

**ANALYSIS ON THE CAUSES OF NONPERFORMING LOAN AT BANK XYZ MANADO**

by:  
**Stenly C. Saliem**

Faculty of Economics and Business  
International Business Administration (IBA) Program  
University of Sam Ratulangi Manado  
email: [le\\_stenly@yahoo.com](mailto:le_stenly@yahoo.com)

**ABSTRACT**

Bank works to bridge both people who have excess funds with the people who need funds. In practice not all of the funds raised from the public may be channeled properly to the public and usually have problems in terms of loan repayments to the bank and almost all banks in Indonesia experiencing nonperforming loan. This study is to know the factors that cause nonperforming loan at Bank XYZ Manado using qualitative method. The samples of respondent are 6 peoples who are the credit analyst at Bank XYZ main office. The result shows that there are 3 factors that cause nonperforming loan which are bank factors, debtor factor and external factors. The problem from bank factor is their incapability of human resources; the debtor factors are bad management and fraud; while for the external factors are disasters and government policy. The recommendation for company are to create a proper training program and improve the standard of credit analyst. To increase the awareness and motivate the credit analyst in granting a loan, bank can implement the reward and punishment system.

**Keywords:** *nonperforming loan, bank factors, debtor factors, external factors*

**INTRODUCTION****Research Background**

Economic activity of a country is related with the banking industry, where the banking industry plays a strategic and important role in the economic system. The main function of banks in Indonesia is a collector and distributor of public funds aimed for supporting the implementation of national development towards improving the welfare of the society. Bank works to bridge both communities who can help each other. People who have excess funds can store their money in savings, deposit or current account at the bank, while the people who need funds for working capital or other needs can obtain money through loan in the form of credit extended by the bank.

The biggest revenue of bank derived from bank interest, remuneration or sharing the business revenue. The bigger amount of outstanding loans means greater potential revenue. However, in practice not all of the funds raised from the public may be channeled properly in accordance with a predetermined benchmark lending to the public and usually have problems in terms of loan repayments to the bank and almost all banks in Indonesia is experiencing a nonperforming loan. Nonperforming loans adverse impact for the state, society, and the Indonesian banking. The greater the nonperforming loan faced by a bank will decrease the expected profitability of the bank. As a regional bank Bank XYZ takes the important role in order to develop the North Sulawesi region. Bank XYZ gives loans in order to develop North Sulawesi region in economic sectors, industries, and infrastructures. With the effort, Bank XYZ wants there will be work fields in North Sulawesi, and therefore enhance the overall well-being. In the hope of that, Bank XYZ also wants the loan can be productive and perform well.

It was found by Moti et al., (2012) that the success of lending out credit depends on the methodology applied to evaluate and to award the credit. Therefore, policies and procedures are needed in order to give credit to the debtors productively. Moti et al., (2012) explained microfinance institutions and other finance institutions must develop a credit policy to govern their credit management operations. Bank XYZ which is the Regional Bank XYZ must conduct the policies and procedures to give loans in the healthy and productive way, so Bank

XYZ can minimize the Non-performing Loan and the increase the healthiness of the bank itself and also can execute the obligation to all the customers. There are various policies that an organization should put in place to ensure that credit management is done effectively, one of these policy is a collection policy which is needed because all debtors do not pay their loan on time. Some debtors are slow payers while some are non-payers. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses (Moti et al., 2012). Based on the background, there is a need to analyze the loan procedures in Bank XYZ, and the researcher interested in doing the analysis on the causes of nonperforming loan at Bank XYZ Manado.

### **Research Objective**

There are two main objectives in this research, including:

1. To know the factors that cause nonperforming loan at Bank XYZ Manado.
2. To know the steps to minimize or prevent the nonperforming loan at Bank XYZ Manado.

## **THEORETICAL FRAMEWORK**

### **Loan**

Aballey (2009) define that a loan or credit facility refers to a contractual promise between two parties where one party, the creditor agrees to provide a sum of money to a debtor, who promises to return the said amount to the creditor either in one lump sum or in installments over a specified period of time. The agreement may include provision of additional payments of rental charges on the funds advanced to the borrower for the time the funds are in the hands of the debtor. The additional payments that are in the form of interest charges, processing fees, commissions, monitoring fees among others, are usually paid in addition to the principal amount lent. Indeed these additional payments when made in accordance with the loan contract constitute income to the lender or the creditor. A loan may therefore be considered as performing if payments of both principal and interest charges are up to date as agreed between the creditor and debtor

### **Loan Goals and Objective**

Taswan (2006:156) explained the goals that want to be achieved from loan are safe, directional and generate revenue. Safe in the meaning that bank would reinstate economic value that has been given, directional means loan usage should follow the loan planning who has been agreed, and generate revenue means the loan that has been given to the debtor must provide back a contribution for the banks, debtor's company and the general public. As for the objective of the loan are the following:

1. For bank, loan can be used for the bank in maintaining liquidity, solvency and profitability. Also may increased sales of other bank's products. Loan is expected to be the main source of income of the bank which is useful for the survival of the bank.
2. For debtor, the objective of loan by the bank can be used for business and also motivate the continuity of debtor's business enterprise.
3. For society (Country), loan by banks will be able to advance the economy and also increased economic activities in a county that would be able to absorb the labor force and in turn capable of prospering society. Besides that the credit can be used as a monetary instrument. Governments can influence the restriction or expansion of bank credit through monetary policy and banking.

### **Classification of Loan**

Manurung and Rahardja (2004:185) explained that banking system lending can be grouped or classified in several criteria;(1) time periods;(2) collateral availabilities;(3) functions;(4) utilizations;(5) non cash loan; (6) collectability.

#### **1. Time Period**

Based on time period, loan can be classified into three which are short term, medium term and long term loan. Short Term Loan is a loan that must be repaid within a year or less. Medium Term Loan is loan that must be repaid within a period of 1 to 3 years. Long Term Loan is loan that must be repaid within a period of 3 to 5 years, or even more

#### **2. Collateral Availabilities**

Based on collateral availabilities the classifications of loan are secured loan and unsecured loan. Secured loans are loans that are along with guarantees or collateral. The collateral is given by the debtor to the bank.

Forms of collateral may be tangible property land and buildings, vehicle, securities and some other form of property that can be accepted by the bank. Unsecured loan can be given to a person or a company with a few criteria. First, the debtor is very reliable, already known, and can be trusted by the bank. Second, because the debtor's business activity have a good prospect and also related with appraisal of the bank itself about the debtor reputation.

### 3. Functions

Based on functions, loan can be classified into three which are commercial loan, consumer loan and productive loan. Commercial loan is a loan given to corporations or organizations for the purpose of increasing the performance of the corporation itself. The debtors are usually using the loan for investment and also as capital. Consumer loan is a loan given for individuals (consumers) as their buying power to fulfill their needs and wants. Productive loan is loan given to debtor in order to support the production activity. Productive loan include buying resources and also wage payment.

### 4. Utilizations

Based on utilizations, loans are classified into two, which are working capital loan and investment loan. Working capital loan is given with commercial purpose, which is able to make a company doing their business activity, although the company's cash inflow is less than cash outflow. Investment loan is given to the debtor so it can be used to buy capital goods and services that will be needed in order to rehabilitation, modernization, expansion, relocation, and also reestablishment of new business.

### 5. Non Cash Loan

The classifications based on non cash loan are bank guaranty and letter of credit. Bank guaranty is guarantees provided in the form of a letter issued by a bank or non-bank institutions that lead to the financial obligation to pay to the guaranteed party if the guaranteed party does not fulfill its obligations. Letter of credit (L/C) is a letter given to the customers to facilitate the implementation of the transaction flows of goods, especially in international trade transactions.

### 6. Collectability

There are 5 types of loan based on the collectability. Liquid/Good credit (1) is a credit which the collectability is meeting no problem at all. The payment is working as it should be. Special mention credit (2) is a credit which the payment process is not working so well. It past one up to ninety days due to the given time. Substandard credit (3) is a credit which the payment process is past ninety up to one-hundred and eighty days due to the given time. Doubtful credit (4) is a credit which the payment process is past one-hundred and eighty up to two-hundred and seventy days due to the given time. Nonperforming loan (5) is a loan / credit which the payment process is past more than two-hundred and seventy days due to the given time.

## 5C's Analysis

To approve the loan appraisal of the potential debtors is needed. Most banks apply 5C's model to evaluate the debtors (Moti, et al., 2012).

1. Character basically is a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score used to estimate his credit worthiness. The character of the debtors will conduct its willingness to do the payment.
2. Capacity is basically debtors' strength to apply the credit in the corporate or manage the funds. That way, the strength can measure of how the debtor will do the payment.
3. Collateral is any asset which the debtor possesses to pledge against the debt. It is represent the alternative payment for the bank. Collateral is generally divided into personal and physical collateral. The examples of personal collaterals are suretyship, collateral promise, guarantee and letter of support. In the case of physical collateral, the bank receives a specific security interest in certain assets of the borrower or the collateral provider. And the examples of physical collateral are the following mortgage, pledge of movable assets (on securities, goods, bills of exchange), security assignment and retention of title
4. Capital is the money a borrower personally invested in the business and also an indication of how much the borrower has at risk should the business fail.
5. Condition refers to borrowers' external forces. Such as economic, social, or even political.



### **Nonperforming Loan**

Aballey (2009) define a loan that are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract are considered as non-performing loans. It follows that any loan facility that is not up to date in terms of payment of both principal and interest contrary to the terms of the loan agreement, is nonperforming.

### **The Factors of Nonperforming Loan**

Nonperforming loan can be caused by bank and or debtor mistake, but also it can be happened because other external factors. Bank and debtor mistake is happen because the error of internal companies itself (Manurung and Rahardja, 2004:198).

### **Bank Factors**

Bank factors that can cause nonperforming loan occurred mainly determined by the quality of management and human resources of that company (Manurung and Rahadja, 2004:198).

1. Management weakness can cause by the structure organization that not support the decision making that objective and accurate. Errors that shows nonperforming loan caused by the weak management are lack of information system, a obscurity that cause an error in credit lending procedure, a leader or head of group who dominant in decision making about lending procedure, big pressure in order to get more assets and increasing the profit target may cause expansion credit done without a good consideration, and a very close relationship between debtors with bank or those who make a decision in bank that cause evaluation of landing credit that cause the monitoring become subjective.
2. Human Resources problem is the problem that always shows in term of lending credit procedure. This problem include lack of human resources quality, it can be seen from background, level of education and work experience. The errors that shown because lacks of human resources are valuation is too high for the collateral goods, error in credit analysis and inability to perform a monitoring after the credit is given to the debtor and also to diagnostic the problem of the debtor. This is happen because the credit lack of communicate and technical ability.

### **Debtor Factors**

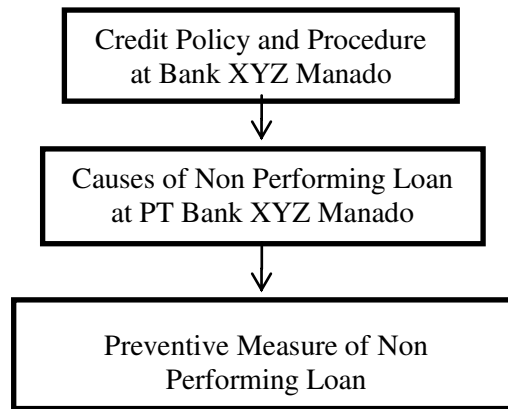
The factors that cause nonperforming loan in debtor company are the debtor is too ambitious to enter new businesses without having enough experience about that business, indiscipline in terms of loan usage, and many interventions by the owner of the company in decision-making can ruin working environment and cause the internal conflict (Manurung and Rahadja, 2004:199) .

### **External Factors**

Soebagio (2005) explained a external factors that affect with the business flow of debtor company and bank are the declining of economic conditions and monetary country or business sector, natural disaster that can damage or even destroy the production facilities that they have, government policy that can cause the debtor ability to do the repayment is decrease and depreciation of the national currency against foreign currencies.

### **Previous Research**

Moti et al., (2012) found the problem of high-leveled non-performing loans in microfinance institutions in Kenya. Specifically, they sought to establish the effect of credit appraisal, credit terms, credit collection policies, and credit risk measures on loan performance. Tobing (2009) discuss about the solution process of Nonperforming loan by both litigation and non litigation ways, what kind of factor that made PT. Bank Danamon chose non litigation way in order to solve the credit problem, and what obstacle that faced in credit problem solution through non litigation Ranjan and Dhal (2003) examined empirical analysis of the nonperforming loans of public sector banks in India and investigated the response of NPLs to terms of credit, bank size and macroeconomic condition Herrala (2009) examined the hypothesis about banks' credit policies, Herrala used stochastic frontier analysis. From the analysis, it has been found that the focus of credit policy changed from collateral to the income.



**Figure 1. Conceptual Framework**

## RESEARCH METHOD

### Type of Research

This research is based on collecting the interviewer's opinion and arguments using qualitative approach that will generalize the data collection and use descriptive method in writing the report. The purpose is to analyze the respondents' point of view and statement or opinion about the phenomenon. The goal of this research is to analyze the causes of nonperforming loan in Bank XYZ Manado.

### Place and Time of Research

This research took place in headquarter of Bank XYZ in downtown Manado. The researcher chose credit division because the data related with this research can be found there. The research was conducted in 25<sup>th</sup> October 2013.

### Population and Sample

The population that is mainly observed in this research is the employees and the person who is in charge in managing financial data of Bank XYZ Manado. For research sample, researcher chooses the employees of credit division at Bank XYZ Manado. The interviewees of study are 6 employees including the supervisor.

### Data Collection Method

Sekaran and Bougie (2009:186) explained one method of collecting data is to interview respondents to obtain information on the issues of interest. Interview is a useful data collection method, especially during the exploratory stages of research. Interview made directly to supervisor and employees at credit division. Observation also used to collecting data in this method. Where interviews got responses from the subjects, it is possible to gather data without asking questions of respondents. People can be observed from their natural work activities and behaviors.

### Operational Definition of Research Variables

Nonperforming loans are loans in which the implementation has not reached / meet the desired target by the bank then has the potential risk to the bank later in the broadest sense, is also experiencing difficulties in the completion of the obligations in the form of repayment of principal and interest.

### Data Analysis Method

This research is qualitative research. Hancock (1998) explained that a qualitative research is concerned with developing explanations of social phenomena. That is to say, it aims to help us to understand the world in which we live and why things are the way they are. It is concerned with the social aspects of our world. Case study design is used in this study. As a research design, the case study claims to offer a richness and depth of information not usually offered by other methods. In case study, data from multiple sources are then analyzed and each data source is one piece of the "puzzle," with each piece contributing to the researcher's understanding of the whole phenomenon (Baxter and Jack, 2008).

## DATA ANALYSIS AND DISCUSSION

### Result

#### Factors of Nonperforming Loan

From the interview with the respondents which are employees who work as credit analyst and from observation while doing internship activities in credit division of the main office Bank XYZ, researcher found that there are three main factors that cause nonperforming loan which are bank factors, debtor factors and external factors. Those factors are the cause why the nonperforming loan occurred in Bank XYZ. For the bank factor the issues come from their human resources itself, for the debtor factor most cases are from bad management and debtor fraud. While for the external factors are government policy and disaster which affect the debtor business activities

#### Preventive Action from Bank

Two important things that the bank do in order to minimize the risk of nonperforming loan, which are assessment or analysis of loan application which include 5C's and monitoring the usage of loan. Every loan application is filed by the debtor, would have to be assessed carefully by the bank officials. After Bank decided to give the loan to debtor, bank still need to continue monitors the distributed loans.

#### Early Indication of Nonperforming Loan

To detect the possibility of nonperforming loan as early as possible can be done by considering the following symptoms, which are deviation of the loan agreement, debtors attitude begin to be uncooperative, presentation of reports or other inputs of the debtor are incorrect, the occurrence of abnormal delay in the repayment and additional demand for loan.

#### Loan Resolution

Nonperforming loan that give a burden to a bank can be an indicator of the healthiness of the bank, therefore the existence of nonperforming loan need a rescue action with immediate, precise and accurate. The resolution effort will depend on the condition of nonperforming loans itself. To rescue the nonperforming loan there are two strategies that can be done, which are ;(1) non litigation ;(2) litigation

1. Non Litigation

Objectives to be achieved by the implementation of the resolution via non litigation is to improve the state of the debtor's loan that has become nonperforming loan to be active again and can be solved as well as possible from the ability to pay back without simply have to sell the collateral. Improvement loan means finding efforts that can nourish the debtor company's finances allowing the presence of new sources for repayment, as well as provide an opportunity for the debtor to attempt to re-active. The credit resolution efforts by non-litigation can be classified into 3, which are rescheduling, reconditioning and restructuring

2. Litigation

The meaning of litigation is a form handling cases through the judicial process in both civil and criminal cases. The loan resolution efforts by litigation are filing a law suit through the courts; this law suit was to obtain permanent legal order to do execution of guarantees, execution of mortgage certificates, auction of collateral via auction execution, etc



**Ending Balance of Credit (Collectability)****Table 1. Ending Balance 2010-Sept 2013**

Collectability	Ending Balance			
	2010	2011	2012	Sept 2013
1	2,826,155,527,195	3,342,850,096,457	4,442,827,453,197	5,317,159,164,745
2	46,341,779,915	47,627,282,360	17,517,567,457	18,708,804,508
3	4,016,484,659	9,809,148,257	5,956,976,331	1,192,044,181
4	5,411,004,887	6,362,643,636	1,962,108,817	1,731,966,918
5	54,784,376,290	30,124,882,792	30,089,364,942	27,802,917,271
<b>Grand Total</b>	<b>2,936,709,172,946</b>	<b>3,436,774,053,502</b>	<b>4,498,353,470,744</b>	<b>5,366,594,897,623</b>

Table above shows the amount of collectability in Bank XYZ in 2010-Sept 2013 which is the latest update in the last evaluation. As explained in chapter 2, collectability is divided by 5 types, which are:

1. Liquid/Good Credit is a credit which the collectability is meeting no problem at all. The payment is working as it should be.
2. Special Mention Credit is a credit which the payment process is not working so well. It past one up to ninety days due to the given time.
3. Substandard Credit is a credit which the payment process is past ninety up to one-hundred and eighty days due to the given time.
4. Doubtful Credit is a credit which the payment process is past one-hundred and eighty up to two-hundred and seventy days due to the given time.
5. Nonperforming Loan is a credit which the payment process is past more than two-hundred and seventy days due to the given time.

Even though there are guides to conduct the loan activities, but there are amounts of nonperforming loan in Bank XYZ. The table 5.1 shows in 4 years Bank XYZ able to get the big amount at the good credit/good collectability which is collectability with no problem. The table also shows the second big number is in the nonperforming loan/bad collectability. The bad collectability still have a possibility to increase, because the collectability number 3 and 4 can make collectability number 5 increase if the debtor still cannot pay off the debt. That can be called problem since it affects the bank's profitability. But that table also show that each year Bank XYZ able to increase the number of good credit (number 1) and able to decreasing and also maintaining the number of nonperforming loan (number 5). It indicates that Bank XYZ able to manage their nonperforming loan and also able to develop healthy.

**Discussion****Factors Cause Nonperforming Loan****Bank Factors**

From the interview and observation conducted at credit division of Bank XYZ it was found that the main cause of nonperforming loan is human resources. Most of the cases occurred because of the incapability of credit analyst in the branches of Bank XYZ when analyzing the prospective debtor. While for the Bank XYZ regulation and banking law it seems there is no problem because the regulation is clear and complete. The only problem from bank factor is their human resources especially the credit analyst. This condition occurs because Bank XYZ has many branches and some of those branches do not have a capable credit analyst. Even though credit analysts at main office already conduct education and training activities in order to educate the credit analyst, but it seems the training program of the main office is not complete yet because from the situation that can be seen in the field, there is some errors that credit analyst did regarding the assessment about the debtors. By adding more training program and increasing the standard valuation of credit analyst, it can give them more experience in order to analyze the loan application so they can distribute the loan more cautious and make them

more aware about the effect if the loans turn into nonperforming loan. As the result of the incomplete education and training the credit analyst in branches are still lack of skill and experience. The problems that show of incomplete training to credit analyst can cause the credit analyst did not analyze the debtor well, and valuation is too high for the collateral goods. It is caused the credit analyst did not understand well the type and the details of the asset that been collateral

While there are some cases when credit analyst who taking advantage of the bank's loan for private purposes, where one of the credit analysts has a relationship with the debtor or the debtor company so the credit analyst deliberately violates the agreement of loan prudent. These situations happen because the credit analyst is lack of professionalism when doing their job, so Bank XYZ can be more strict in hiring credit analyst and make sure to hire only a professionals and capable person for this job.

## Debtor Factors

From the interview with credit analyst in main office of PT Bank XYZ it was found that the debtor internal factors that cause debtor cannot repay the loan on time are; (1) debtor bad management; (2) debtor fraud.

### 1. Bad Management

Bad management is inability of the debtor to manage its operations and maintain financial condition by doing healthy business activities. While most cases in Bank XYZ that showing bad management of the debtor are the debtors unable to use the funding in a good way, debtor using the loan in the risky investment such as trading in stocks, debtor invest the loan in something that not beneficial for debtor's business, and debtor unable to use the fund from loan in order to expand the market. The Indicators that show the debtor's business have a bad management are problem in managing the employee, the business have a low growth prospect, bad cash flow for example the debtor expense is higher than income, analysis show the cash flow of the debtor unable to cover the production cost, and have a bad capital structure for example the ratio debt is more higher compare than capital ratio.

### 2. Debtor Fraud

The cause nonperforming loan occurred in Bank XYZ also come from the debtor personality itself. Debtor fraud is uncooperative attitude of the debtor to follow the loan agreement and debtor who dishonest in providing information and reports of business activities, financial position, accounts payable, inventory etc. The causes of nonperforming loan in Bank XYZ from the debtor fraud are the debtor show uncooperative attitude in order to follow the loan agreement, the debtor who deliberately broke the loan agreement, indiscipline in terms of loan usage, the debtors don't pay attention to the regulation and the debtor is not being honest of their business reports by give false information regarding the length time of business, collateral and some stuff such as the information of vendor, labor and the machines condition. Regarding to the debtor who lied, that happen because they really need more money, so without paying attention to the regulation the debtor applied it anyway. The incorrect information that debtor give to the bank can cause the credit analyst unable to predict the debtor's business prospect, whether the debtor's business is doing well or experiencing a loss. The indication that show the debtor have uncooperative attitude can be seen from the timing payment of principal and interest, obedience with the loan agreement and suitability in term of using the loans.

## External Factors

External factors occur because there is an element of accident. It means that the debtor has the willingness to pay but was unable due financed business affected by the disaster (force major). External factors include the decline in economic conditions or monetary state enterprise sector and government policy that make the price of materials for production increase. The external factors that cause nonperforming loan in Bank XYZ are government policy and disaster.

### 1. Government Policy

The government policy can give effect to the productivity of the loan. The case from government policy that cause nonperforming loan occur in Bank XYZ is the government policy in increasing the fuel price, this condition make other materials prices increase as well and will increase the production cost of the debtor's business. This situation can give effect to the debtor's repayment ability.



## 2. Disaster

Occurrence of disaster to the debtor or debtor's company can inhibit the repayments of loan and causing bank losses. The example of disaster that cause nonperforming loan occur in Bank XYZ are flood, fire accident and riot. If those situations happen Bank XYZ already has a regulation in order to manage and minimize the risk.

### **Preventive Action from Bank**

#### **Assessment of Loan Applicant**

Every loan application is filed by the debtor, would have to be assessed carefully by the bank officials. The longer the loan period, the higher the uncertainty factor, so the greater the risk faced by the bank. In loan assessment, there are principles that must be observed that the principle of 5C's.

Character used to find out the characteristic of the loan applicant and the willingness to do payment. It is important for the bank to understand the character of the people behind the organization and the organization's past performance so bank know who they dealing with and can assess their ability to satisfy financial obligations. By analyze the characteristic of debtor, bank can find if there any court actions against debtor, do debtor have any defaults and what is the character and morals of the people behind the business. It can give additional information to the bank about the debtor's track records.

Capacity is to find out exactly how debtors intend to repay the loan. In debtor loan application, debtor must discuss exactly how and when debtor intends to repay the loan. Debtors also need to indicate the amount of cash flows and the timing of cash flows with regard to repayment. Capacity also refers to debtor loan history. The bank needs to analyze at debtor past repayment history, both business and personal.

Collateral or loan guarantee. While cash flow will nearly always be the primary source of repayment of a loan, bankers look at secondary source of repayment if the business cash flows are not adequate to repay the loan, the bank wants to know there is a second source of repayment. Buildings, inventory etc. may be seized and sold by the bank if the company defaults on the debt. Loan collateral is necessary, in order to anticipate the collectability of bank lending. Besides to the status and condition of loan, it also important for the bank to considered about the binding way. Binding of the loan collateral shall be in accordance with applicable laws which are according with Bank Indonesia and Indonesia law and regulation.

Capital is bank will find out about how much money debtor has invested in the business. Banks need to see if a debtor has a financial commitment, if debtor put the company at risk. Before applying for a bank loan, the debtors need to have a significant investment in the business before the bank will even consider making a business loan. The credit analyst need to analyze carefully at the amount and quality of capital the debtor has to offer.

Condition describes the intended purpose of the loan. Bank will also consider economic, social and political conditions. If debtor's business is sensitive to economic downturns, the bank wants to know that debtor is good at managing productivity and expenses or not.

#### **Loan Monitoring**

After Bank decided to give the loan to debtor, bank still need to continue monitors the distributed loans. Whether the debtor actually uses the loan according with the original application, or used for other purposes? How is the development and prospects of the debtor? and other questions related to the prospects of loans disbursed by banks. These questions are important to answer, in order to anticipate possible stagnating or breakdown of bank loans that has been disbursed. Bank need to be more strict in monitoring the term of loan usage, Bank must often call and communicate with the debtor regarding their business growth prospect and the loan usage. Banks also need to visit the debtor business activity in order to prevent the debtor that giving a false report regarding their business growth.

## CONCLUSION AND RECOMMENDATION

### Conclusion

From interview and observation that conducts at Bank XYZ, it can be conclude:

1. There are three factors that cause nonperforming loan in Bank XYZ which are bank factor, debtor factor and external factor.
2. Bank factors that cause nonperforming loan are the errors of credit analyst.
3. Debtor factors that cause nonperforming loan are debtor bad management in term of loan usage and debtor frauds.
4. External factors that cause nonperforming loan are disasters and government policy.

### Recommendation

The recommendations for this research in order to prevent the nonperforming loan at Bank XYZ are:

1. Bank XYZ need to solve their problem in their human resources which are the error of credit analyst. Bank XYZ need to add more training program than before and must be followed by the entire credit analyst in every branch. From this training program Bank XYZ able to review the capability of the credit analyst and conducted a placements of credit analyst appropriate with their experience and expertise. Skilled and experienced credit analyst will be able to predict the prospect debtors. Even though the circumstance of environment is rapidly changing and uncertain as it is today but by having an expert credit analyst, Bank XYZ can minimize the risk.
2. Bank XYZ also can hire more credit analysts that can be placed in branches, but the hiring process need to meet with the company's standard. By having a credit analyst who are skilled and experienced Bank XYZ also able to prevent the cause of nonperforming loan from debtor factor which are debtor bad management and debtor frauds. In case the nonperforming loans still occur Bank XYZ already has a regulation regarding resolution of loan which are litigation if the debtors shows a uncooperative attitude and also non litigation for the debtors who shows cooperative attitude and have potential growth of business.
3. Bank XYZ also can implement reward and punishment system to credit analyst. Mikander (2010) found that employee motivation is one of the most essential parts in a company's development, intrinsic motivation which comes from inside the employee which related to his or her feelings, for examples on this are personal growth, the feeling of achieving something, responsibility and freedom to act. The other factor is extrinsic motivation where outside factors such as rewards and criticism motivate the employee's. By implementing reward and punishment system is expected to motivate the work of credit analysts, they can compete with credit analyst in other branches and also improving the credit analyst caution and prudence in lending and valuation to find out the prospect debtor.
4. Bank XYZ must be more strict in monitoring the debtor. The credit analyst need to continuously communicate with the debtor and makes sure that the debtors use the loan according with the agreement that they already made with the bank. Banks also need to visit the debtor's business activity so bank can see directly the growth of the business. This action can prevent the debtor that being dishonest regarding their business reports.

## REFERENCES

- Aballey F.B., 2009. Bad Loans Portfolio: The Case of ADB. Institute of Distance Learning, Kwame Nkrumah University. ([dspace.knust.edu.gh:8080/jspui/bitstream/123456789/619/1/Francis%20Bawoledam%20Aballey.pdf](https://dspace.knust.edu.gh:8080/jspui/bitstream/123456789/619/1/Francis%20Bawoledam%20Aballey.pdf)). Accessed September 21st 2013. Pp 10-11.
- Baxter P., and Jack S., 2008. Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers: The Qualitative Report. McMaster University, West Hamilton, Ontario, Canada. Vol. 13, No. 4. (544-559). ([www.nova.edu/ssss/QR/QR13-4/baxter.pdf](http://www.nova.edu/ssss/QR/QR13-4/baxter.pdf)). Accessed August 18th 2013. Pp 554.
- Hancock B., 1998. Trent Focus for Research and Development in Primary Health Care: An Introduction to Qualitative Research. University of Nottingham. ([faculty.cbu.ca/pmacintyre/course\\_pages/MBA603/MBA603\\_files/IntroQualitativeResearch.pdf](http://faculty.cbu.ca/pmacintyre/course_pages/MBA603/MBA603_files/IntroQualitativeResearch.pdf)). Accessed September 18th 2013. Pp 2.
- Herrala R., 2009. Credit Crunch? An Empirical Test of Cyclical Credit Policy. *Discussion Paper No. 10*. Finland: Bank of Finland Research. ([www.suomenpankki.fi/en/julkaisut/tutkimukset/keskustelualoitteet/Documents/0910netti.pdf](http://www.suomenpankki.fi/en/julkaisut/tutkimukset/keskustelualoitteet/Documents/0910netti.pdf)). Accessed November 2nd 2013. Pp 21-22.
- Manurung M., & Rahardja P., 2004. *Uang, Perbankan, dan Ekonomi Moneter: Kajian Kontekstual Indonesia*. Fakultas Ekonomi Universitas Indonesia, Jakarta.
- Mikander C., 2010. The Impact of a Reward System on Employee Motivation in Motonet-Espoo. *International Business*, Arcada. ([www.theseus.fi/xmlui/bitstream/handle/10024/16956/carolina\\_mikander.pdf?sequence=1](http://www.theseus.fi/xmlui/bitstream/handle/10024/16956/carolina_mikander.pdf?sequence=1)). Accessed November 12nd 2013. Pp 43.
- Moti H.O., Masinde J.S., Mugenda N.G., & Sindani M.N., 2012. Effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance Sector in Kenya, *International Journal of Business, Humanities, and Technology*, Vol. 2, No.6. ISSN 2162-1381. ([www.ijbhtnet.com/journals/Vol\\_2\\_No\\_6\\_October\\_2012/13.pdf](http://www.ijbhtnet.com/journals/Vol_2_No_6_October_2012/13.pdf)). Accessed September 7th 2013. Pp 99-108.
- Ranjan R., and Dhal S.C., 2003. Non-Performing Loans and Terms of Credit of Public Sector Banks in India: An Empirical Assessment, *Reserve Bank of India Occasional Papers*, Vol. 24, No. 3. ([rbidocs.rbi.org.in/rdocs/Publications/PDFs/60613.pdf](http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/60613.pdf)). Accessed September 8th 2013. Pp 82-121.
- Sekaran, U. and Bougie R. 2009. *Research Methods for Business 5<sup>th</sup> Edition*. Cornwall: Wiley.
- Soebagio H., 2005. Analisis Faktor Faktor yang Mempengaruhi Terjadinya Non Performing Loan (NPL) Pada Bank Umum Komersial. Program Studi Magister Manajemen, Universitas Diponegoro, Semarang, Indonesia. ([eprints.undip.ac.id/11650/1/2005MM3820.pdf](http://eprints.undip.ac.id/11650/1/2005MM3820.pdf)). Accessed November 2nd 2013. Pp 29.
- Taswan, 2006. *Manajemen Perbankan: Konsep, Teknik dan Aplikasi*. 1<sup>st</sup> ed. UPP STIM YKPN. Yogyakarta.
- Tobing D. D., 2009. Penyelesaian Kredit Bermasalah pada PT. Bank Danamon, Tbk. Cabang Semarang. Program Studi Magister Kenotarian, Universitas Diponegoro. ([eprints.undip.ac.id/16939/1/DENICO\\_DOLY\\_LUMBAN\\_TOBING.pdf](http://eprints.undip.ac.id/16939/1/DENICO_DOLY_LUMBAN_TOBING.pdf)). Accessed August 21st 2013. Pp 99.