The Effect of Character, Capacity, Capital, Collateral, Condition of Economic and Constraints on Credit Giving Decisions

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Abstract: ***This study aims to determine the effect of character, capacity, capital, collateral, condition of economic and constraint (the six cs analysis of credit) on the decision to grant credit by the Denpasar city LPD to customers in the city of Denpasar. The data sources used are primary data and secondary data. Data collection methods are interviews and questionnaires. The data analysis technique used is descriptive quantitative using the SPSS 23.00 application as an analysis tool. The results of this study indicate that the decision to give credit (Y) by LPD in Denpasar city is strongly effected by character (X), capacity (X2), capital (X3), collateral (X4), condition of economic (X5) and constraint (X6) . Capacity (X2) is the thing that has the most dominant effect, namely the percentage of 52.4%.***

Keywords: effect, the six c's analysis of credit, lpd lending decision

1. Introduction

One financial institution that provides credit facilities to customers is the Village Credit Institution (LPD). In Bali, the legal umbrella for the establishment of the LPD is the Bali Provincial Regulation Number 3 of 2007. The LPD itself is needed to ensure the realization of the welfare of indigenous peoples who are the Krama Desa. Since the issuance of the Regional Regulation, LPDs in the city of Denpasar have experienced significant development. At least, there were 35 LPDs in the City of Denpasar.

The LPD aims to: (1) encourage economic development of rural communities through directed savings and effective distribution of working capital; (2) Eradication of bondage, illegal pawn and others that can be equated with it in the countryside; (3) Creating equity and business opportunities for villagers and rural workers; and (4) Increasing purchasing power or payment traffic and money circulation in the village (Bali Level I Regulation No. 2 of 1988, article 4).

To achieve the above objectives, one of the business sectors carried out by the Village Credit Institution is to provide loans for productive activities in the agricultural, industrial or small craft sectors, trade and other businesses deemed necessary. For the community, credit is beneficial in encouraging economic expansion, reducing numbers or the unemployment rate, increasing people's income. For village governments, the provision of credit aims to spur economic growth in general, controlling monetary activities to create businesses, create and expand markets.

Giving credit is an activity that contains risks that can affect the health and continuity of the Village Credit Institution itself. In order for the noble ideals of the establishment of LPDs to be achieved, LPDs must implement requirements or procedures to avoid the occurrence of problems that will arise as a result of lending. LPDs must conduct credit analysis, namely a credit analysis process using approaches and financial ratios to determine reasonable credit needs. The main purpose of credit analysis is to gain confidence whether the customer has the willingness and ability to fulfill his obligations to the lender in an orderly manner, both the payment of the loan principal and the interest in accordance with the agreement together. A common basis on which to base credit analysis is a 6C principle analysis, namely analysis consisting of: character, capital, capacity, collateral, condition of economy and constraint.

Character is related to data about personal traits, character and honesty of company leaders in fulfilling their financial obligations. This character assessment is closely related to the reputation of prospective debtors in the community and its track record among entrepreneurs or parties who often establish relationships with them. Another thing that needs to be considered by LPDs is the business commitment that is built, business records such as suppliers, customers and banking history.

Capacity relates to managerial abilities and expertise in the field of business. In addition, capacity relates to the capacity or ability of prospective borrowers to manage and develop their business so they are able to repay the loan according to the schedule and the amount that has been set. Capacity is also related to business capacity such as sales results, cost structure, cash flow, bill turnover, costs of income and so forth.

Capital is related to the company's financial position as a whole as indicated by its financial ratio and emphasis on its "tangible net worth" composition. Capital also relates to the ability of debtors to provide their own capital in a project or business considering that each banking service cannot provide full business financing to the debtor. Prospective debtors must have self-financing or own capital that may fall into disrepute originating from paid-in capital or profits that accumulate into capital.

Collateral is related to collateral that indicates the amount of assets that will be bound as collateral. This means that the collateral is related to the main guarantee in financing, namely the source of credit repayments from the project or business financed. This type of guarantee is divided into two, namely tangible guarantees and intangible guarantees. Intangible guarantees, such as equipment, vehicles, houses, land and so on, while intangible guarantees are personal or corporate guarantees and so on.

The Conditions of Economy relate to general economic conditions and conditions in the business sector of the credit applicant. This aspect relates to the ability of the debtor to deal with changes in environmental conditions, both concerning the economic conditions and the social conditions of the community and politics where the business or project of the prospective debtor is located.

Constraints are constraints and barriers that do not allow a business to be carried out in a particular place such as the establishment of a gas pump business in which there are many welding workshops or coal burning businesses (Maya: 2012).

2. Literature Review

Character on lending decisions

Character is a belief that the nature or character of the people who will be given credit is truly trustworthy, this is reflected in the background of the client, both the work background and the personal nature such as: the way of life or lifestyle adopted, family circumstances , hobbies and social standing. These are all timely measures for buying credit.

The better the results of character analysis of prospective customers, the greater the chance to get credit. Conversely, the worse the results of the character analysis shown, the smaller the chance to get credit. Thus it can be assumed that character analysis will affect credit.

Capacity on lending decisions

Capacity is to see the ability of customers in the field of business that is associated with their education, business capabilities are also measured by their ability to understand government provisions. Likewise with its ability to carry out its business, including the strength it possesses. In the end, it will be seen its ability to repay loans. By looking at the ability to repay credit, it will affect a credit decision that will be given. The better the capacity analysis that explains the high ability to repay loans, the greater the chance to get credit. Conversely, if the worse the analysis shown, the smaller the chance of credit realization. Thus it can be assumed that capacity analysis will affect the provision of credit.

Capital on lending decisions

Capital that is looking at the use of capital is effective seen from the financial statements (balance sheet and loss / profit report) by taking measurements such as in terms of liquidity or solvency, profitability and other measures. Capital must also be seen from the source of existing capital. Capital analysis will then effect the credit decisions that are made. The better the results of the capital analysis, the better the credit decision given so that the greater the credit opportunity to be realized. Conversely, if the results of the analysis of bad capital, the smaller the opportunity for credit to be realized. Thus it can be assumed that capital analysis will have an effect on lending.

Collateral on lending decisions

Collateral is a guarantee given by prospective customers both physical and non-physical. Guarantees should exceed the amount of credit given. The guarantee must also be examined for its validity, so that no problems occur, the guarantee that is deposited will be used as soon as possible. Analysis of collateral will affect the credit decisions that are made.The better the collateral analysis, the greater the credit opportunity is given and conversely the worse the collateral analysis, the smaller the credit opportunity to be given. Thus it can be assumed that the analysis of collateral will affect the granting of credit.

Condition of economic on lending decisions

In credit appraisal, the current economic conditions and possibilities for the future will be assessed according to their respective sectors, and resulting from the prospects of the business sector being carried out. The evaluation of the prospects of the business sector being financed should really have good prospects, so the likelihood of the credit problematic is relatively small. This analysis will affect the credit decisions that are made.

If the condition of economic analysis produced shows good results, it will effect credit decisions so that the opportunity to get credit is even greater. And vice versa, if it shows poor or inappropriate results, the credit opportunity given will be small. Thus it can be assumed that the analysis of the condition of economic will affect the granting of credit.

Constraints on lending decisions

Constraint explains boundaries and obstacles that do not allow a business to be carried out in a particular place. Constraint analysis will influence credit decisions. If the analysis shows good results, the greater the chance to get credit and vice versa if the analysis shows poor or inappropriate results, the smaller the chance to get credit. Thus it can be assumed that constraint analysis will affect credit.

Character, capacity, capital, collateral, condition of economic, and constraints simultaneously on lending decisions.

As explained above, the better the analysis of character, capacity, capital, collateral, condition of economic, and constraints, the higher the chance to get a loan in the form of credit. Conversely, the worse the results of analysis of character, capacity, capital, collateral, condition of economic, and constraints, the less chance of getting credit. Thus it can be assumed that the analysis of character, capacity, capital, collateral, condition of economic, and constraint will affect the lending decision.

3. Methods

The research was carried out in Denpasar city with the object of research being 35 Village Credit Institutions by conducting research on 6C credit analysis which became a research variable which included character, capital, capacity, collateral, condition of economy and constraints on lending decisions. The decision to set Denpasar city as the object of research is because, the author has an interest in conducting a scientific study of the LPD in the Denpasar area and seeing the distribution of the number of LPDs in the Denpasar area which is quite high.

In this study there were 35 Village Credit Institutions in the city of Denpasar which became the research population. Furthermore, the number of research samples is determined by the sample determination formula as follows:

$$n = \frac{N}{N(e)^2 + 1}$$

$$n = \frac{100}{100(0,1)^2 + 1}$$

$$n = \frac{100}{100(0,001)^2 + 1}$$

$$n = \frac{100}{1+1}$$

$$n = \frac{100}{2}$$

$$n = 50$$

In this study there are n equal to 50. This means that 50 people who will be used as research respondents will be represented by elements from 35 existing LPDs. Respondents will be represented by leaders and officers from each LPD and will be interviewed. The benchmark for using this number of respondents is to produce accurate data.

The analytical method used in this study is multiple linear regression analysis. Regression models in this study are as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

4. Result and Discussion

Multiple linear regression analysis was calculated using version 21 of the SPSS (Statistical Package For Social Science) program. To determine the effect of Character (X1), Capacity (X2), Capital (X3), Collateral (X4), Condition of economic (X5) and Constraint variables. (X6) towards lending decisions (Y), carried out by multiple linear regression analysis. In this multiple linear regression model Character (X1), Capacity (X2), Capital (X3), Collateral (X4), Condition of economic (X5) and Constraint (X6) as independent variables and lending decisions as dependent variables (Y) The results of testing using SPSS version 23.00 obtained the following results:

Table 1: Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	12.503	3.736		3.347	.001					
	X1	-.795	.128	-.312	-6.201	.000	-.580	-.417	-.254	.634	1.577
	X2	1.001	.153	.524	6.563	.000	.462	.451	.280	.277	3.605
	X3	-.529	.097	-.377	-5.467	.000	.176	-.376	-.225	.396	2.524
	X4	.366	.073	.271	5.015	.000	.454	.379	.227	.694	1.442
	X5	-.517	.092	-.315	-5.621	.000	-.691	-.401	-.243	.534	1.872
	X6	.190	.036	.289	5.352	.000	-.094	.376	.225	.584	1.712

Primary Data, 2018

Based on the table above obtained a multiple linear regression analysis as follows:

$$12.503 - 0,795.X_1 + 1.001.X_2 - 0,529.X_3 + 0,366.X_4 - 0,517.X_5 + 0,190.X_6 + e$$

Character on lending decisions
Testing the significance of the influence of Character on lending decisions is done by conducting a t test, namely by comparing the significance value t with α (0.05). The amount of t calculates the Character variable with a sig value of 0.00 <α (0.05) which means Ho's rejection so Ha is accepted. Which means that character has a positive effect on lending decisions.

Capacity on lending decisions
Significance testing of the effect of Capital on lending decisions is done by conducting a t test, which is by comparing the significance values t with α (0.05). Large t count Capital variable with sig value 0.00 <α (0.05) which means Ho's rejection so Ha is accepted. Which means that Capital has a positive effect on lending decisions.

Capital on lending decisions
Testing the significance of the Capacity influence on lending decisions is done by conducting a t test, namely by comparing the significance values t with α (0.05). The amount of t calculates the Capacity variable with a sig value of 0.00 <α (0.05) which means that Ho is rejected so Ha is accepted. Which means Capacity has a positive effect on lending decisions.

Collateral on lending decisions
Significance testing of Collateral influence on lending decisions is done by conducting a t test, namely by comparing the significance value t with α (0.05). Large t count Collateral variable with sig value 0.00 <α (0.05) which means Ho's rejection so Ha is accepted. Which means that Collateral has a positive effect on lending decisions.

Condition of economics on lending decisions
Significance testing of the effect of Condition of economics on lending decisions is carried out by conducting a t test, which is by comparing the significance value of t with α (0.05). The size of the variable Condition of economics is large with a sig value of 0.00 <α (0.05) which means that Ho

is rejected so Ha is accepted. Which means that Condition of economy has a positive effect on lending decisions.

Constraints on lending decisions
Significance testing of the effect of constraint of economics on lending decisions is done by conducting a t test, which is by comparing the significance value t with α (0.05). Large t count Constraint variable with sig value 0.00 <α (0.05) which means Ho's rejection so Ha is accepted. Which means that constraint has a positive effect on lending decisions.

The dominant effect on lending decisions
Capacity has the biggest effect on credit decision, which is 52.4%. This means that the assessment of the ability of prospective customers in running and managing their business which ultimately influences their ability to return credit has the greatest influence among other independent variables on lending decisions.

Table 2: F testing

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	695.295	6	115.883	10.556	.000[b]
	Residual	307.390	43	10.978		
	Total	1002.686	49			

By comparing the significance value F count with α (0.05). The value of sig F counts 0,000 <α (0,05) which means Ho's rejection so that Ha is accepted, which means Character, Capacity, Capital, Collateral, Condition of Economy and Constraint jointly have a significant effect on lending decisions.In addition, this table shows that the results obtained obtained F count value is equal to 10,556 with the results of the significance of 0,000, while the degree of freedom in numbers 6 and 43 in the table F table obtained a value of 2.32 (significant). This shows that Character, Capacity, Capital, Collateral, Condition of Economy and Constraint jointly have a significant effect on lending decisions.

Table 3: Determination Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.833[a]	.693	.628	3.313	2.400

Sumber : Data primer tahun 2018.

Based on table 3, the magnitude of the determination coefficient of 0.628 or 62.8% shows the effect of Character, Capacity, Capital, Collateral, Condition of economic and constraint contributing to the ups and downs of credit giving decisions of 69.3% and 30.7% due to factors others not discussed in this study.

5. Conclusion

The 6 C's analysis of credit consisting of six independent variables (X) includes character, capacity, capital, collateral, condition of economic, and constraints having a partial influence on the decision-dependent variable (Y) giving credit to rural credit institutions (LPD) Denpasar city. The 6's analysis of credit consisting of six independent variables (X) includes character, capital, capacity, collateral, condition of economic and constraint jointly on the decision-dependent variable (Y) the decision to give credit to the Village Credit Institution in Denpasar.

6. Suggestion

The application of the 6C's analysis of credit should be used as an analytical standard that must be applied in every credit application activity by prospective customers. the 6C's analysis of credit is a form of credit analysis that must always be a reference for lending by the LPD as a creditor to debtors in each credit application activity in order to avoid and minimize events that lead to financial risk due to credit congestion by the depositors. Denpasar City LPDs are expected to participate by creating a forum to conduct socialization related to the management of small and medium enterprises which aims to provide education and support for the community in managing the business and its economic sustainability.

The LPD is expected to implement a routine monitoring system for customers who have taken credit. This monitoring aims to determine the extent of the customer's condition, the customer's business condition, and to be able to provide solutions to customers who experience business congestion and transparency. It also aims to anticipate the risk of credit congestion due to the deterioration of the customer's financial condition.

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