East African Scholars Journal of Education, Humanities and Literature

Abbreviated Key Title: East African Scholars J Edu Humanit Lit
ISSN: 2617-443X (Print) & ISSN: 2617-7250 (Online)
Published By East African Scholars Publisher, Kenya

OPEN ACCESS

Volume-7 | Issue-8 | Aug- 2024 |

DOI: https://doi.org/10.36349/easjehl.2024.v07i08.001

Original Research Article

Implementation of Loan to Value Easing Policy and Efforts to Overcome Problem Property Credit

Achmad Lutfi[1*], Ali Imron[1], Diah Ayu[1]

[1]University of Merdeka Malang

Article History
Received: 01.07.2024
Accepted: 10.08.2024
Published: 13.08.2024

Journal homepage:
https://www.easpublisher.com

Quick Response Code

Abstract: The function of national banking is not only as a forum for collecting and distributing public funds or as an intermediary for savers and borrowers (investors) but also to improve people's living standards; one of these efforts is to provide various types of Credit, one of which is property credit. One of Bank Indonesia's efforts is to provide relief by increasing the loan to value (LTV) ratio for the lower middle class. Based on this background, this article examines and analyzes the considerations for issuing macroprudential policies regarding loan to value relaxation on property loans and the efforts banks should make to handle problem loans. This type of research is empirical legal research because it examines the considerations for issuing macroprudential policies regarding loan to value relaxation on property loans and the efforts banks should make to handle problem loans. PT. State Savings Bank (Persero) Tbk. Applying a maximum limit differs from Bank Indonesia Regulations because banking upholds the principle of prudence.

Keywords: Loan to Value, Policy, Property Credit.

1. INTRODUCTION

In Indonesia, banking practices have spread to remote rural areas. Financial institutions in the form of banks in Indonesia are Commercial Banks, Rural Banks, Sharia Commercial Banks, and also Sharia Rural Banks (Akbar, 2024). Bank Indonesia, as the Central Bank of Indonesia, transferred its authority to the financial services authority. The Financial Services Authority is a regulatory and supervisory institution that monitors the health of banks in Indonesia (Azfatya & Bahiyyah, 2024). The function of national banking is not only as a forum for collecting and distributing public funds or as an intermediary for savers and borrowers (investors) but also to improve people's living standards; one of these efforts is to provide various types of Credit, one of which is property credit (Budiman *et al*., 2024).

One of Bank Indonesia's efforts is to provide relief by increasing the loan to value ratio for the lower middle class. Loan To value is the ratio between the value of Credit or financing a bank can provide and the value of collateral in the form of property when granting Credit (Fadhilah *et al*., 2024). Loan to Value (LTV) was implemented to regulate the very aggressive rate of national credit growth. On the other hand, Bank Indonesia is aware that the relief provided can also potentially increase credit risk exposure. With the expansion of the LTV policy relaxation, the Central Bank will not only relax down payments for Home Ownership Loans by region (Spatial LTV) (Faniyah & A, 2024). The LTV policy currently being implemented is a manifestation of Bank Indonesia's macroprudential policy in maintaining financial stability in Indonesia, one of which is by setting a Loan to Value (LTV) ratio for property loans specifically for banks whose NPL (Non *et al*.,) is below 5%—leniency in applying the LTV ratio to 100% so that the bank gives the Credit.

The bank provides customers with a down payment of 0%, but all of this must continue to prioritize and adhere to the principle of prudence and implement risk management (Lestari *et al*., 2024). Implementing this new LTV is a response to public complaints regarding the sizeable down payment that must be prepared and the sluggish credit distribution to the public. Plus, house prices are increasingly expensive and challenging for people to afford. This opinion is the basis for how the down payment must be prepared, which is large enough to trigger high non-performing loans for non-performing loans to increase (Maskanah *et al*., 2024). Based on this background, this research examines and analyzes the considerations for issuing macroprudential policies regarding loan to value relaxation on property loans and banks' efforts to deal with problem loans.

***Corresponding Author:** Achmad Lutfi
University of Merdeka Malang

2. METHODOLOGY

Types of research This is empirical legal research because it examines the considerations for issuing macroprudential policies regarding loan to value relaxation on property loans and the efforts banks should make to handle problem loans.

3. RESULTS AND DISCUSSION

In Indonesia, the term macroprudential has been used implicitly since the early 2000s as a response to the 1997/1998 financial crisis, which was marked by the preparation of the Indonesian financial system stability framework and the establishment of the Financial System Stability Bureau (BSSK) at Bank Indonesia. Based on this framework, Bank Indonesia seeks to maintain the stability of the Indonesian financial system through two approaches, namely macroprudential and macroprudential (BI, 2007) (Megawati *et al*., 2024). Since the beginning of 2000, Bank Indonesia has paid attention to macroprudential aspects in maintaining financial system stability. The role of Bank Indonesia in the macroprudential sector is stated in Law (UU) of the Republic of Indonesia no. 21 of 2011 dated 22 November 2011 concerning the Financial Services Authority (OJK), in line with the transfer of the function of bank regulation and supervision (macroprudential) to the Financial Services Authority (OJK). Since 2003 (Onggianto & Soemartono, 2024).

In simple terms, macroprudential policy is the application of the principle of prudence to the financial system in order to maintain a balance between macroeconomic and microeconomic objectives (Pratiwi *et al*., 2024). Maintaining financial system stability is a shared goal between several authorities. In this case, there is more than 1 (one) authority that has an interest in achieving financial system stability (Sihite *et al*., 2024). What is different is the authority of each authority in trying to achieve these goals, such as the central bank through its monetary, macroprudential and payment system authority; the government through fiscal authority; and the financial services industry supervisory authority through macroprudential authority (Suryati *et al*., 2024).

The macroprudential policy itself is established and implemented to help maintain financial system stability through efforts to encourage balanced, quality and sustainable intermediation; mitigating and managing systemic risks; and encouraging economic and financial inclusion and sustainable finance. Implementing macroprudential policy is countercyclical to the financial cycle (Uyun *et al*., 2024). Macroprudential policies are determined and applied to banks that carry out business activities conventionally or based on Sharia principles, taking into account assessments of the financial system as a whole and its relationship to economic conditions (Wulandari, 2024). Therefore, in the framework of a credible macroprudential policy decision-making process, surveillance of financial system elements is required, which includes the banking system, non-bank financial industry, non-financial corporations, households, financial markets and financial market infrastructure.

As the financial system continues to develop, Bank Indonesia continues to develop macroprudential policy instruments as part of Bank Indonesia's policy mix, along with monetary policy and the payment system. In addition, in line with developments in financial behavior trends and the attention of players in the financial sector, Bank Indonesia also continues to strengthen innovation and synergy of macroprudential policies in digital aspects, financial inclusion and environmentally sound policies (green central banking / green-financing) (Kumala & Padmavati, 2024). Bank Indonesia carries out macroprudential supervision through surveillance of the financial system and examination of banks and other parties to ensure the implementation of macroprudential policies.

Surveillance starts from monitoring developments in financial system conditions to identifying, analyzing and assessing risks. Bank Indonesia Regulation (PBI) No. 16/11/PBI/2014, dated 1 July 2014, concerning Macroprudential Regulation and Supervision, guides that financial system stability is a condition that allows the national financial system to function effectively and efficiently and can withstand internal and external vulnerabilities. So that the allocation of funding or financing sources can contribute to the growth and stability of the national economy; meanwhile, the financial system is defined as consisting of financial institutions, financial markets, financial infrastructure, and non-financial companies and households that interact with each other in funding and providing economic financing.

Microprudential policies that focus on the level of soundness of individual financial institutions place more emphasis on cross-section dimensions, namely how risks are amplified in 1 () a certain period. Meanwhile, macroprudential policy is system-oriented and aims to look at the financial system as a whole through a top-down approach. With a top-down approach (from top to bottom), the policies that will be taken are based on the results of a comprehensive analysis of macroeconomic conditions and their impact on all risks in the financial system, including the correlation between systemic risk, market dynamics and the policy choices that will be made.

The selection of a central bank as a macroprudential authority is based on several fundamental factors related to the specific position and capacity possessed by the Central Bank that other institutions do not possess. These things are: 1) Central Bank as Lender of the Last Resort (LoLR), 2) Central Bank as monetary authority, 3) Central Bank as payment system authority, 4) Central Bank as macroprudential authority has capacity in the form of knowledge and institutional expertise (institutional knowledge and expertise) in conducting comprehensive financial system risk assessments. 5) The Central Bank is an institution that can formulate a comprehensive policy mix. 6) The Central Bank has a network with other central banks and international institutions to maintain the stability of the regional financial system.

To be able to exercise authority in the macroprudential field effectively, both in conducting assessments and formulating policies to limit systemic risk, several authorities need to be possessed by the macroprudential authority, namely the authority to carry out regulations, authority to carry out supervision (off-site); authority to carry out inspections to detect behavioral patterns of financial agents, including in order to ensure compliance with stipulated provisions; authority to request information both routinely and non-routinely; as well as permits for certain activities that fall within the scope of that authority.

The government is severe in carrying out the function of developing and strengthening the financial sector. It continues to monitor the intermediation (balanced) function seriously within financial service agencies or institutions. Before Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector, Bank Indonesia Regulation Number 23/2/PBI/2021 concerning the Third Amendment to Bank Indonesia Regulation Number 20/8/PBI/2018 concerning Loan to Value Ratios for Credit was issued. Property, Financing to Value Ratio for Property Financing, and Down Payments for Credit or Motor Vehicle Financing. The Loan Value Ratio, from now on referred to as the LTV Ratio, is the ratio between the value of the Credit that can be granted by the bank and the value of collateral in the form of property at the time of granting the Credit based on the results of the latest appraisal.

The Loan to Value (LTV) Limitation aims to maintain the financial system's stability, especially in property credit, because the increase in demand for property and the very high increase in property prices is one of the risks that need to be considered. Bank Indonesia provisions provide obstacles to using Ownership Credit facilities Home (KPR) for large type houses and parties with more than one KPR facility.

Regarding the provisions on the Loan to Value amount, before this regulation regarding LTV was implemented, customers who took out or applied for Home Ownership Credit had to make a larger down payment or Down Payment to purchase a smaller house. This LTV maintains financial stability, especially in property loans, where prices always rise, and property demand is high. The LTV ratio for Property Loans and the FTV Ratio for Property Financing Facilities is a maximum of 100% (one hundred percent).

In conclusion, the Determination of the Value Ratio by Bank Indonesia is based on Certain Economic Conditions. The provisions mentioned above mean that if a customer applies for property credit to a bank with an NPL (non-performing loan) ratio below 5% (five percent), then the customer can get the highest maximum Credit by Article 7 paragraph (1) of Bank Indonesia Regulation Number 23/2/PBI/2021, namely 100% (one hundred percent) while still prioritizing the principles of prudence and risk management. Periodically, loans to value in Indonesia always experience changes based on phenomena that are developing in society. As is the case every year, Loan to Value always increases.

However, this must still prioritize the principles of prudence and risk management from the banking sector. The principle of prudence and risk management applied by the bank sometimes clashes with the community's interests. For example, a prospective customer does not yet have a house, but his salary is still below the calculation for a home property loan application. Prospective customers still need to get a house; according to the bank's analysis, the prospective customer can get Credit but is hampered by the size of the DP (down payment), even though it is only 5%.

This phenomenon occurs in society, making it difficult for people to own their first home because the principles of prudence and risk management implemented by banks are rigorous. Apart from that, there are other factors to be taken into consideration, namely the characteristics of the property sector, which have quite a significant multiplier effect on the national economy while still paying attention to the precautionary principle and aspects of consumer protection.

Bank Indonesia provides relief by increasing the Loan to Value (LTV) ratio for property loans to the lower middle class. Loan To value is the ratio between the value of Credit or financing a bank can provide and the value of collateral in the form of property when granting Credit. LTV was implemented to regulate the very aggressive rate of national credit growth. On the other hand, Bank Indonesia is aware that the relief provided also has the potential to increase credit risk exposure by expanding the relaxation of the LTV policy, so the Central Bank is not only relaxing mortgage down payments based on region (Spatial LTV). Therefore, as a preventive measure so that the relaxation of the LTV ratio does not increase the potential risk of banking credit, implementing the relaxation of the LTV ratio is also linked to fulfilling the non-performing loan ratio. The relaxation of the LTV ratio carried out by Bank Indonesia as one of Bank Indonesia's tasks to maintain the stability of the financial system in Indonesia has been implemented by Bank Tabungan Negara as a state-owned business entity. Bank Tabungan Negara itself, in implementing the LTV easing provisions provided by Bank Indonesia, continues to uphold the principles of prudence and risk management to prevent non-performing loans from occurring.

Provisions for the amount of LTV for property credit facilities if the bank meets the requirements, namely NPL or non-performing loans below 5%, the maximum is according to the Circular of the Directors of PT. State Savings Bank (Persero) Tbk. Number 52/NSLD/2017 of 2017 is for the first credit facility 70% (Seventy percent), for the second credit facility 65% (Sixty Five Percent), and for the third credit facility 60% (Sixty Percent). This is a difference between Indonesian Bank regulations and circulars made by the directors of the State Savings Bank itself because the State Savings Bank continues to maintain and uphold the principles of prudence and risk management.

If the bank meets the requirements, the provisions for the amount of LTV for home credit facilities are the first regarding determining identification. Problem identification and strategy analysis are needed to determine the appropriate steps to find out whether problematic Credit will be resolved with a relationship termination strategy if the debtor's condition can no longer be expected or a relationship continuation strategy if the debtor's condition can still be improved, or coordination with agencies to resolve the Credit. This identification includes completeness of documents, the relationship with the debtor, and analysis and evaluation of the relationship's history with the debtor to determine the financial and non-financial advantages and disadvantages of the State Savings Bank during the relationship. Information and investigations are included to determine the current situation/condition of the debtor obtained from business relationships and conditions, as well as verification of collateral.

The second LTV amount provision determines the position of the state savings bank. Based on the analysis and evaluation of these three steps, the position of the State Savings Bank towards debtors is determined, and alternative resolution strategies for problem loans are then determined. Third, follow-up plan (RTL). Follow-up plans that can be carried out to rescue and resolve problem loans consist of rescuing problem loans, which can be done by rescheduling, namely changing credit terms that only concern the payment schedule and period, reconditions, or changing some or all of the terms. Credit is not limited to changes in payment schedules, periods and other requirements as long as they do not involve the maximum credit balance, restructuring, namely changes to credit terms including additional good funds, and conversion of all or part of interest arrears into new credit principal.

Rescheduling, reconditioning and restructuring (3R) rescue efforts can be carried out if they still meet the criteria, such as the debtor showing good faith to cooperate (cooperative) with the rescue efforts that will be carried out, the debtor's business is still running and has good prospects, the debtor is still capable of paying scheduled obligations, be able to pay current interest. The bank's position will be better.

Then, solving problem loans can be done in two ways, namely, Peaceful settlement of Problem Loans, which can be carried out if rescue efforts using the 3Rs are no longer possible. Efforts to resolve Problem Loans peacefully are as follows: Providing interest/satisfactory relief for Credit whose collectability is in doubt and is in trouble with payment in one go or in installments. Second, the sale of part of the collateral or all of the collateral by the debtor. Peaceful credit rescue by selling collateral privately is carried out in the following way: Debtors are allowed to offer/sell their own collateral, and the State Savings Bank helps offer/find a buyer to buy/find a self-arranged buyer.

Settlement of problem loans through legal channels. If rescue/peaceful settlement efforts have been made to the maximum and have not produced results or the debtor has not shown good faith in resolving his Credit, the settlement is taken through legal channels. Settlement through legal channels must be based on the belief that the position of the State Savings Bank from a juridical perspective is strong and light litigation costs. Settlement through legal channels can be achieved as follows: Loan settlement through the District Court is taken if it is believed to be more efficient, and can be done by using one of the following alternatives: Summons / Warnings Subpoenas are submitted to the Chairman of the District Court through the Registrar of the District Court. If the summons does not produce the expected results, it will be continued by suing the debtor and his guarantor through a lawsuit process. Furthermore, Parate Executive (execution with one's authority without a judge's decision) on collateral items that have been entirely and indeed bound.

Regarding resolving problem loans through the Handover of Bad Credit Management to the Receivables and Auctions Agency / State Receivables Affairs Committee. The settlement mentioned above is a mechanism for resolving guarantees or collateral for problem loans carried out by the bank and submitted to the auction center through the Hall of Receivables and Auctions for an auction to resolve the bad Credit. The auction results are used to settle the bank term. This is known as writing off bad debts, an action in managing bank assets that affects the profit/loss calculation and capital structure. Juridically, this action is not a credit repayment, so bad loans that have been written off remain as bank bills. Economically, Credit written off will be a good thing for the bank because collateral can still be sold/auctioned. It does not rule out the possibility that the debtor has other financial sources that can be expected to pay its obligations.

4. CONCLUSIONS

From the description above, the factors considered by Bank Indonesia in determining the loan to value relaxation in property credit distribution are to encourage the functioning of a balanced and quality banking intermediation function in supporting national economic growth while maintaining financial system stability. Another factor to be considered is the property sector's characteristics, which have a significant multiplier effect on the national economy while still paying attention to the precautionary principle and aspects of consumer protection. Applying article 8 of Bank Indonesia regulation number 23/2/PBI/2021 concerning the value ratio to non-performing loans on property loans, the State Savings Bank provides an LTV ratio according to existing regulations.

According to the Circular of the Directors of PT. State Savings Bank (Persero) Tbk. Number 52/NSLD/2017 of 2017 is for the first credit facility 85% (Eighty Five Percent) and for the second credit facility 80%. PT. State Savings Bank (Persero) Tbk. Applying a maximum limit differs from Bank Indonesia Regulations because banking upholds the principle of prudence. According to the State Savings Bank, the maximum limit for calculating the LTV ratio for property loans as applied in Bank Indonesia Regulations is still very large, so the State Savings Bank is still reviewing it. In the end, the State Savings Bank sets a maximum limit on the LTV ratio based on Bank Indonesia Regulations, and Currently, Bank Tabungan Negara is quite successful in distributing Home Ownership Credit products to the community and can reduce problem loans or non-performing loans in the community.

The state savings bank's efforts to overcome bad Credit, which will affect the bank's non-performing loans, include determining identification, determining the bank's credit position, and action plans, including rescuing problem loans by rescheduling, reconditioning and restructuring. The final effort to resolve the problem of loans is carried out peacefully and through legal channels.

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Cite This Article: Achmad Lutfi, Ali Imron, Diah Ayu (2024). Implementation of Loan to Value Easing Policy and Efforts to Overcome Problem Property Credit. *East African Scholars J Edu Humanit Lit, 7*(8), 234-239.