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**ANALYSIS OF POTENTIAL RETAIL BUSINESS CREDIT AND INTEREST CALCULATION METHOD TOWARD THE REVENUE OF PT BANK PEMBANGUNAN DAERAH JAWA TIMUR TBK (BANK JATIM), BRANCH SAMPANG: A STUDY AT CV MERDEKA MOTOR**

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**ABSTRACT**

The aim of this study was to investigate a potential business of credit retail of CV. Merdeka Motor in Sampang related to the attempt to increase the revenue of PT. Bank Pembangunan Daerah Jawa Timur Tbk (Bank Jatim) Sampang Branch. The result of this study showed that Bank Jatim Sampang Branch was likely to obtain higher revenue when they made correct and accurate assessment toward the prospective debtors. The assessment should be done based on 5C principles; Business Aspect, Collateral Aspect, and Credit Period. If debtors made on time payment, Bank Jatim Sampang Branch would find the money circulation more efficient. Credit calculation using annuity method also allows Bank Jatim Sampang Branch to obtain higher profit than using the perpetuity method.

**KEY WORDS**

Potential business retail credit, 5C principles, business aspect, collateral aspect, maturity period, annuity method, perpetuity method.

Banks are financial institutions that hold important roles in the society. Banks provide funding, lending and other banking services (Kasmir, 2015). Banks distribute fund for the society through credit or loan. The Act Number 10 of 1998 Article 21 Verse 11 states that credit is loan agreement made between bank and other parties which requires debtor to pay the loan based on the predetermined conditions set by the bank including the interest rate, types of credit, maturity period, and so on.

Business refers to any activities run to obtain profit (Kismono, 2011). Retail credit business is an activity in which a party sells certain goods or services as a form of small-medium scale business activities that requires additional capital for the business development. Meanwhile, potential business seen from banking perspective refers to any enterprises run by banks to obtain profit from on time installment payment from debtors or collectability 1. Potential business gives positive effects for the bank, because if debtors pay their installment on time, the bank will be able to obtain the profit immediately, allowing the bank to circulate the fund efficiently.

Sampang District is one of our districts in Madura Island (Bangkalan, Pamekasan and Sumenep). The Central of Statistic Bureau in 2014 informed that the total population in Sampang District reached 957.912 people. The high number of population in Sampang District can be seen as business opportunities. Developing business among the society such as small and medium enterprises (SMEs) will give positive contribution to retail business as it decreases the number of unemployment. Bank Jatim Sampang Branch stated that there were 4.840 SME players, and 4.621 among them have been legalized until 2015.

Bank Jatim Sampang Branch is a conventional bank in Indonesia. The revenue of Bank Jatim Sampang Branch mostly comes from retail credit as shown by greater number of credit ceiling for retail credit approved in 2016 than the one for medium credit.

Table 1 – The Realization of Credit Ceiling in 2016

n/n	Total Credit Realization in 2016	Total Credit Ceiling Realization in 2016
Retail Credit	1.012 business for retail credit	Rp. 117.508.700.000,-
Medium Credit	16 business for medium credit	Rp. 32.900.000.000,-

Source: PT. Bank Pembangunan Daerah Jawa Timur Tbk (Bank Jatim) Sampang Branch.

Bank Jatim Sampang Branch have three credit products; micro credit, agribusiness credit and retail and corporate credit. Bank Jatim Sampang Branch will analyze the objective of credit applied by debtors. The high number of prospective debtors requires the bank to be selective in approving credit applications from debtors. In this case, the bank should apply the 5C principles; Business Aspect, Collateral Aspect, and Maturity Period in order obtain higher income from the interest. Accurate assessment in selecting debtors prevents defaults from occurring. In addition, the use of appropriate method of interest calculation also allows Bank Jatim Sampang Branch to obtain higher profit.

The researchers were interested in investigating retail credit business which have been realized in 2016 since the number of the realized retail business by Bank Jatim Sampang Branch was considered high. CV. Merdeka was selected as the company run business in industrial sector.

CV. Merdeka Motor is vehicle repair center that provides repair services and sell car accessories. This repair center also cooperate with government institutions in Sampang District such as the Regional Government, Bank Jatim Sampang, BRI Sampang Branch, and others to perform fix and repair services for their car inventory. This business also has 16 cars rented for some offices in Sampang District.

The researchers investigated the customers of Bank Jatim Sampang Branch in the study done to CV. Merdeka motor in Sampang because the researchers were interested in understanding the assessment done by Bank Jatim Sampang Branch toward CV. Merdeka Motor, including in retail credit business which gives Bank Jatim Sampang Branch higher profit.

Regarding to the background of this study, the researchers were interested in understanding the strategies of the potential retail credit business in CV. Merdeka Motor in Sampang in increasing the income of Bank Jatim Sampang Branch. Therefore, the title of this study was formulated as follows. "The Analysis of Potential Retail Business Credit and the Method of Interest Calculation toward the Income of Bank Jatim Sampang Branch (A Study at CV. Merdeka motor, A Customer of Bank Jatim Sampang Branch)".

The aim of this study was to explore the potential retail credit business of CV. Merdeka Motor in Sampang in enhancing the income of Bank Jatim Sampang Branch.

## LITERATURE REVIEW

Credit is the trust given by fund provider to debtors based on the mutually-agreed agreement (Kasmir 2002). Banks distribute fund in the forms of credit. This activity is the main banking activity to obtain profit. Interest from the credit is the main source of bank income (Kasmir 2002). The function and the objective of credit are to obtain profit and to help customers run their enterprises and at the same time make positive contribution to the government (Kasmir 2002). Below are types of credit:

Based on the Function:

- Capital Credit;
- Investment Credit.

Based on the Objectives

- Productive Credit;
- Consumptive Credit;
- Trade Credit.

Based on the Maturity Period:

- Short-Term Credit;
- Medium-Term Credit;
- Long-Term Credit.

Based on Economic Sector:

- Agricultural Credit;
- Husbandry Credit;
- Industrial Credit;

- Mining Credit;
- Professional Credit.

Elements of Credit:

- Trust;
- Agreement;
- Maturity Period;
- Risk;
- Remuneration.

Credit analysis is the assessment activities done to evaluate whether a credit application made by debtor is appropriate, and arrange the analysis report to be used as consideration in making decision upon the credit application (T.Suyatno, et.al., 2003). Kasmir (2002) stated that before accepting credit application from debtors, banks should make assessment based on the 5C principles: Character, Capital, Condition, Capacity, Collateral.

Other assessment also includes the analysis of the Business Aspect and Collateral Aspect which analysis is expected to allow banks making accurate decision. According to A. Keown (2004), business aspect includes: Production, Marketing, Management, Finance, Capability to Pay, Fair Market Value, Estimated Price of Seized Auction.

Maturity period is analyzed to see debtors' capability in paying back the fund within the agreed period (Rozaqie 2013). More productive time management by the bank makes credit distribution more effective and efficient, preventing any default from occurring in the distribution of retail credit that banks should borne.

Credit ceiling is the total credit or the maximum credit amount received by debtors based on the mutual agreement. Capital credit has maturity period of one year, extendable to the necessity, with the lowest credit ceiling up to Rp 500,000,000 and highest scale above Rp 500,000,000 (Bastian and Suhardjono (2006). Debtor Information System is a system that provides necessary information about debtors based on the debtor report set by Bank of Indonesia (Bank of Indonesia Regulation Number.9/14/PBI/2007). The report released Bank of Indonesia consists of debtors' credit history in other banks or non-bank financial institutions. BI checking is strongly correlated with the debtors' collectability as it considers debtors' credit payment history.

*Small and Medium Enterprises.* The Act Number 20 of 2008 about Small and Medium Enterprise (SME) states that SME is characterized by:

- Micro enterprises have maximum asset value of Rp 50.000.000,- and maximum turnover of Rp 300.000.000,-
- Small enterprises have maximum asset value greater than Rp 50.000.000,- up to Rp 500.000.000,- and maximum turnover between Rp 300.000.000,- to Rp 2.500.000,-
- Medium enterprises have maximum asset value between Rp 50.000.000,- to Rp 10.000.000,- and turnover between Rp 2.500.000.000,- to Rp 50.000.000.000,-

*Calculation of Bank Interest Installment Value:*

- Annuity Method;
- Perpetuity Method.

*Retail Business Credit.* Retail credit business refers to enterprises that are run to sell goods/services to obtain profit, in which owners need additional capital to develop the enterprises. The Correlation between Potential Retail Credit and Bank Revenue. Potential business is the one that have smooth collectability and have the ability to give efficient profit for banks in the form of bank interest. Accurate assessment toward debtors supported by appropriate interest determination are expected to increase the bank revenue.

## METHODS OF RESEARCH

This study is a descriptive study done using a quantitative approach. The focuses of this study include:

- The 5C principles of CV. Merdeka Motor, a customer Bank Jatim Sampang Branch including Character, Capital, Condition, Capacity, and Collateral.

- The Business Aspect of CV. Merdeka Motor, a customer of Bank Jatim Sampang Branch including Production, Marketing, Management, Financial, and Ability to Repay.
- Maturity Period of CV. Merdeka Motor, a customer of Bank Jatim Sampang Branch including the Fair Market Value and the Estimated Collateral Value.
- After the 5C principles, Business Aspect, Collateral Aspect and maturity period have been assessed, the researcher investigated the collectability of CV. Merdeka Motor, a customer of Bank Jatim Sampang Branch to make sure that the company have level 1 collectability which implied that the business was considered a potential business.
- Calculation of installment value for CV. Merdeka Motor, a customer of Bank Jatim Sampang Branch using annuity method and perpetuity method.

*Data Analysis:*

- Analysis of 5C principles, Business Aspect, Collateral Aspect, and Maturity Period of CV. Merdeka Motor, a customer of. Bank Jatim Sampang Branch including Character, Capital, Condition, Capacity, and Collateral.
- Measurement of collectability level of CV. Merdeka Motor, a customer of Bank Jatim Sampang Branch to make sure that the company had level 1 collectability, implying that the business is a potential business according to the bank.
- Calculation of installment value of CV. Merdeka Motor, a customer of Bank Jatim Sampang Branch using two interest calculation method; Annuity Method and Perpetuity Method.

## RESULTS AND DISCUSSION

*Credit Assessment by Bank Pembangunan Daerah Jawa Timur, Tbk. Bank Jatim Sampang Branch to CV. Merdeka Motor.* CV. Merdeka Motor filed a credit application to Bank Jatim Sampang Branch to obtain additional capital for procurement of goods. Hence, this business was classified as retail credit. Before approving the credit application, analysts evaluated the prospective debtor based on these following criteria:

5C Principles:

- Character. Debtors have healthy credit history in Bank Jatim Sampang Branch during 2012-2015 with good reputation. Currently, CV. Merdeka Motor reapplied for new loan from Bank Jatim Sampang Branch. The debtor was considered having level 1 collectability, showing that the debtor has good character and good responsibility in paying off the debt.
- Capital. The initial capital of the debtor was Rp 750.000.000,- and the debtor applied for Rp 200.000.000,- credit, implying that the debtor did not apply for the fund to start a business, but to develop the business.
- Condition. Debtor's business was located in a strategic area where there were other offices around the location including the Office of Regional Government, Tax Office, *Polrestabes* Office, and the Official Residence of Sampang Regent. Therefore, this repair shop managed to have broad business relation from the collaboration between this repair shop and government institutions.
- Capacity. The debtor was considered to apply adequate company management as seen from the capacity of the debtor in paying off the debts since 2012 up to present. The debtor owned 16 private cars for government institutions to rent. Besides, the repair shop was special compared to other repair shops as it had sophisticated tools screen car problems.
- Collateral. The collateral given by the debtor to Bank Jatim Sampang Branch was a house in 120m<sup>2</sup> land with value of Rp 268.000.000,- for Rp 200.000.000,- debt. The collateral was considered adequate to cover the debt if any default occurred.

Business Aspect:

- Production. No production process occurred in the business as this business offered repair service for cars. The tools for car repair were in good function and were

relatively new and the spareparts were easy to find.

- Marketing. The debtor's business has been established since 2004 to recent, and there have been many customers in Sampang District. This repair shop has been trusted by some government institutions and some banks to repair operational office cars. Hence, business competitors did not significantly impact the income of CV. Merdeka Motor. The quality service of this repair shop was also appreciated by its customers.
- Management. CV. Merdeka Motor also applied for loan to other bank namely Bank Jatim Sharia Sampang Branch in 2015-2018 with current credit reputation. The fact that this bank had received debts from other banks indicated that this repair shop had good management to pay the installment on time.
- Financial Aspect. CV. Merdeka Motor was not blacklisted by Bank of Indonesia and never had any issues with other banks related to credit installment. This repair shop also had some receivables from government institutions that were customers of this repair shop in Sampang District. Customers paid the service according to the car repair budget which might differ across institutions. The receivables would be paid off, even though the fund was not yet paid, the shop's income was not significantly impacted as the amount of the receivables were considered small.
- Ability to Repay. The debtor was able to obtain profits to develop the business and to pay of its debts on time.

Collateral Aspect:

- Fair Market Value. The collateral item given by the debtor to Bank Jatim Sampang Branch was a private house in 120 m<sup>2</sup> land (not for rent). The house was located in a strategic area. After assessing the collateral item given by the debtor to Bank Jatim Sampang Branch, the fair market value was determined at Rp 335.000.000,-
- Estimated Collateral Auction Value. Auction or confiscation is done by Bank Jatim Sampang Branch if debtors are unable to pay off their debts. Before administering the auction, bank sends warning letter 1, 2 and 3. The estimated auction value of the collateral item value of CV. Merdeka Motor was determined by Bank Jatim Sampang Branch at Rp 268.000.000,-
- Maturity Period. The credit maturity period for CV. Merdeka Motor was set at 3 years to Bank Jatim Sampang Branch. The maturity period was determined by considering the amount the fund.

*The Collectability of CV. Merdeka Motor.* The researchers confirmed that the collectability status of CV. Merdeka Motor in Sampang as retrieved from BI Checking and the statement of Bank Jatim Sampang Branch was at level 1, and the CV. Merdeka Motor was considered a potential enterprise in Sampang based on its credit payment history.

*Bank Credit Calculation Using Annuity Method and Perpetuity Method.* Maximum profit can be obtained if Bank Jatim Sampang Branch determines its interest rate using the most appropriate method. It is assumed that in this research, CV. Merdeka Motor applies credit ceiling Rp 200.000.000,- with 10% interest and 3 years maturity period from February 2016 to February 2019. The credit calculation using annuity method and perpetuity method is presented as follows:

- Annuity Method. In annuity method, the amount of per month installment is fixed at Rp 6.453.437,44. The proportion of the interest payment decrease every month, while the principal gets bigger. Based on annuity method, the principal installment of CV. Merdeka Motor is Rp 200.000.000,- and the total interest is Rp 32.323.747,80 and total installment is 232.323.747,80.
- Perpetuity Method. Using perpetuity method, the monthly principal installment is fixed at Rp 5.556.000,00. Meanwhile, the proportion of interest payment in monthly installment decreases. Thus, based on the perpetuity method, the total principal installment of CV. Merdeka motor is Rp 200.000.000,-. The total interest payment and the total monthly installment are Rp. 31.182.813,33 and Rp. 231.182.813,33.

It can be seen from those two methods that CV. Merdeka Motor spared Rp

32.323.747,80 of its total income to be paid to Bank Jatim Sampang Branch using annuity method, and Rp 31.182.813,22 using the perpetuity method. Hence, it can be conclude that Bank Jatim Sampang Branch will obtain the maximum profit by applying the annuity method rather than the perpetuity method.

## CONCLUSION

Credit application made by prospective debtor will be approved if a bank is sure that fund will be returned within the predetermined maturity period. CV. Merdeka Motor is one of other debtors of Bank Jatim Sampang Branch that has fulfilled the 5C principles, Business Aspect, Collateral Aspect, and Maturity Period.

The calculation of interest in Bank Jatim Sampang Branch will be more profitable for the bank using the annuity method than the perpetuity method.

The income from bank interest in Bank Jatim Sampang Branch will increase if the analysts of Bank Jatim Sampang Branch have adequate ability to accurately analyze its prospective debtors. On time installment payment allows Bank Jatim Sampang Branch to efficiently manage its income which is expected to increase the income of Bank Jatim Sampang Branch as well.

## SUGGESTIONS

Bank Jatim Sampang Branch is suggested to optimize its service for developing SMEs in Sampang District. The development of SMEs is also expected to give more profit for the bank through credit distribution.

It is important to offer quality service that provide services that serve debtors' needs and gives more facilities for debtors to get easier access to funding.

Bank Jatim Sampang Branch should provide information for the society about how to develop their business in order to decrease the number of unemployment in Sampang District.

Bank Jatim Sampang Branch also needs to improve its system by adding more ATMs in order to provide easier access for the society to make transactions.

Bank Jatim Sampang Branch should also look into customers' condition if defaults occur before deciding to take the second way out, auctioning debtors' collateral items, If the mistakes are not fully under customers' control, such as loss due to fire, Bank Jatim Sampang Branch is suggested to reschedule debtors' maturity period in order to give the customers chances to pay their installment on time.

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