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Credit Restructuring by Bali Regional Development Bank to Debtors During the Covid-19 Pandemic

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Abstract – Restructuring credit serves as a strategic avenue to ameliorate the financial status of businesses facing adversity, especially those entwined with creditor banks, to assist struggling debtors in meeting their obligations. This study delves into the restructuring initiatives undertaken by *BPD* Bali amid the Covid-19 pandemic, scrutinizing the associated legal implications. This research uses empirical legal research methodology, using a qualitative approach. The data collection techniques used in this research are in-depth interviews, observation, and document analysis. Data obtained from interviews, observations, and document analysis will be analyzed qualitatively. Qualitative analysis is carried out by interpreting the data in depth and thoroughly to produce meaningful conclusions. The result of this study show that the Bali Regional Development Bank's approach involved a meticulous assessment of debtors' integrity and reliability, prioritizing trustworthy customers for credit restructuring. Specifically, for loans ranging from fifty million to five hundred million, the bank adopted reconditioning and rescheduling techniques. The repercussions for debtors entailed a modification in the original agreement with the bank, resulting in the nullification of the initial credit terms initially committed to by both the creditor and debtor.

Keywords: Credit Restruction, Debtors, Legal Implications.

I. INTRODUCTION

In 2019, the corona virus has attacked all countries in the world so it is known as Covid-19. This case is the cause of many countries whose economies have been destroyed, both developed and developing countries (Jihad, 2020). One of the countries affected is Indonesia, where Indonesia is a country where there are many businesses, known as MSMEs (Saturwa et al., 2021). Various problems have occurred due to Covid-19, causing a decrease in turnover of around 56% (fifty-six percent) (Pakpahan, 2020).

This is a very serious problem for the government in Indonesia, such as providing assistance in optimizing bank performance for the stability of the current economy. The policy also made by the Indonesian government is an economic stimulus as a countercyclical caused by the spread of the Covid-19 virus where this policy provides loans for people affected by Covid-19, especially workers who work in the tourism sector and MSME players affected by Covid-19. Credit restructuring is a policy issued by the government through the Financial Services Authority *(OJK)*, namely *PJK* regulation Number.11/*POJK*.03/2020. In an effort to improve credit activities to someone who borrows where it is difficult to fulfill obligations, which is termed credit restructuring. The purpose of this policy is to provide economic relief to debtors, anticipate the growth of credit that has problems and become a strategy in reducing credit that has problems due to Covid-19 (Suryanto, 2010).

In Denpasar City, Bali, *BPD* Bali stands out as one of the banks spearheading credit restructuring policies for its customers. The widespread impact of Covid-19 has led to a surge in unemployment rates, causing distress among numerous Micro, Small, and Medium-sized Enterprises (MSMEs), resulting in business closures (Indayani & Hartono, 2020). Before the onset of the pandemic, MSMEs relied on bank loans to sustain their operations. However, the current circumstances have rendered many incapable of fulfilling their credit obligations, leading to a substantial rise in delinquencies and non-performing loans. According to data from the Financial Services Authority *(Otoritas Jasa Keuangan/OJK)*, there has been a notable 27.3% increase in borrowers' payment delays of 1-2 months, coupled with a 19.10% surge in bad debts (OJK, 2021).

The objective of this policy is to extend support to debtors and mitigate the upsurge in problematic loans during the Covid-19 period by adhering to the effective implementation standards outlined in accordance with *BI* Regulation Number 6/10/*PBI*/2004. This regulation is associated with the assessment framework for gauging the financial soundness of commercial banks, particularly concerning the non-performing loan ratio. The guidelines governing credit restructuring during the Covid-19 outbreak are aligned with Article 5 of *POJK* Number 11/*POJK*.03/2020. These provisions cater to the credit and financing requisites for debtors impacted by Covid-19, including Micro, Small, and Medium-sized Enterprise (MSME) debtors, facilitating the restructuring of loans affected by the pandemic and MSME-related issues. Thus, the study endeavors to scrutinize the credit restructuring initiatives undertaken by the Bali Regional Development Bank amidst the Covid-19 crisis.

II. METHOD

This research uses empirical legal research methodology, using a qualitative approach. Empirical legal research is research that examines the law in practice, not just in theory. A qualitative approach is a research approach that emphasizes the collection and analysis of data from the field. The purpose of this research is to find out the credit restructuring carried out by *BPD* in the midst of the Covid-19 pandemic. The subject of this research is *BPD* in the territory of Indonesia. *BPD* was chosen as the research subject because *BPD* is a financial institution that has an important role in financing MSMEs in Indonesia. The data collection techniques used in this research are in-depth interviews, observation, and document analysis. Data obtained from interviews, observations, and document analysis will be analyzed qualitatively. Qualitative analysis is carried out by interpreting the data in depth and thoroughly to produce meaningful conclusions.

III. RESULT AND DISCUSSION

1. Credit Restructuring by Bali Regional Development Bank to Debtors during the Covid-19 Pandemic

Problematic credit is characterized as credit facing potential payment difficulties or at a stage where it encounters challenges fulfilling its obligations to the bank in repaying debts, constituting a burden for borrowers as outlined in the agreement (Govanda, 2015).

Problems regarding credit are a description of the approval situation in returning credit that is at risk either partially or in full of the obligations that have been determined. Credit experiencing problems *BPD* in this case seeks to minimize the existence of credit that has problems when implementing credit with preventive efforts, but there are still some debtors who do not have the ability to carry out their obligations to return loans and credit that has been channeled to debtors which causes bad payments which are often referred to as credit problems (Mulyadi & Widjaja, 2004).

Based on Article 12, paragraph (3) of *BI* Regulation number 7/2/*PBI*/2005 concerning the evaluation of bank asset quality, credit quality is categorized into five segments, including;

- Current credit is the fulfillment of criteria in paying principal installments and interest or profit sharing that is appropriate, has an active account mutation and part of the collateral credit using collateral.
- Special attention loans are the fulfillment of criteria for overdue principal and interest or profit sharing that have not exceeded 90 days, relatively low account mutations, rare violations of promised contracts or supported by new agreements.
- Substandard loans are the fulfillment of criteria for arrears with principal or interest that exceed 90 days, relatively low account frequency, violation of the promised contract for more than 90 days, and indications of financial problems in the debtor.

- Doubtful loans are the fulfillment of principal and interest arrears with results that have exceeded 180 days, there is a default of more than 180 days due to interest capitulation.
- Bad credit is the fulfillment of the criteria for arrears by principal and interest results that have exceeded 270 days (Hermansyah, 2008).

Credit restructuring is a way banks can make improvements to their credit activities for customers who have difficulty borrowing in fulfilling their obligations (Firmanto, 2019). This process includes changing the schedule of obligations to pay borrowing customers and the time period. It also includes changing either part or all of the credit terms, which includes changes in payments, time periods or other conditions *(Peraturan Bank Indonesia Nomor: 7/2/PBI/2005 Tentang Penilaian Kualitas Aktiva Bank Umum, 2005)*. However, these changes must not be related to the maximum changed credit ceiling.

Credit restructuring can also include changing credit terms related to credit facilities or conversions that have increased either part or all of the arrears of interest installments. This means that the arrears can become the principal of the new credit, which requires a return schedule or return conditions. For example, the customer may have to make additional payments or extend the credit repayment period to cover the arrears.

At *BPD* Bali, credit seen from its use is divided into two types, namely consumptive types of credit, namely credit whose use is for consumptive financing and productive types of credit, namely credit whose use is productive or business credit with many forms or capital. Working capital is 1 month to 12 months, inventory is carried out for 12 months to 5 years/60 months with a credit model classified as *KUR Pundi KKLK* (Supramono, 2018). All loans in *BPD* Bali can enjoy credit restructuring facilities as long as the debtor can have evidence that with Covid-19 it can have a bad influence on his business financed by credit from *BPD* Bali, which must be consumptive credit whose debtor's salary has not decreased during Covid-19 such as credit for civil servants, *BUMN* and *BUMD*. For non-performing loans that are not restructured, namely by continuing to provide guidance on marketing production and financial management of debtors, and can also provide a reduction in credit interest rates or by changing the form of credit from short-term to long-term credit.

BPD Bali utilizes specific criteria to determine the eligibility of debtors for credit restructuring. The assessment revolves around the integrity and reliability of the debtor as a customer. Restructuring is restricted to debtors with productive credits, excluding those with consumptive credits. Moreover, the credit's collateral must possess a marketable value and secure ownership, duly established through *SKMHT* or mortgage rights. Assessment also considers the impact of reduced turnover due to Covid-19 on debtors' ability to repay. Those encountering substantial financial difficulties as a result of the pandemic and possessing businesses with potential for post-Covid development are eligible for restructuring (Khairandy, 2003).

In terms of loan restructuring, *BPD* Bali has a function in providing assistance from a financial strategy angle and has a role for consultants and risk doctors. However, other efforts are still carried out by borrowing customers, they must be able to assess and improve the functions of the company, namely management, operations, organization, human resources, research and development and marketing. The existence of a business plan is important for banks and borrowing customers to jointly conduct a strategic assessment of comprehensive restructuring by borrowing customers (Supriyanto, 2009). With the hope that later it can be implemented by borrowing customers and with this the bank can provide assistance from a financial point of view as stipulated in the applicable regulations.

BPD Bali, as a banking institution rooted in Bali and owned by the local populace, plays a pivotal role in supporting and advancing micro, small, and medium-sized enterprises (MSMEs). As part of its commitment to aiding entrepreneurs, it devises restructuring strategies aimed at salvaging struggling debtor businesses. Specifically, *BPD* Bali focuses on restructuring loans ranging from Rp.50,000,000.00 to Rp.500,000,000.00. This approach involves employing the reconditioning method, which entails altering certain or all aspects of the credit agreement without increasing the credit amount or converting the credit entirely or partially. The bank pursues these changes to aid debtors without introducing additional credit, thereby maintaining equitable treatment.

As for several factors that occur as a result of credit problems, including frequent overdrafts on an account, a drastic decrease in the balance, delays in payment, frequent delays in payment, the occurrence of financial statements, one of which is liquidation that has decreased, decreased debt turnover, debt in a period of time experiencing a sharp increase, the existence of creditor debt where the financial statements do not have audit results. The causes of credit problems include;

- The weaknesses of credit analysis are credit analysis that is not based on accurate data, incomplete credit information, too little credit, too much credit, too long a credit period and too short a credit period.
- The weakness of a credit document includes the absence of good documentation related to credit data and the absence of good implementation of a physical document supervision.
- The weakness of credit supervisors, namely the lack of supervision of a business owned by customers on a regular basis, limited data and information related to saving and completing a credit, corrective actions that are not implemented early and on time, too many customers and the dispersion of customers.
- Carelessness of bank officers, namely actions that are too compromising to the bank, the absence of a sound bank credit policy, officers are too light on problems, competition that occurs between banks.
- Weak policies on credit, weaknesses in the field of collateral management, and weaknesses in human resources.

Implementation of credit restructuring that has problems using reconditioning to debtors with a loan amount of Rp.50,000,000.00 (fifty million rupiah) to Rp.500,000,000.00 (five hundred million rupiah) in the hope that credit that has problems can be returned smoothly in paying monthly installments. Against the smooth payment by the debtor so that there is a restructuring in terms of *BPD* Bali's own finances in addition to the business that the debtor has done can return. So, it is said that restructuring of loans that have problems is a way to save credit in banking and is a way to nourish the debtor's finances including bank assets so that payments on credit can be smooth again. So that from this it can create safety and health from both sides, including the bank as a creditor in terms of credit rescue and health of bank assets and also in terms of creditors in nourishing the continuity of business activities, therefore it can run in accordance with the regulations.

Settlements for problematic loans involve following the primary credit restructuring procedures specified in *BI* Board of Directors Decree Number 31/150/*KEP/DIR*. These regulations encompass several measures, including interest rate reduction, minimizing interest arrears, cutting down principal arrears, extending credit duration, enhancing credit facilities, and asset takeover as per the prevailing rules. Additionally, there's the option of converting credit into temporary capital within debtors' enterprises (Budianto, 2004). Therefore, the restructuring approaches, including rescheduling, reconditioning, and other forms carried out by *BPD* Bali for its debtors align with the description outlined in Article 1, point 25 of the *BI* Regulation. Consequently, *BPD* Bali's efforts in preserving credit are in compliance with established regulatory frameworks.

2. Legal Effects of Restructuring Conducted During the Covid 19 Pandemic by Bali Regional Development Bank for Debtors

Restructuring that occurs as a result of credit problems that cause a legal effect, namely the effect of changing the agreement between the bank as a creditor and the debtor related to the implementation of the rights and obligations of the parties to the credit agreement, therefore the bank as a creditor and the debtor make new agreements for restructuring for credit that has problems, in this case the provisions and methods of payment for credit, payment scheduling, the amount of credit installments that the debtor continues to pay to the creditor (*BPD* Bali) and also other rights and obligations by the creditor. The debtor is also based on the agreement made together stated in the new credit agreement deed on how to carry out the problematic credit settlement. The agreement and agreement between one party and the other is contained in a written agreement. The procedures agreed by the debtor, the terms and implementation that have been determined regarding credit restructuring to creditors related to fulfilling obligations in debt repayment (Sajow et al., 2022). In the event that the collateral has been submitted from the debtor to the creditor, it remains under the supervision and power of the creditor in carrying out the agreement in the binding of new collateral followed by changes to the main agreement as a credit agreement in terms of implementing restructuring of problematic loans.

The restructuring carried out by the bank to the debtor is the result of a changed clause regarding the rights and obligations that should be adhered to and implemented by both parties (Masri & Sri Wahyuni, 2022). There are changes in the credit agreement that have been negotiated by the creditor and the debtor in an agreement regarding the procedures, requirements and regulations that must be carried out and carried out on the part of the creditor and debtor. Changes to the credit agreement include rights and obligations by one party to another, making the restructuring of credit so that the agreement in the binding of collateral also needs to be changed as well as the rules that have been agreed upon in the credit agreement as the subject of the agreement (Nadya, 2017). Additions made to the existence of collateral for creditors if the right is a condition of reaching an agreement to carry out credit restructuring between one party and another. The addition of collateral to the debtor so that the agreement in the binding of collateral is also experienced changes in an agreement according to the amount of collateral provided by the debtor for the creditor. The legal effect of an agreement in the implementation of credit restructuring that has problems is that the debtor is bound to fulfill the obligation to pay the debt in accordance with the agreement so that the debtor can be repaid based on the time period according to the provisions of the agreement made by the creditor and the debtor based on the deed of credit restructuring agreement that has problems. In addition, the rights and obligations for customers who make loans or debtors in credit restructuring agreements that experience problems also make changes where the rights and obligations of the debutor have been facilitated by the creditor as support for the smooth payment of the remaining debt owed by the debtor at the time of the implementation of the agreement in the restructuring for credit problems.

The legal consequences that result from a credit restructuring that has problems for the debtor are the cancellation of credit from the results of an agreement that results in the cancellation of all rights and obligations for the bank as a creditor and the borrowing customer (debtor). The cancellation of the credit agreement that was initiated and there has also been an agreement from one party to another followed by a renewal of the agreement for the creditor and debtor as stated in the credit restructuring agreement that experienced problems as from the new provisions to be obeyed and implemented by the customer. In carrying out restructuring on a credit, it is also carried out if the debtor has good faith and is willing to carry out restructuring of a credit (Fanya, 2022). As the bank can only carry out analysis and evaluation that causes credit problems to the debtor, if the debutor has good business prospects so that the creditor can offer credit restructuring which is one way to save credit by the debtor.

In the process of credit restructuring, several regulatory steps are involved. The board of directors oversees this restructuring in compliance with an internal memo drafted by the business manager. The board determines the credit amount allocated for repayment, along with its terms, interest rates, and related specifics. The evolution of handling restructured credit mandates the business manager to submit progress reports to the board of directors at various intervals. Furthermore, the debtor's rights, obligations, and additional conditions for restructuring are addressed within alterations made to the credit agreement (Sitorus, 2018).

IV. CONCLUSION

Based on the aforementioned discussion, it is evident that *BPD* Bali has initiated credit restructuring amid the Covid-19 crisis, focusing on debtors' integrity and reliability as longstanding customers. Specifically, for loans ranging from fifty million to five hundred million, the bank employs reconditioning and rescheduling techniques. The legal implications for debtors undergoing credit restructuring may involve alterations to the agreement between the creditor (*BPD* Bali) and the debtor (borrower), potentially resulting in the nullification of the original credit terms as initially agreed upon.

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