible for administration, preparation and storage of credit documents
- c) Responsible for administration of documents credit in system (document tracking)
- d) Responsible for retrieval services, lending, and returns of documents credit
- e) Responsible for servicing to the debtor and the other parties that required with the document
- f) Responsible for security, tidiness, hygiene of storage space document
- g) Responsible for the correctness of credit documents submitted to a unit of work related at the time of the repayment of credits
- h) Responsible for preparing LAT/DAT report
- i) Responsible for fostering good relations with internal and external parties (BPN, Notary, Developer, and other parties) with respect to the completion and document management.

8) Accounting and Control Unit

The located of Accounting and Control Unit in BTN Branch Malang, they are has duties and responsibilities:

- a) Ensuring for accuracy and precision of financial statements at Branch Office and Sub Branch Office
- b) Ensuring observance of Branch Offices and Sub-branch Offices against policies and existing procedures
- c) Ensuring the management of archiving the basis evidence, proof of transactions and listings are done in an orderly and correct
- d) Ensure coordination of follow-up to external as well as internal examination results
- e) Ensuring for the reconciliation of SL – GL
- f) Responsible for printing of Branch Office financial statements
- g) Responsible for the completion of suspense accounts and other differences
- h) Responsible for the administration departement to Branch Security Officer 2
- i) Responsible for the implementation of the control and reports customer compliance settlement.

9) Accounting and Reporting

The located of Accounting and Reporting in BTN Branch Malang, they are has duties and responsibilities:

- a) Ensuring for the reconciliation of SL–GL
- b) Responsible for the completion of suspense due to the system
- c) Responsible for the accuration of memorandum journal entry SL-GL
- d) Implement the manufacture and delivery of financial statements and reports management branch offices
- e) Implement the administration of Map-ploeg (*Basis Evidence*) at Branch Office
- f) Responsible for the preparation of financial statements to external parties
- g) Responsible for the preparation of URAP (Uraian Rencana Anggaran Perusahaan) and RKAP (Rencana Kerja dan Anggaran Perusahaan)
- h) Responsible for the process and analysis reports performance branch offices

10) Collection and Workout Unit

The located of Collection and Workout Unit in BTN Branch Malang, they are has duties and responsibilities:

- a) Providing credit information service, loan repayment and the completion of the claim debtor quality
- b) Ensuring for effectiveness and efficiency in the field of credit services
- c) Ensuring for the provision of credit process has been carried out correctly
- d) Ensuring for all the debtor's claims have been resolved well

11) Legal and Loan Recovery

The located of Legal and Loan Recovery in BTN Branch Malang, they are has duties and responsibilities:

- a) Conduct training and billing of all the debtor either through visit location or not that debtor able to meet their obligations
- b) Ensuring for repayment of all loans were non-performing
- c) Manage all debtors are passive, empty house and auction
- d) Rescue loans and reduce the amount of non-performing loans
- e) Ensure that all steps taken branch is free from legal problems that hurt the BTN

B. Product and Services at PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang

PT. Bank Tabungan Negara (Persero), Tbk Sub-branch Sawojajar Malang offers a variety of banking products and services in an effort to improve services and meet customer satisfaction. Any products and services

have their respective targets with the aim of providing services according to customer's needs. So that customers have many alternative products and services in accordance with their needs. Products that are offered consist of:

1. Funds products

As an effort to satisfy customers PT. Bank Tabungan Negara (Persero) provides some funds products with many benefits, namely:

a) Savings

Savings products provided by PT. Bank Tabungan Negara (Persero) Tbk Sub-branch Sawojajar Malang includes: Batara Savings, Batara Prima Savings, Batara Junior Savings, BTN Payroll Savings, eBataraPos Savings, Batara Juara Savings, Batara Pensiunan Savings, Hajj Nawaitu Savings, and My saving.

b) Gyro

Giro products provided by PT. Bank Tabungan Negara (Persero) Tbk Sub-branch Sawojajar Malang includes: Giro Rupiah and Foreign Currency Giro.

c) Fixed deposit accounts

Fixed deposit accounts products provided by PT. Bank Tabungan Negara (Persero) Tbk Sub-branch Sawojajar Malang includes: Rupiah time deposit account and Foreign currency deposit accounts.

2. Services products, among others:

Services products given by BTN Bank to customers, nemely: ATM Batara, Remittances, Auto Debit, Collection, Safe Deposit Box (SDB), Admission Funds of Hajj, Guarantee of Bank, Online Tax Filing (perception), Telephone Payment Acceptance, and Electricity Payment Acceptance.

3. Credit Products

Besides funding products and services, BTN Bank also provides credit products that purposed for customers who need credit for business and home purchases, while the variety of credit products offered, among others:

a) Consumers Credit

1) **KPR BTN Sejahtera FLPP Housing Finance Liquidity Facility (*Fasilitas Likuiditas Pembiayaan Perumahan*)**

KPR BTN Sejahtera FLPP are mortgage programs in cooperation with the Ministry of public housing, with low interest rates and repayments are lightweight and stay throughout the loan period. Consisting of a KPR Sejahtera Tapak for the purchase of Treads housing and KPR Sejahtera Susun for the purchase of Flats housing.

2) **KPR BTN Platinum**

KPR BTN Platinum is mortgages from Bank BTN for purchasing homes from developers or non developers, whether

for new or second home purchases, home purchase has not finished (indent) and take over loans from other banks.

3) Kredit Pemilikan Apartemen (KPA) BTN

KPA BTN is apartment mortgage from Bank BTN for the purpose of purchasing an apartment, good for the purchase of new or second, purchase of apartments have not finished (indent) and take over credit from another bank.

4) Kredit Agunan Rumah (KAR BTN)

Kredit Agunan Rumah (KAR BTN) is a credit facility from Bank BTN that you can use for a variety of consumer needs to ensure a residential / apartment / shop / shop-house yours.

5) Kredit Ringan BTN

Kredit Ringan BTN (Kring BTN) is loans with installments to employees of companies/institutions without collateral, simply by asking Your employees SK.

6) Kredit Ruko BTN

KP Ruko BTN is mortgage office / home office / kios that can be occupied or used as a place of business.

7) Kredit Bangun Rumah

Kredit Bangun Rumah BTN (KBR BTN) is a credit facility for those who want to build a house on his own land.

8) Kredit Swadana BTN

Swadana BTN is Credit facilities provided to customers with collateral in the form of savings and deposits are deposited in Bank BTN.

9) PRR-KB (Pinjaman Renovasi Rumah-Kerjasama Bank) BTN Jamsostek

PRR-KB Jamsostek is Loans PT. Jamsostek (Persero) through Bank BTN to its members who qualify PRR-KB, for the purpose of development / improvement of the house, where the loan was filed, approved, administered concurrently and are backed Paripasu with KAR (Kredit Agunan Rumah)

10) PUMP-KB (Pinjaman Uang Muka Perumahan-Kerjasama Bank) Jamsostek

PUMP-KB Jamsostek Loans granted PT Jamsostek (Persero) through Bank BTN to members who qualify PUMP-KB, for the purpose of payment of the advance purchase of a house.

11) TBUM BAPERTARUM

Tambahan Bantuan Uang Muka (TBUM Bapertarum) is a product support services partially financing the down payment Mortgages or help some financing of Mortgages, comprising aid should not be returned and the aid must be restored again, distributed to civil servants who meet the requirements and is

intended for class I, class II and class III, with source of funding comes from dues fund Taperum-Civil Servants. Loans are provided Bapertarum through Bank BTN to Civil Servants members of qualified TBUM Bapertarum, for the purpose of payment of the advance purchase of a house.

12) TBM BAPERTARUM

Tambahan Sebagian Biaya Membangun (TBM Bapertarum)

Help Fund Taperum-Civil Servants given to Civil Servants who meet the terms and conditions, to help partially the cost of building a House on his own land with house Build Credit facility (KBR) through Bank BTN, at the location where Civil Servants work, as referred to in the decision of the State Minister of public housing as the chairman of the Daily Bapertarum-Civil Servants No. 01/KPTS/1995 on the change of possession of the house to Help civil servants.

b) Commercial Credit

1) Kredit Yasa Griya \ Kredit Konstruksi (KYG)

Working capital credit granted by the Bank BTN to Developer to help of working capital financing the development of housing projects ranging from:

- a. The cost of construction of the home construction up to finishing; and
- b. The cost of Infrastructure and facilities.

2) Working Capital Loans (*Kredit Modal Kerja*) - Kontraktor (KMK - Kontraktor)

Working Capital Loans granted by the Bank BTN to contractors or subcontractors working capital to assist in completing the work in accordance with the contract of employment contract.

3) Working Capital Loans (*Kredit Modal Kerja*) - Related to the Housing Industry

Working Capital Loans granted by the Bank BTN in order to finance the working capital needs, especially for sectors related to the housing industry and or businesses that can support the sectors in question.

4) Investment Credit (*Kredit Investasi*)

Sector financed

Sector financed for investment credit are: housing-related industries; infrastructure, roads, irrigation, bridges, electricity, water & gas; telecommunication; education; healthy; others in accordance with developments in the business world and the ability of the bank.

5) Investment Credit (*Kredit Investasi*) - Industries Related To Housing

Investment credit provided by a bank in to finance investment especially for sectors related industries with housings and or efforts that can support sectors referred to.

6) Kredit Usaha Rakyat (KUR)

Working capital or investment loans to debtor who are engaged in businesses that according to his scale status as micro, small and medium-sized business for productive of business financing Business sector that can be financed : **Industry, Trade and Service.**

7. Non Cash Loan: Bank Guarantee

C. Presentation of Data

The process of filing petition for credit that is applied by the PT. Bank Tabungan Negara (Persero) Tbk. Branch Malang has 2 ways through developers and non developers. If the process is done through developers, the one who do all process are developers and bank (the debtor has trust everything to developers or notary), but if it is done by individual with notary and developers come altogether to the office of Bank Tabungan Negara Branch. As for the process which is started from credit application to the stage of disbursement and observation, there are divisions related in the lending procedure, which is:

1. The implementation of system and procedure of credit in pt. Bank tabungan negara (persero) tbk sub-branch sawojajar malang

The clients or debtors can come to PT. Bank Tabungan Negara Branch Malang or Sub-branch Sawojajar to apply for credit to loan service. The procedures fulfillment intended to get the loan application approved by BTN. According to the interview with Mr. Arif, the staffs of Loan Service, procedures that have to be fulfilled by clients are:

a) Submission of letter of loan application by debtors

The submission of Loan Letters is accompanied by loan application checklist which is provided by bank and has been filled by parties concerned, which is the debtor, and attaching all things that become the requirements of the submission of loan application.

Things that complement the requirement of applying credit are:

- 1) Loan application form which consists of:
 - a. Photograph of applicant and wife or applicant (3x4 cm)
 - b. Applicant's identity has to be filled completely
 - c. Autograph of applicant and wife or husband at the statement column
- 2) A copy of the identity card of applicant and husband or wife (3 copies)
- 3) A copy of family card
- 4) A copy of marriage or divorce letter (for those who are married or divorced)
- 5) A copy of nationality evidence (for WNI Non indigenous)
- 6) Letter of Approval from partner, (for unmarried is required to make statement letter of un-marriage from village and parents/godparents approval.)
- 7) Civil Servants or private employees submit:
 - a. Income certificate from agency
 - b. Latest salary sheets
 - c. Salary Deductions Authorization Letter (*Surat Kuasa Pemotongan Gaji* or *SPKG*)
 - d. The copy of employee card and the latest Family Card (civil servants only)
 - e. Income certificate of applicant's husband or wife (if the concerned person works)

- 8) Entrepreneur or uncertain income submits:
 - a. Income certificate
 - b. SIUP/TDP/HO(*Hinder Ordonantie*)
 - c. Current account (*Rekening Koran*) (Gyro or Saving) in last 6 months
 - d. Income certificate of applicant's husband or wife (if the concerned person works)
- 9) The copy of personal NPWP or SPT article 21 (the loan up to 50 millions/more)
- 10) The copy of certificate, IMB, and SPT PBB
- 11) The copy of Batara Savings
- 12) Other data in form of: Notary costs, the first installment, fire and life insurance, and assessment costs.

Loan Service later does an adjustment of the Check List requirement, which is the resume of Loan Application form as in attachment. If it matches and completes, the Loan Service will put an autograph at the up corner of loan application form. In this stage, there are 2 kinds of conclusion, which is:

1. Complete, means that there is no problem and can be continued to the next review stage.
2. Incomplete, means that it has to be announced to the debtor to complete it.

b) Collection of data and information by debtor which have to be done by creditor

Data collection and information was conducted by the analysis credit. This party to perform verification of the data debtor according to the data provided in the check-list.

c) Interview

Loan Service calls the applicant and his wife / her husband to do an interview. The interview is intended to know the applicant's condition and propriety. During this interview, the staff analyzes the applicant's identity, collateral credit, occupation and income, as well as the loan estimation that will be given. All of them will be compared with the oral data and the data in application form as well as other supporting data. The result of that interview will be recorded by the staff in BTN Branch Malang to a form named Interview Result Sheet, then analyzed by the staff which later will be brought to Loan Committee Meeting (*Rapat Komite Kredit* or *RAKOMDIT*). There are 3 copies of Interview Result Sheet, which is:

- 1) Sheet 1 (white) : for bank to be used as archived
- 2) Sheet 2 (blue) : for applicant
- 3) Sheet 3 (red) : for developer

d) Loan analysis by creditor

Loan Analysis by creditor is done objectively, based on the completeness of data and information filled by debtor in credit application list, as well as the result of survey made in form of DUP (*Daftar Usulan Proyek*) by LA (*Loan Administration*) that located in BTN Branch Malang. DUP and the required document is submitted to Credit Approval Committee (*Branch Manager, Consumer DBM, Supporting DBM, Loan Analysis*).

Credit analysis stage is the most important stage in lending, because in this stage, a debtor is stated deserve or not deserve to receive the loan. The allocation of loan recommendation by creditor is the conclusion drawing in credit analysis. Opinion and suggestion by creditor in this stage highly determine the approval or denial of loan application by debtor. Given credit worthiness of a debtor, the debtor must satisfy the principle.

5C, are : Character, Capacity, Capital, Collateral, Condition of Economy. Assessment with 5C analysis is as follows:

- 1) Character of prospective debtors need to be examined by team of credit analysis whether they are eligible to receive credit or not. Credit applicant can be obtained by collecting information from reference clients and other banks about behavior, socially honesty, and obedience to fulfill the payment transaction. Good character if there is willingness to pay its obligations. If the applicant's character is good, he can be given the credit. Otherwise, if the character is bad, then no credit can be given.
- 2) Capacity (ability), prospective debtors need to be analyzed if they are capable of leading the company properly. If he is able to lead the company properly then he will be able to repay the loan in accordance with the agreement and the company is still standing.
- 3) Capital of the debtors must be analyzed regarding the size and its capital structure which is visible from the work sheet of prospective debtors' company. Results of the work sheet analysis will provide an overview and guidance whether the company healthy or not. Similarly, the level of liquidity, profitability, and solvency as well as capital structure of the company concerned. If it looks good, then the bank may extend credit to the applicant concerned, but if not then the applicant will not get the desired loan.
- 4) Economic condition or the condition of the economy in general and applicant's businesses in particular. If good and has a good prospect, his request can be met, otherwise if not then the application cannot be approved.

- 5) Collateral provided to the applicant of an absolute credit to be analyzed must be legally and economically feasible and whether that meets the requirements specified by the bank. If the answer is "yes" then the credit can be given, but if the answer is "no" then the credit cannot be given.

TABLE 2
APPLICANT QUALITY ANALYSIS AND COLLATERAL LOANS ON
BTN

Credit Quality Criteria	Factors Affecting	Explanation
Faith Pay	Name and History	Proof of identity to detect as early as possible against fraud and irregularities.
Ability To Pay	Income Source	Knowing the stability of the salary and; proportion against a plan of credit.
	The Staffing Status	indicates the certainty of revenue sources
	Net Income Level	The rest of the existing salary for payment in installments.
	Savings	As a reserve fund.
	Others credit bond	The power to reduce the salaries net for payment in installments.
Reliability Collateral	The existence of collateral	Existence and ownership
	The marketability of collateral	Liquidation value of the collateral.
	Legal status of collateral	Mastery of physical and legal.
	Document quality	The completeness and validity of determining rights ownership.

e) Decision making by the creditors

Decision making is an official's act based on his authority which is the right of making decision like refusing, approving, or proposing loan facility application to the higher officials. This decision making is done through Loan Committee Meeting (*Rapat Komite Kredit* or *RAKOMDIT*), which is led directly by Branch Manager of BTN Branch Malang and attended by the Head of Credit Section, The Head of Credit Analysis, and deputy head of the branch or Biro of main office of BTN (Persero) Tbk Branch Malang.



This RAKOMDIT generally examines the application by applicant and collateral in order to decide the maximum amount of credit, installment, span, as well as the refusal of application. If the application is refused, LS (*Loan Service*) in BTN Sub-Branch Sawojajar Malang will send the debtor a refusal letter.

f) Reduction Lending Agreement Confirmation Letter (SP3K) by debtor

Lending Agreement Confirmation Letter (*Surat Penegasan Persetujuan Pemberian Kredit* or SP3K) is dropped by creditor or the one who has been authorized by Branch Manager and directed to debtor as a sign that the credit application has been received and approved by the Bank. SP3K is one unit that is un-separable from agreement letter and contains about: Maximum loans, the validity period of the credit facility, interest rate, the clear purpose of the use of credit, loan Form, credit stamp duty to be paid, credit Provision, the signing of the credit agreement letter, the Period of SP3K repayment, sanctions, and requirements for submission of extension application and additional credit facilities.

The SP3K authorized by Branch manager of BTN Branch Malang, each of which is given to clients, Loan Service (*LS*) in BTN Sub-branch Sawojajar Malang for archives and the next sheet is copied to Loan Administration (*LA*) in BTN Branch Malang for further process.

Loan Administration (*LA*) received authorized SP3K and followed by appraisal (collateral review on loan worthiness) with developer. Thereafter makes the Final Inspection Report (*Laporan Pemeriksaan Akhir* or *LPA*) which is about the price of land and buildings for loan preparation. The authorized SP3K and the required document are put on file by the Loan Administration (*LA*), while the *LPA* is submitted to Loan Service (*LS*).

g) Credit agreement by the creditor and the debtor

After the credit application is approved, the credit agreement is held, where the two parties, creditor and debtor, sign to mark the commencement of cooperation in the provision of credit by creditor to debtor by submitting the guarantee funds and loan disbursements.

The guarantee funds and the credit disbursement list as well as the *LPA* are processed by Loan Administration (*LA*) in BTN Branch Malang. Applicant does credit agreement at the Loan Service (*LS*) in BTN Sub-branch Sawojajar Malang with a notary. Having done the credit contract, Loan Service (*LS*) makes a memo known as Letters submission Fund (*Surat Pencairan dana* or *SPD*) and submits the funds guarantee and credit disbursement list to Loan Administration (*LA*). The Loan Administrator (*LA*) then put it into a folder.

The order to withdraw the credit is done when the debtor has completed the loan accounting administration to the creditors. TP (Transaction Processing) in BTN Branch Malang to checks the guarantee fund, the realization list, and credit disbursement memo. The TP does credit disbursement to the developer account, and then TP gives credit note document, realization list, and credit disbursement memo to the Accounting and Control. The Accounting and Control verifies the documents from TP and the transactions done by TP are recorded in the database of Accounting and Control.

It also means that the debtor has understood and be able to carry out all matters relating to the rights and obligations of the debtor as it has been included in the contents of the agreement. Similarly with the creditor undertakes to perform the rights and obligations in accordance with the contents of the agreement. The creditor continues to monitor the use of the credit given to the debtor.

a) Controlling or monitoring credit extention

The creditor continues to monitor the use of the credit given to the debtor. Credit management carried out by BTN Sub-branch Sawojajar Malang includes coaching process (conducted since pre-realization, realization to post-realization) and the credit salvation process (if the credit is problematic) performed at the branch. These processes must be managed properly, so it can achieve the ultimate goal of credit that is healthy credit as described in the credit management system on PT. Bank Tabungan Negara (Persero) Tbk Branch Malang.

The following is a diagram for procedures housing loans application at PT. Bank Tabungan Negara (Persero) Tbk Malang Branch:



2. Contribution of system and procedure to improve internal control in credit allocation at pt. Bank tabungan negara sub-branch sawojajar malang

In performing its duties, all employees of PT Bank Tabungan Negara Sub Branch Sawojajar Malang have the ability, knowledge and master for their job description. for that, PT Bank Tabungan Negara Sawojajar Malang Sub branch always keep up with education and training held by PT. Branch Office in Malang.

BTN Malang Branch does 2 (two) kinds of education and training, such as:

a) *Orientation Training*

Education and training provided for prospective officers which is called New Prospective Staff Training (PCSM). The trainings are held in 2 (two) places, the main office, which is located in Jakarta and branch offices of BTN. The training is taking place for 7 (seven) months, divided into: 3 (three) months at the main office and 4 (four) months at the branch office.

b) *In Service Training*

Implementation of education and training for permanent employees of BTN to enhance their abilities, knowledge and skills in the performance of his duties. In the implementation, *In Service Training* at BTN Malang branch could be in form of *On The Job Training*, in which

the implementation is done by third parties, or could be in form of *On The Job Training*, whose the whole implementation becomes the responsibility of third parties. This is due to each permanent employee who has different responsibility and duty in the implementation. The implementation of *On The Job Training* is held in Pusdiklat (Education and Training Center) at main BTN.

1) Job Rotation / Employee Mutation

In BTN Malang Branch, the employee mutation (job rotation) is held every 2 (two) years.

2) Employee Furlough

Employee furlough at BTN Malang Branch in 1 year is given 12 days of furlough, while in 3 years is given 45 days.

Below is activities related to system and procedure aimed to improved internal control in credit allocation:

a. Divisions involved in procedures credit application

1. Loan Service (LS)

Duties and responsibilities of Loan Service are:

- 1) Conduct an initial interviews with the debtor after the data declared complete and accurate according to check-list. The interview was carried out to get the truth of information according to the data of credit application that is required for taken a decisions of

credit and provide understanding of the rights and obligations of the debtor.

- 2) Verifying data from interviews and data in the application that has been completed by debtor. In this case the loan service provides barcode printed on credit submission form, then do the scanning and entry data in accordance with the data provided by the debtor.
- 3) Conduct initial analysis associated with the amount of credits based on the debtor's income data.
- 4) Conducts the credit realization if that credit has been approved by the Credit Approval Committee.

2. Loan Administration (LA)

Loan Administration located in Branch Office Malang has

Duties and responsibilities are:

- 1) To review the business location directly to the debtor that does not have a fixed income and/or the data doubted.
- 2) To create Data applicant proposed (*Daftar Usulan Pemohon* or *DUP*).

3. Analyst Credit

Analyst credit located in Branch Office Malang has Duties and responsibilities are:

1) Verifying the data presented Loan service is based on the completeness of the data and information that is filled by the debtor in the form of loan application, data and information on the results of interviews has done, and the results of the survey have been be created DUP by Loan Administration.

2) To calculate the ratio to support credit decision, among others:

- Repayment Capacity (RPC)
- Loan To Value (LTV)
- Character of ID BI (*Individual Debitur Bank Indonesia*)

3) Giving credit recommendation such as principle of 5C yaitu *character, Capacity, Capital, Collateral, and Condition of Economy*.

4. Credit Approval Committee

Credit decision making is a measures taken by the division based on the authorities are entitled to take a decision in the form of rejected, approved or propose the application for credit to higher officials. This decision making is done through Loan Committee Meeting (RAKOMDIT), which is led directly by Branch Manager of BTN Branch Malang

and attended by the Head of Credit Section, The Head of Credit Analysis.

3. Effort of non performing loans at pt. Bank tabungan negara malang branch

Based on the results of research on PT. Bank Tabungan Negara (BTN) on the implementation of the Credit provision, credit problems were still found. The Credit problem is the occurrence of credit arrears resulting less smoothly return which should be done by the debtor. The credit problems arise due to several supporting factors.

As revealed by the Loan Service (LS) PT. Bank Tabungan Negara Sub-branch Sawojajar Malang, that:

Factors that can cause credit problems can be derived from the client as debtor, or it could also come from the bank as a creditor. Factors that could cause a delinquent credit from the debtor are:

- a) Debtor misuses the obtained credit
Every credit earned by the debtor has agreed into prior credit application purposes, so the debtor should use it accordingly to initial purposes.
- b) Debtors who do not have a good faith
Some of debtors deliberately by all means to get the credit, but once the credit is received, the loan is used for the purposes that cannot be accounted for. This proves that the debtor did not initially have the intention to return the credit given by the creditor, despite of any risk. Usually before the loan is due, the debtor has fled from his responsibility to pay off his credit installments.
- c) The debtor divert his rights and obligations to another party without the knowledge of the bank as a creditor
After the loan application is granted by the creditor and since the debtor signing the loan agreement, the debtor has the right to use his credit and has an obligation to repay the loan through monthly installments to the bank as a creditor. However, there is also a debtor that divert credit claim to other parties without any prior

notice to the bank. This can cause difficulties for the bank to receive repayment of the new debtor when the new debtor does not perform its obligations.

d) Breach of Agreement Debtor

A debtor is called breach of agreement if:

- 1) Debtor does not pay the loan installments, which consists of the main and interest installments monthly on a regular basis, and do not pay monthly installment obligations until the due of the credit.
- 2) Debtor fails to pay the big installment arrears and he loading manner as well as he calculating manner have been specified by the creditor.

e) The debtor reassigned to another place

Borrower's reassigned and settled in other places, which is located in a different region from the creditor banks would cause difficulty in paying the monthly installment, but this is no longer a big problem because in every big city there are branches of BTN. If there is no branch, BTN has provided the Automated Teller Machine (ATM), which will automatically debit the account for the periodic payment and monthly loan installments, as long as the minimum balance for installment is available.

f) Debtor loses his job or terminated from the institution where the he works

Debtors who no longer have jobs will lead to delays in loan repayment each month since the first of each month income is no longer received, while from that income, the debtor's application is approved by BTN.

Factors that could cause a bad credit from the creditor is a distortion of the principles of banking by bank officials themselves like:

a. Quality of bank officials

Each bank officials certainly need to be able to work professionally, yet not all officials have excellent quality.

The bank officials who work unprofessionally are hard to be expected to obtain a satisfactory work. Especially the officials in the credit section, the demand for their professionalism highly influence the provision of credit.

b. Competition among banks

The number of banks operating in Indonesia currently is huge, resulting competition between banks is also more rigorous. Such a condition leads competition between banks, in which each bank is automatically trying to get a lot of clients and existing clients do not turn to move into the other bank. Such situation can make banks act of speculation by providing easy

facilities to its clients and ignoring the principles of healthy banking.

c. Supervision

Provision of credit facilities to the clients by the bank is always accompanied by a supervision of the concerned bank, which is from the credit provision supervision, and also supervised by Bank Indonesia. If the supervision of the credit provision weak, it may result in deviations of the principles of banking.

Surveillance not merely done on the given credit, but it must go since the credit provision was arranged, credit analysis, credit provision, credit acceptance up to credit repayment.

Credit supervision is still divided into:

- 1) Passive surveillance, surveillance on the debtor which is done at certain times by the credit assistance (Loan Recovery).
- 2) Active surveillance, surveillance that is done on an ongoing basis by regarding the condition in the field that concerns the behavior of the client's business life and loyalty. Supervision is done by a specific bank officer assigned to the requirement.

(Interview with Mr. Arif, staff of *Loan Service* in PT. Bank Tabungan Negara Sawojajar Malang Sub-Branch).

4. Controlling credit on implementation of system and procedure credit application

Credit control on the implementation of system and procedures credit application on PT. Bank Tabungan Negara (Persero) Tbk Sub branch Sawojajar Malang is carried out directly by PT. Bank Tabungan Negara Branch Malang.

Control credit the implementation after credit disbursement or credit withdrawal. In PT. Bank Tabungan Negara the credit will be due every 10th day of each month and the bills will come out every 7th day of each month.

Implementation of credit supervision on PT. Bank Tabungan Negara Sub-

branch Malang carried out by Loan Service (*LS*) and the Loan Recovery (*LR*) that located in PT. Bank Tabungan Negara Branch Malang office. During one first-year credit will be overseen by LS, after more than 1 year then the billing and credit supervision delegated on LR (analysis credit has not intervened again or the responsibility of LR). Loan Service can credit oversee system just by looking at a List of Delinquent (*Daftar Debitur Menunggak* or DRDM), because in the system would seem the number of account saving, the amount of installment credit debtor, address a debtor, and if there is interest and credit arrear would seem. Monitoring and controlling credit is done periodically during the loan agreement has not expired.

5. BTN Bank Efforts to Overcome the Credit Installment Arrears

a) Credit Deliverance Division

In the distribution of credit facilities, problems of installments arrears often occurs which eventually resulting bad credit. To avoid this, BTN Bank has made various efforts. Preventive actions carried out by BTN Bank are founding on the debtor and the doing deliverance on credit extended. In BTN, to these efforts, a special agency dealing with credit problems has been established through Directors Decree No. 04/DIR/BIDIR/0588 dated May 5, 1988, which is called the Credit Supervisor Bureau. However, the Credit Supervisor Bureau eventually cannot do its job effectively. This is due to many problems that occur in credit.

Through Directory Decree Number 05/DIR/BIDIR/0190 dated January 25, 1990, Workout Unit as a replacement of the previous bureau's duty is established, which causing some changes, improvement, as well as rearrange the organization structure, function, formulation, duty, authority, and responsibility. Division Function of Restructuring and Credit Solutions (DRPK).

This Credit Deliverance Division is responsible on:

- 1) Conduct a preliminary analysis of the causes of the debtor's financial problems.
- 2) Prepare scenarios and the best strategy alternatives on credit problems which are handled based on the analysis of data and adequate documents.
- 3) With the knowledge and approval from direct head, conduct actions that can make sure that the things that have been specified in the loan restructuring agreement can be implemented.
- 4) Inform BRCO and DRPK
- 5) Take money action which is needed immediately.
- 6) Involve BRCO if the opinion from the compliance and risk aspect are needed.
- 7) Monitor the improvement.

- 8) Record all important cases related to analysis result, actions that have been taken, correspondence results with debtor and other third parties in credit files.
- 9) Solve problems within an appropriate time frame.
- 10) Try to decrease the credit collectability level before diverting the credit to Workout Unit.

b) Early Warning System

Bad credit needs bigger attention and stricter surveillance to lessen the bank loss risk (to maximize bank income). Early detection can be conducted by:

- 1) Arranging credit collectability list every month, and making list of credit that is considered Substandard, doubted, and the collectible is still considered fluent yet tend to worsen the next month.
- 2) Treating and monitoring credit collectability in accordance with the provision of Bank Indonesia on Productive Activa Quality.
- 3) In the stipulation of that collectability, bank is prohibited to do exception, especially on the credit for concerned parties with certain big debtors.
- 4) Conducting founding, handling, and settlement which are included in registered collectability list.

c) Credit Founding

Credit founding is a set of activities that have been done through monitoring on continuation on the credits that have been delivered to debtors, so the credits can be repaid to the creditors orderly, regularly, and on time in accordance to the content of the agreement. Credit monitoring can be done through two ways, which is:

1) Monitoring of installment repayment

Monitoring is one of credit activities by monitoring the development of installment repayment which can be viewed from debtor's account or debtor in arrears list.

2) Direct founding on debtors

Debtor founding is an effort to make the debtors know and understand about their rights and obligations, so after the rights in form of credit provision are fulfilled by the creditor, the debtors have to fulfill the obligations by repaying the installment to pay off the KPR. This debtor founding can be done by creditor by visiting the concerned debtor either personally or collectively.

TABLE 3

CONCEPT DEVELOPMENT CREDIT

Days Delinquent	Activity	Implementation
0 day	<p>Periodic basis (6 months) deliver R / K to the debtor.</p> <ul style="list-style-type: none"> a. Monitor the loan payment obligations, either in cash, collective and AGF (Automatic Grab Fund). b. Delivery confirmation letter to the debtor that will be due to the debtor until the 25th there is no payment or; c. Calling the debtor with an emphasis can be made payments to avoid fines d. Offer ease of installment payments 	LAS/LAO or used Outsourcing service
31-60 days (1 month)	<ul style="list-style-type: none"> a. Monitoring on screen b. Submission of a warning letter I c. Analysis of the character of the debtor in this condition d. Notes the debtor's promise e. To update data: condition of collateral, the debtor, the debtor's ability of faith, etc. 	LAS/LAO or used Outsourcing service
61-180 days (2-3 months)	<ul style="list-style-type: none"> a. Billing directly to a debtor b. Monitoring the response on screen Confirmation Letter (arrears 31-60) c. Prevention debtor PA shifted to NPL d. Billing debtor NPL particular class of potentially substandard loans shift back to dispatch smoothly accompanied by Risk Assessment Scale (<i>Skala Penilaian Resiko</i> or SPR) (arrears 61-90) and Inspection Warrant (<i>Surat Perintah Pemeriksaan</i> or SP2) (arrears 121-150) e. Billing substandard and doubtful debtors potentially give contribution. 	LAS/LAO or used Outsourcing service

Source: Loan Division of PT. BTN Branch Malang



d) The Pattern Of Restructuring Credit

Credit restructuring is an effort undertaken by the bank in the business so that the debtor can meet its obligations, as stated in the credit agreement. Restructuring credits can only be carried out or provided to troubled credit (loans with collectability substandard, doubtful or loss) or that are expected to be problematic (happens a decrease ability to pay installment credit) and the debtor still show good faith to resolve the credit as well as the ability of debtors to pay credit obligations as the efforts made by decreasing in interest rates, reduction of credit interest arrears, reduction of credit arrears principal, extension of loan maturity, addition of credit facility, takeover of the assets of the debtor in accordance with the provisions of the applicable, and credit conversion to be the inclusion of capital while on the debtor company.

As for the pattern of credit restructuring, namely:

1) Rescheduling (PUL)

Rescheduling (which is also called PUL) is re-establishment of credit terms and the amount of monthly installment over the remaining credit and or establishment of installment payment on the existing installment arrears from problematic credit and or potentially problematic.

a. Goal

Debtor can fulfill the obligation to bank regularly and on time in accordance to Credit Agreement with its addendum.

b. Criteria

Problematic debtor or the debtor who is potentially problematic shows good determination to pay off the loan.

c. Condition

- (1) Written application letter from debtor is available
- (2) Total maximum PUL period is 20 years
- (3) Debtor's age on PUL due date does not exceed 65 years
- (4) If the period after PUL exceeds SHGB, the debtor is obliged to propose SHGB period extension to the authorized agency, which is BPN
- (5) Provision cost is 0.5% of the total credit obligation in PUL

In addition, kinds of PUL are:

a) Rescheduling of Credit Residue (PUSP)

The installment period of main credit residue amount is rescheduled

- (1) PUSP I, the fixed installment period is same as the provision in the credit agreement (so the rate of installment is increasing)

(2)PUSP II, the installment period is extended so it becomes longer from the previous provision (to suppress the installment rate to prevent it from outgrowing)

b) Rescheduling of Arrears Residue (PUST)

The existing obliged arrears residue (main arrears and interest arrears) is rescheduled and paid in installment, while the residue of main credit still proceeds in accordance to credit agreement, so the debtor has two kinds of installments, which are regular and arrears installment.

2) The delay of credit obligation (Grace Period)

The delay of credit obligation is a remission given by bank to the debtor by delaying the payment of a number of credit obligations for a certain period of time in accordance with analysis result of the debtor's capability.

a. Criteria

The debtor still has good determination but experiencing the lowering of paying capability of credit obligation because of some calamities such as: termination of employment, natural disasters, riot and or policy made by the bank.

b. Condition

(1)The debtor filing a request letter in write to the bank

(2) Given to the debtor who has a hard time in fulfilling the obligation to the bank due to Termination of Employment (PHK), natural disaster, riot, or due to other considerations have been set by the bank.

3) Debtor shift

Debtor shift is a transfer of the whole debtor's debt (with the asset) to other parties which is eligible to bank's policy.

a. Goal

To replace the debtor who is no longer capable with a new debtor who is capable and has good credibility.

b. Criteria

(1) The debtor has a hard time to continue the installment payment and to overcome this problem, the concerned debtor wishes and or agrees to shift his obligation as a debtor to another parties (a new applicant)

(2) The debtor is difficult to get in touch with and has been stated lost by state court and a new applicant presents without the knowledge and presents the old debtor with Letter Authority to sell during Notary / PPAT willing.

b. Condition

(1) The debtor intended to shift the rights and obligation to another parties or debtor by filing a request letter in write.

- (2) A new substitute debtor presents
- (3) A new substitute debtor is eligible as an applicant individually
- (4) An agreement has been reached between the old debtor or bank (if the debtor is lost) and the prospective substitute in term of price, cash advance payment, furnisher, etc.
- (5) The cost related to debtor shift concerned to bank (administration cost, provision, notary cost, insurance expense, etc) are substitute debtor's responsibilities.
- (6) In term of lost debtor, decision from state court has to be presented. However, it is possible that the bank can do debtor shift by referring to management form letter about the settlement guideline of abandoned collateral credit.
- (7) Certificate in the name of old debtor has been published
- (8) If the certificate in the name of old debtor has not published, it should be discussed with the concerned notary so the debtor shift settlement can be conducted.
- (9) Other defined regulation correspondence to the valid credit defined regulation

b. Policy

- (1) In case of the old debtor is stated lost, bank representing the debtor to sign the official documents (as proxy of former debtor)

after a decision from State Court or decision with specific condition from State Court is made.

(2) After the signing of official documents, the entire obligations (main arrears, interest arrears, and main fine) the old debtor shifts to the new debtor, unless new policy from bank is made.

(3) If the old debtor's loan interest rate is a subsidized interest rate, the interest rate on the new debtor has to correspond with the valid policy (income).

3) Reduction of interest arrears or fine

Reduction of interest arrears is payment enforcement under the proper amount or an amount of total payment rate of unfulfilled interest arrears. Reduction of fine is payment enforcement of unfulfilled fine.

a. Criteria

The debtor still has good determination, but isn't capable to pay the whole arrears, which need a dispensation in form of reduction of interest arrears and or fine.

b. Condition

(1) Request letter in write from debtor is available

(2) The debtor pays off at once the whole main arrears as well as the whole interest arrears residue and or fine and pay the next installment regularly every month.

(3)The debtor has never been given a dispensation / lowering of interest arrears and or fine previously

(4)The official document made for debtor that has not paid off the loan, debtor that receive lowering of interest arrears and or fine has to make a statement not to be in arrears any more with an consequence if he/she is in arrears, bank can do an auction on the credit collateral.

4) Debtor's Asses Expropriation (set off)

Set off is a credit conversion (productive asset) to be expropriated collateral asset or other assets.

a. Goal

To maintain the existence of utilization or debtor's asset operation optimally to settle debtor's obligation to bank.

- (1) To prevent an embezzlement and or asset abuse.
- (2) To maintain the completeness or the wholeness of the use and rate of debtor's asset as the source of credit settlement.

b. Criteria

- (1) The debtor is cooperative
- (2) Debtor's ability no longer present but the collateral rate is still able to pay off the whole credit obligation

5) The lowering of credit interest rate

Lowering of credit rate is the enforcement of credit interest rate under the applied interest rate.

a. Criteria

(1) The debtor is cooperative and obviously has good determination to fulfill the obligation to ban but the debtor still has not had the proper ability in fulfilling the obligation fits in the applied interest rate.

(2) The debtor has good track record / credit performance.

b. Condition

(1) Debtor proposes for written credit restructuring.

(2) Recommendation from branch office which is completed with supporting data has to be presented.

6) Reduction of credit main arrears

Reduction of credit main arrears is a dispensation given by bank to the debtor to pay the credit main arrears which should be paid off.

a. Goal

The debtor is able to fulfill the obligation to bank regularly and on time in accordance to credit agreement.

b. Policy

- (1) The reduction of credit main arrears is only given if the debtor pays off the remaining whole credit main arrears and still pays the installment regularly on the credit residue.
- (2) The reduction of credit main arrears is only given by the bank after obtaining an agreement from the owner (share holder)

e) Credit Settlement Pattern

BTN policy in effort to settle the credit installment arrears is:

1. Effort or action outside (not through) legal institution is:**a. Novation (subjective debtor expropriation)**

It means shifting the debt and or obligation (with the asset) either partly and or wholly to other parties with an agreement letter. The goal of novation is to replace the debtor who has good capability and credibility, and to make the debtor's business better and healthy.

b. Transposition of the creditor

It means the replacement of bank rights by the third parties based on the notary document, since the third parties pay off the debtor's debt to bank. The goal is to shift the creditor's assignment to third parties with cash compensation.

c. Credit guarantee sale

Credit guarantee sale is an agreement between bank and debtor to sell part and or entire guarantee to third party as paying off part and or entire credit. The goal is so creditor is able to get whole paying off and or part of debtor obligation with cash payment from the debtor guarantee sale, creditor gets off of debtor's demand, creditor receives fresh money, and the credit collectability gets better.

2. Efforts or law actions in side (through) Legal Institution, which is transferring the debt or loan of a debtor to be state debt.

In article 8 Law Number 49 year 1960 on State Debts and Claims Committee stated that

State Debts or debts to State or agencies which either are either directly authorized by State (whose wealth and financial capital are partly or entirely public ownership, for instance State Banks) based on agreement anything. Thus, it is known that not all banks have bad credit problem which has to be transferred to PUPN (BUPLN), only bad credit by Government-Owned Banks which has to be transferred to BUPLN.

Credit rescue efforts are conducted by transferring to Kantor Pelayanan Pengurusan Piutang dan Lelang Negara (KP3LN)

which is a BUPLN office if arrears balance, including interest, fine, and other responsibility such as insurance, are immanence until transferring and or the debtor's debt balance which according to credit agreement has been stated stuck.

After it is transferred to KP3LN, the development authority and or debt collection is through summons, force letter, and confiscation letter. If the efforts through those letters succeed, the development result and the collection on installment payment by debtor will be deposited to BTN with 10% cost which is in care of the concerned person. If the development is done and the collection by BUPLN on debtor's debt has not been solved, BUPL will do a sale through an auction on the credit collateral. The money of auction will be deposited by BUPLN to BTN with a cut 10% for administration cost with note:

- a. If the auction outcome exceeds the remaining debt, the remaining of auction outcome after cut down for debt payment and administration cost will be returned to the debtor.
- b. If the auction outcome is less than the remaining debt, the debtor is still considered in debt which will be collected up to the debtor's personal belongings if according to assessment and investigation by BUPLN still has belongings and or capability.

- c. If according to assessment and investigation by BUPLN is stated not capable anymore, KP3LN will release Statement of Accounts Can not Be Charged. According to that letter, BTN will completely remove the debtor's remaining debt.
- d. Investigation effort of loss reserve. It intends to minimize the bank loss due to the uncollected debt and the removal of debtor's remaining debt other than by insurance protection.

D. Data Analysis and Interpretation

1. Organization Structure Analysis

From the observation result of organization structure of BTN Malang Branch, there is a task distribution that is clearly seen due to the organization structure in form of line and staff. However, there was found some weaknesses of this procedures in credit distribution, especially in Loan Service and Loan Recovery department in BTN Branch Malang, but in BTN Sub-branch Sawojajar Malang doesn't have weaknesses

a. *Assistant Manager Teller Service and Customer Service*

The Assistant Manager Teller Service and Assistant Customer Service organization structure have matched with each task separation so good control was created and it could minimize the existing risk.

b. *Loan Service (LS)*

LS has more important role in task and authority distribution in credit distribution procedures in BTN Sub-branch Sawojajar. LS

operationalizes the process of credit distribution more, from proposing the loan appraisal until the credit is disbursed since LS acts as Credit Analysis. Moreover, LS also has some weaknesses in credit distribution system and procedure, such as:

- 1) The absence of bill of evidence received by customer after filing the application letter to LS.
- 2) The PK is not read completely, so the debtor does not understand enough about what should be his/her rights and obligations.

Having looked at the weaknesses in LS department, then it is advisable to:

In the system and procedure of credit distribution, LS operationalizes the activity only until the data analysis. Thus, it creates the performance efficiency and avoids collusion and fraudulence done as well as to guarantee the presence of good internal control with the function distribution and responsibility.

c. *Loan Recovery (LR)*

The weakness of task in LR in BTN Branch Malang is during the credit monitoring, LR is not accompanied by LS, LS will be brought to account if the debtor is proved to be problematic. It is advisable that in the credit monitoring LR is accompanied by LS since LS know more

about debtor's character, so LS is able to offer the proper solution before problematic credit happened.

For the organizational structure on PT Bank Tabungan Negara Sub-branch Sawojajar Malang, all were under the responsibility of the Branch Manager at the bank, but any activity that is carried out in accordance with the command of a BTN Branch Office in Malang.

2. The Analysis of Credit Distribution System and Procedure

The analysis of credit distribution system and procedure in BTN Sub-branch Sawojajar Malang, is as follow:

a. Competent and reliable personal

1) During credit appraisal process

At the time of the initial of processing credit application officers of BTN Sub-branch Sawojajar Malang have a good knowledge about credit so that debtors obtain information about credit with clear and complete. That information includes credit facilities, procedures and policies credit that suit the needs of the applicant, and policies and procedures credit that must be traversed by the debtor. This has been in accordance with the internal control is good because the employees have a good knowledge about credit.

2) During credit analysis process

During the credit analysis process, it was handled by Loan Service (LS). In this analysis process, LS have staff that is good, honest,

objective, and they have good knowledge and skill. It is because LS have taken training and education before being promoted. LS also have credit analysis skill. In the credit analysis process, it was done by LS in accordance with the procedure determined by Bank Tabungan Negara. In the credit analysis process, it was done by LS in accordance with the procedure determined by Bank Tabungan Negara. The result of the credit analysis will be submitted to LA located in Branch Office. LA would recommend the structures, types, and terms of credit for later submitted to the Chairman of the branch in the credit Committee meetings. The decision from this credit recommendation is in the hand of branch head. It has met good internal control since PT. Bank Tabungan Negara Malang Branch has competent personal in the process of credit analysis.

3) During the process of loan disbursement

During the process of credits disbursement BTN sub-branch Sawojajar Malang is done by Loan Service that already has a binding juridical knowledge and mastery of credit guarantees. This has been in accordance with the internal control which is good because the PT Bank Tabungan Negara Malang Branch already has competent personnel in the process of credits disbursement.

4) During monitoring process

Supervision process is conducted by Loan Service (LS) of BTN Sawojajar Malang Sub-Branch and Loan Recovery (LR) of BTN Malang Branch. LS monitors the debtor from application until the first year, while LR monitors the debtor from the second year until it falls due without being accompanied by LS. If the customer is late during payment period, LS or LR will contact the customer and offer a solution, if the customer has a hard time in credit payment. In this monitoring process, Bank Tabungan Negara Sawojajar Malang Branch and Sub-Branch has matched with good internal control.

b. Proper Task Separation

1) During Credit Appraisal Process

Separation of responsibilities carried out since the beginning of the credit application process in addition is done by LS to analyze credit also performed the review to the location (on the spot) by the LA located at branch offices. After making taxation or on the spot report, LA gives the taxation section to the LS. With the separation of responsibilities, where the process of analysis of the debtor is not done by one division alone so as to prevent the occurrence of abuse of authority committed by employees of PT Bank Tabungan Negara Sub-branch of Malang when the initial process data processing and customer documents. This is also intended to avoid the misapplication on authority deviation by the staff of PT. Bank Tabungan Negara

Branch Malang, which indicates that the internal control has been performed well.



2) During credit analysis process

At the time the credit analysis process, internal control can already well because there is already a separation of duties. This is indicated by the data of debtors who has been on the analysis by the LS to a branch office for credit recommendations made by LA, which was made on the basis of initial analysis done by the LS and the data as well as the examination and appraisal of collateral was done LA. Then LA recommend to the branch manager, before giving a decision on debtor's credit, branch manager will review the recommendations made by LA both in terms of accuracy, validity, fairness and completeness of data about the condition of the customer information, after that branch manager will provide a credit decision on the debtor's credit.

3) During Loan Disbursement Process

At the time of credit disbursement was not done by LA located in branch office Malang but rather done by LS in Sub-branch Office Sawojajar Malang. In this case the internal control in the process of credit disbursement on PT. Bank Tabungan Negara Sub-branch Sawojajar Malang less well because it is still happening overlapping activities that done by LS.

4) During Monitoring Process

During monitoring process, there are 2 parts related which are LS and LR as the parties who monitor the customer. If the customer is not able to pay on time, LS will give a warning by calling and sending warning letter to the customer. For the debtor who is in arrears for more than 1 year, the credit monitoring is no longer conducted by LS but LR. BM (Branch Manager) always get information about the debtor who is in arrears or problematic from LS and LR. This process of monitoring and paying off is not only done by only one parties or division, which has met good internal control.

c. Appropriate authorization procedure

c. During Credit Appraisal Process

During credit appraisal process, the parties who have authority are LS and LA. Assessed or guarantee checking process and BI checking are conducted by LA, not LS, then LA makes a report to LS for Usulan Permohonan (UP) proposal. This is intended to avoid deviation and has met good internal control.

d. During Credit Analysis Process

Credit management control at PT. Bank Tabungan Negara Sawojajar Malang Sub-Branch during credit analysis process viewed from the authorization procedure has worked well by the authorization done by Loan Service (LS) during credit analysis. LA makes a customer visit

report, then LS analyzes the credit based on the completeness of the data and information filed by debtor in the applicant list form, data and information of the result of interview between creditor and prospective debtor, as well as the result of on the spot survey. The result of credit analysis will be rechecked by head of branch, the authorized parties who does authorization of decision on the credit applied by customer.

e. During Credit Withdrawal Process

The authorized party of credit withdrawal is the head of branch, and in the performance is assisted by LS who coordinates with Teller. So the credit withdrawals have to through LS and the head of branch.

f. During Monitoring Process

During the process of controlling that have the right to authorize is the LS in Sub-branch Office Sawojajar Malang and LR branch offices in Malang. This indicates that the applied credit management control has been performed well because the authorization procedure has been conducted by the staff of BTN in accordance to the task and responsibility based on a book on the guidelines of credit that has been endorsed by the board of directors the bank.

d. Sufficient Document and Record

1) During Credit Appraisal Process

Internal control is performed at PT. Bank Tabungan Negara, Sub-branch Sawojajar Malang against the credit documents and transaction records have been recorded in the forms. The forms that used on the credit application process on PT Bank Tabungan Negara is designed with simple, easily understood and the listed of required data. However, many debtors who has yet to fill out the form-completed that which would later complicate the officer at the time will do a credit analysis. and then the application file is complete and neatly stored in accordance with the order of the received file so as to facilitate internal control for checking the data.

2) During Credit Analysis Process

During of the credit analysis process, LS uses data which is already assured of the accuracy, correctness, and completeness. Such Data include the results of customer visit reports or surveys conducted by LA, interviews as well as data and information that has been submitted by the customer. Internal control conducted by PT Bank Tabungan Negara Sub-branch Sawojajar Malang on the credit analysis of documents and records has supported of a good internal control.

3) During Credit Disbursement Processes

Internal control on the document when the processes of credit disbursement have been running well. Before the realization of credit, has prepared the completeness's of the credit agreement that has been adapted to the recommendations of credit, and completeness of credit guarantees. Debtors can be doing credit disbursement after approving and signing SP3K, SPD 5, and SKMHT/APHT, as well as the Credit Agreement (PK) created by LS. Then examined and decided upon by Branch Manager.

4) During Monitoring

During of the credit monitoring or controlling credit on PT Bank Tabungan Negara Sub-branch Sawojajar Malang has been accordance with the good of internal control, because the debtor's files already stored in a file cabinet is pretty neat. This makes it easy by LS to find the file if there is a problem, and also track it through the system a List of Delinquent Debtors (DRDM).

e. Physical Control Of Activa And Recorded

1) During Credit Appraisal Process

Internal control during of credit application is already well, because examination conducted by the LS is comprehensive, i.e. LA survey to the location of the customer business areas or locations that serve as

collateral. Direct inspection (On The Spot) aims to find out the debtor's place of work and the collateral that guaranteed is in fact.

2) During Credit Analysis Process

LS has conducted assessment of creditworthiness based on result of direct inspection (On The Spot) that is listed in the report of the Results of Debtor Visits, Prescreening and Scoring. So that the internal control that carried out has been going well.

3) During Credit Withdrawal Process

Internal control that occurs at during of credit withdrawals have supported good internal control. This is evidenced by LS gives the amount of credits to the debtor in accordance with debtors ' financial needs and pay attention to the stock and accounts receivable the debtor. Loan document also saving the documents belonging to the debtors which is deposited or guaranteed in a safe place.

4) During Monitoring Process

At the time of credit supervision of BTN Malang Branch does not doing direct inspection (On The Spot), because it is done directly by the Branch Office Malang and conducted when the debtor is late in paying of installment credits and there are indications that a debtor's included in the category of substandard credits, Doubtful and Loss. It is showed that internal controll does not yet support.

f. Independent performance checking

Inspection work on PT Bank Tabungan Negara, was carried out by Bank Indonesia, the Audit Board (*Badan Pemeriksa Keuangan* or BPK) and the Independent Auditor. Inspection is also done by the bank that is to send financial statements of BTN Sub-branch Sawojajar Malang to Branch Office Malang then this bank sends the report to the headquarters in every year once and examination conducted by the Supervisor of Loan Service conducted routinely in every 2 or 3 months. In addition, regularly held a unannounced inspections. With the unannounced inspections, expected the employees on each department can do their job properly in accordance with his responsibilities and if at any time there are inspection, the employees is ready.

CHAPTER V

CONCLUSION AND RECOMENDATIONS

Based on the results of research conducted, researchers conclude the implementation of the system and procedure of granting credit to PT. Bank Tabungan Negara Sub-branch Sawojajar Malang. The conclusion of the next writer will provide suggestions for the purpose can be useful in the implementation of the granting of credit on a PT. Bank Tabungan Negara Sub-branch Sawojajar Malang.

A. Conclusion

Procedures for housing credit allocation to PT. Bank Tabungan Negara Sub-Branch Sawojajar Malang has been good because it has met the elements of internal control, even so at PT. Bank Tabungan Negara Sub-Branch Sawojajar Malang still found problematic. This is because there is still some weakness in its implementation that is:

1. In the process of implementation of the system and procedure of granting credit on a BTN Sub-branch Sawojajar Malang LS more dominant authority i.e. LS more operationalize the process of granting credit. Start checking the completeness of the data credits prospective debtor until the realization it is not in accordance with the credit control which has been said by Tawaf (1997, 270), in which a function cannot be given full responsibility to carry out all the stages of a transaction.

2. In the process of checking the form data when applying for credit officers less thorough, so many data of debtor is less or data has not yet completed. This can complicate the officers in analyzing data of debtors who can also cause the onset of bad debt.
3. In the credit control process, the delegation of tasks that lead to confusion regarding the liability of loan officers.

B. Suggestion

Some of the advice given by investigators in connection with the implementation of the provision of credit in the PT. Bank Tabungan Negara (Persero), Tbk, Sub-branch Sawojajar Malang:

1. In order for the process of housing loan allocation easier the officers should first check the data that has been filled by the relevant debtor before leaving the place, so if there is less data asked directly.
2. Need the division of tasks and responsibilities which are elements of good internal control, where it will minimize the occurrence of fraud and self-dealing that can cause credit crunch. So the authors suggest LS parts operationalize activities completeness checks up to the interview.
3. Preferably in a credit monitoring than or more than one that has been delegated to the Loan Recovery (LR) accompanied by Loan

Service (LS) because LS is better know about the character of the debtor and the LS is responsible because LS is credit analysis.

4. The need for good cooperation and continuous with the developer it relates to the interests of the debtor that also affect the credit given by the PT. Bank Tabungan Negara Sub-branch Sawojajar Malang. This co-operation should not cease until the realization of loans, but also carried out continuously until the loan is paid off, and the necessary oversight of developers to seriously against the construction of housing projects that affect the willingness of the debtor to pay the loan installments.

Thus the conclusion and suggestions that may the author convey as the advice for Bank. With the hope that can provide benefits for PT. Bank Tabungan Negara Sub-branch Sawojajar Malang.