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## FINANCE | RESEARCH ARTICLE

## The Impact of Bad Credit on Debtor and Creditor Accountability in Fiduciary-Based Business Financing

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**Abstract:** Bad credit, which late payments by the debtor characterize, can damage the relationship of trust between the two parties and increase the Non-Performing Loan (NPL), which affects the financial health of the Pegadaian company. The method used in this research is descriptive analysis with a qualitative approach, which involves systematic observation, in-depth interviews, and literature studies to collect information and data relevant to the research discussed. The results of this study indicate that debtor accountability is strongly influenced by their ability to fulfill payment obligations. At the same time, creditors need to analyze business feasibility and efforts to mitigate risks so that non-performing loans do not increase. This research emphasizes the importance of clearly understanding each party's obligations, the debtor and the creditor bound by the fiduciary, to benefit both parties. Thus, it is expected to create a sustainable financing environment, which can increase economic growth in Samarinda.

**Keywords:** Non-Performing Loan, Accountability, Debtor, Creditors, Fiduciary.

**JEL Classification Code:** G21, G32, K12

### 1. INTRODUCTION

The government has gradually begun to develop the Indonesian economy, especially SMEs in Indonesia, to help improve the economy of the people in Indonesia. The government contributes to efforts to improve the economy and wants to keep up with existing competition; the government has begun to maximize the role of State-Owned Enterprises (BUMN) through more effective schemes. (Umami et al., 2020). One of the companies under the auspices of BUMN that is trusted to help the economic growth of SMEs in the community is PT Pegadaian, which is committed to assisting the stable development of SMEs and becoming a foundation for those who want to start a business. Pegadaian also has other service products, namely carrying out lending activities to the community, financing products offered in the form of Installment Loans Fiduciary system (KREASI), Installment Loans Pawn System (KRASIDA), Amanah Credit, Arrum Credit, and Non-Pawn. As stated on the Pegadaian.co.id website, the procurement of goods and services exists to implement the procurement process by its functions and duties so that it can be efficient and more effective according to the principles of Good Corporate Governance (GCG) (Pegadaian, Pegadaian Pengadaan Barang atau Jasa, 2024)

KREASI is a short-term credit loan with a fiduciary credit guarantee structure offered by the company to micro business owners who need capital for business development and the general public for other purposes that will be regulated by different board of directors regulations (Umami et al., 2020). A fiduciary credit guarantee is an effective solution for SMEs who want to build or maintain a business but have limited capital. This product can also be referred to as KREASI, which is credit with monthly installments given to Micro Enterprises to develop their business with a fiduciary system; fiduciary is a flexible form of collateral that allows the debtor to control or use the pledged object in operational activities, while the creditor has the right to the guarantee in the event of default, fiduciary is quite essential in the legal system in the context of financing, in short, fiduciary legally binds the debtor and creditor. A debtor is a person who has a loan with another party and a guarantee

agreed upon by both parties, while a creditor is a person who provides a loan in the form of money to the debtor.

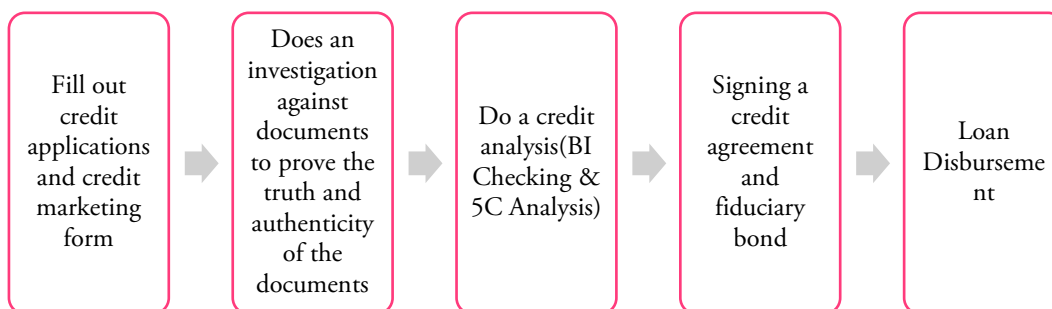
Although fiduciary as a function is very beneficial for its users, there will undoubtedly be problems for debtors who have delays related to accountability or the debtor's responsibility in paying debts not according to the maturity set. Fiduciary financing involves a relationship of trust between the creditor and the debtor (Haryanato, 2021). The creditor trusts the debtor to use the assets that have been pledged in the hope that the debtor can fulfill his obligations per the signed power of attorney. Failure of the debtor to fulfill obligations can lead to complications that can harm both parties. The Credit Agreement contains a series of clauses, including efforts to protect the creditor as a credit provider (Onassis, 2024). Failure to fulfill obligations when due can damage existing business relationships. We know that accountability is necessary because debtors and creditors must clearly understand their responsibilities and the risks that may occur if there is negligence in payment. Various factors can affect the ability of debtors to fulfill their commitments. These can be external and internal factors due to unstable economic conditions, market fluctuations, or inadequate risk management strategies.

Based on the above context, this study focuses on the impact of bad debts on fiduciary financing accountability, which aims to explore and understand how bad debts can affect debtor accountability in the context of fiduciary-based business financing and identify factors that support or hinder accountability related to bad debts. Through a qualitative approach, this research is expected to help understand the relationship between debtors and creditors and offer recommendations to improve transparency compliance in fiduciary-based transactions that promote an adequate and sustainable financing environment.

## 2. LITERATURE REVIEW

Pegadaian is an entity engaged in financial services by pledging an item as collateral. (Amanda & Fernos, 2023). Because of its flexible system and efficiency, the KREASI product is one of the superior products, coupled with its guaranteed security because it is bound by fiduciary law, making customers comfortable using it. This product is a financial instrument used by Pegadaian to improve the standard of living of SMEs, with existing funds channeled to debtors in the form of loans or credits that will be repaid according to the period as stated in the credit agreement by the debtor and creditor (Ningsih, 2021).

A fiduciary is the transfer of ownership rights to an object based on trust, and the object that has been guaranteed is still under the control of the object owner. Every credit disbursement must be fiducia to a notary at the CP Samarinda Pegadaian. Credit loans exceeding 25,100,000 must be registered with a notary public within seven days to obtain a fiduciary guaranteed certificate. Then, Pegadaian will receive a fiduciary guaranteed certificate and the BPKB, which will be kept until the credit is declared paid off. Unlike fiduciary loans below Rp 25,000,000/warming, they do not need to be registered because they are relatively small. Based on the regulation of the Board of Directors Number: 67/DIR I/ 2016 dated September 29, 2016, concerning Technical Guidelines for Online Creation Pegadaian, cited by Alexander Johannes M. S is:



**Figure 1. Creation Scheme**

Source: (Muhammad Simanjuntak, 2021)

The impact of bad credit can have long-term financial consequences for debtors, affecting their ability to secure future financing. This can create a cycle of accountability issues, as creditors may be hesitant to lend to individuals with a history of bad credit, Bhambhwani, 2019 Research contributes significantly to the literature on debt contracting and accounting by demonstrating that effective enforcement of contracts by lenders dramatically enhances the value of financial reporting. Additionally, it effectively enriches the discussions surrounding international accounting and investor rights by showing that more substantial creditor rights greatly influence accounting practices. The study outlines two key ways accounting enhances contract value: it enables lenders to enforce agreements and increases lending based on accounting data. Through a natural experiment, the researcher investigated whether more substantial creditor rights improve accounting quality among borrowers by using publicly traded companies. He found that creditors can seize the assets of defaulting borrowers within 60 days, avoiding lengthy court processes, which previously took two to seven years. This law notably aids banks in recovering debts and allows for examining how creditor rights affect various firms influenced by this change. As a result, any noticeable shifts in the financial reporting quality of the borrowers directly affected by the reform, compared to the control group, can be directly linked to the transformation into secured creditors' rights.

Bhambhwani (2019) Research states that expanding creditor enforcement rights led to better accounting standards among affected debt. Creditor rights have a more substantial impact when borrowers are at risk of asset seizure, and creditors have more bargaining power. Borrowers' improved accounting standards result in lower borrowing rates. For this reason, I conclude that when creditors diligently meet their obligations, it can significantly enhance the debtor's adherence to financial standards and responsibilities. Furthermore, this study addresses the impact of legally binding contracts or agreements; such documents possess legal validity and are crucial in determining the debtor's commitment to fulfilling their payment obligations. The enforceability of these contracts can encourage a sense of accountability in debtors, thereby promoting a more reliable and trustworthy financial relationship. In a different perspective, researcher Simanjuntak (2021) In his study, he highlighted the pressing necessity for a more in-depth investigation into the execution of Installment Credit Agreements at Pegadaian. He underscored the importance of gaining a comprehensive understanding of the intricacies of the Fiduciary system in practice. Furthermore, he advocated for a thorough analysis of debtor eligibility, emphasizing that a more precise picture is essential for effective implementation. (Muhammad Simanjuntak, 2021) Despite significant methodological differences, the two researchers agree on the need to look deeply into the debtor's past and current circumstances. Their study emphasizes the need for a thorough investigation into the human and financial background, uncovering layers of complexity that can influence the understanding of debtor debt.

Liberhan's 2020 research centered on the creditworthiness stigma associated with high-risk borrowing; this study emphasizes the negative impact of high-cost debt on borrowers' perceived trustworthiness and, thus, their prospects of obtaining conventional credit. It provides solid data to support the perceived creditworthiness mechanism, demonstrating how costly credit can influence lenders' judgments of a borrower's credit risk. The findings suggest that when borrowers incur high-cost debt, lenders may wrongly label them higher-risk persons, making future funding more challenging. These findings have significant implications for consumers' overall financial health, raising worries about the stigma associated with high-risk borrowing. That's why creditors must be wise when choosing debtors; they must be careful to prevent undesirable outcomes.

### 2.1. Fiduciary

Fiduciary, as it means in Latin, means trust, where it is known that the fiduciary agreement is based on a relationship of trust between the two parties. The debtor trusts the creditor to transfer ownership rights of the pledged goods, and the creditor trusts the debtor to use the promised goods to fulfill the bond. In Indonesia, fiduciary agreements are often used to assure movable assets in small and large financial transactions; fiduciary is the legal foundation for parties' binding contracts (Sahala et al., 2020). Suppose the debtor does not want to fulfill the fiduciary payments as stated in the agreement. In that case, the creditor has the right to sell the collateral to obtain repayment from the proceeds of the sale because the creditor has the right to sell the fiduciary collateral as stated in the fiduciary agreement, so if the creditor feels that his rights have not been fulfilled, the creditor can take

him to court because the fiduciary guarantee certificate has the same position as a court decision that has legal force (Butarbutar, 2022). From her research, Yolanda states that fiduciary holders have the same power as court decisions with legal force; fiduciaries notarized based on legislation are substantial evidentiary documents in judges' eyes (Yolanda et al., 2020). Through his research, Prasetya expressed his concern about leasing companies that did not register their fiduciary agreements, which, in his conclusion, stated that if the defendant did not register the fiduciary deal, he had to sue through the court. Still, the creditor had the right to execute the collateral if registered (Prasetya et al., 2022). This research shows the strength of the fiduciary agreement so that the fiduciary agreement can encourage debtors to be more responsible in fulfilling their obligations to pay installments as a party bound by the fiduciary.

## 2.2. Credit

Credit services are money lending services provided by creditors to debtors based on an agreement from both parties that will be paid within a certain period with interest as a reward. This service is undoubtedly good and provides many benefits for its users. Still, it does not rule out the possibility of causing problems for service users if the debtor is not committed to being responsible for credit. The problem that often arises is bad credit. Bad credit is when borrowers cannot repay their loans by the agreed-upon terms (Yanda & Rahmazaniati, 2024). The creditor must be able to think of a way to minimize this. According to Tripathi, it takes various plans and regulations that are applied regularly based on multiple corporate committee reports worldwide so that the management system is more potent and can face future obstacles (Tripathi et al., 2023). According to Rasman (2023), insufficient debt resolution begins by determining the factors behind the customer's inability to repay credit. Then, employ persuasive actions (Rasman et al., 2023). The results of Liberman's research, 2020 show that the overall distribution of credit use, especially among the relatively poor, can influence financial inclusion. Of course, this can have different effects in cases with other types of credit. This relationship is complex because different types of credit, like helpful microloans for new entrepreneurs and high-interest credit cards, affect users differently. Microloans can inspire people to start small businesses, boosting economic growth in underserved communities. In contrast, high-interest credit cards can lead to a cycle of debt that hinders financial progress. Understanding these differences is essential for creating policies that promote fair access to economic resources and support sustainable development for everyone.

## 2.3. Impact on Credit Quality

Bad credit has a significant impact on the credit quality of debtors and also affects creditors. According to Octavia, 2020, Bad credit is defined as Credit that cannot be collected if the customer cannot pay due to bankruptcy or flees (Octavia, 2020). According to her research, Nursyahriana in Rizwinie, 2023 states credit payment delays can result in bank losses, including non-refundable cash and missed interest income. As a result, the bank lacks the opportunity to conduct regular deposit operations (Rizwinie et al., 2023). Therefore, service providers must be able to minimize the risks that might occur; from the results of research by Pasaribu, 2023 it is known that bad credit has a significant effect on cash turnover (Pasaribu & Daulay, 2023). Effective risk management is essential when dealing with bad loans (Putra Pratama et al., 2024). Therefore, Pegadaian requires regular evaluation so that the risk management applied remains relevant. Not only creditors' bad credit also impacts debtors; debtors who fail to fulfill their obligations or default can be said to be breaking promises, negatively affecting their credit score. Liberman, 2020 in his research examines cost credit and its effects on borrowers and finds that borrowers with low perceived creditworthiness don't seem more likely to seek or acquire loans from banks after taking on high-cost debt (Liberman et al., 2020).

They can go to court, and they can no longer apply for credit at any financial institution as it will affect their credit score; credit score classification consists of A to E classification, where A and B can be considered current credit, C-D Substandard Credit and E Bad Credit, the Pegadaian may classify debtors according to their credit risk simply through an understanding of these categories, The existing credit rating system mainly relies on financial data, which is frequently unavailable (Locurcio et al., 2021).

### 3. RESEARCH METHOD AND MATERIALS

The method used in this research is descriptive analysis, which focuses on the effect of maturity on debtor accountability. This qualitative research uses in-depth interviews and literature studies, where researchers examine internal documents and account officer survey reports to obtain a situation that describes the object under study by existing facts. Descriptive analysis aims to get research that systematically, factually, and accurately describes existing events. Qualitative research describes the meaning of the data researchers study by showing evidence (Abdussamad, 2022).

Data collection is carried out methodically; a qualitative approach is used to understand the events experienced by research subjects by describing them scientifically (Hasan et al., 2022). Information was gathered from various stakeholders to verify the authenticity and validity of the data obtained, each providing unique insights. This includes the Manager of Non-Gadai, an expert who oversees and manages the intricate execution of operations, offering vital advice; the Credit Administration, the one on duty to monitor the billing process, ensuring that every detail is carefully tracked; the Account Officer is very important since they are dedicated to supporting and aiding Mikro clients and the BPO Collector in the duty of handling the delicate work of collecting pledged commodities. Moreover, essential data was meticulously gathered from both the client and Pegadaian systems, with relevant information enhancing the research scope. To maintain consistency in data collection, a standardized interview protocol was expertly employed, ensuring that each interaction was structured and thorough, ultimately contributing to a more comprehensive understanding of the subject matter. The research results are expected to answer the question of applying the *droit de suite* when there is a late payment and its effect on debtor accountability. To ensure the effectiveness of the research data, a preliminary study was carried out before the primary data collection. This study involved a small sample size and aimed to evaluate the interview procedures and information collection methods. Feedback from this initial phase allowed for improvement, improving the questions' clarity and the interviews' overall flow. The outcomes of the preliminary study contributed to refining the research strategy and ensured that the main study yielded precise and reliable results.

Data sources were obtained from primary data and secondary data. Primary data were collected through interviews conducted with staff members of CP Samarinda Pegadaian and customers of Pegadaian. Additionally, secondary data were sourced from literature reviews, which included relevant documents, archives, and academic journals pertinent to the research. There are various limitations to the descriptive-analytic design that was used. Relying on qualitative data may increase subjectivity due to respondents' prejudices. The data only describes the situation and cannot determine the relationship between variables. Also, non-response bias can occur when some staff opt-out or offer inadequate information, reducing the research's validity. Because the study only included CP Samarinda Pegadaian, the findings may not apply to a larger population.

### 4. RESULTS AND DISCUSSION

Solving debtor accountability issues related to payments can be seen from the efforts of the debtor and creditor in overcoming problems from the impact of maturity and how the creditors and debtors overcome these problems. The fiduciary guarantee guarantees legal certainty so that the existing issues are indeed protected by law and the existing problems are straightforward in the eyes of the law; as long as both parties can uphold the agreement that has been signed and understand their responsibilities, it can make it easier for both parties. As stated in the Regulation of the Chief of the Indonesian National Police Number 8 of 2011 concerning Securing the Execution of Fiduciary Guarantees:

- a. The National Police of the Republic of Indonesia is a state instrument whose duty and function is to maintain security and public order, law enforcement, protection, protection, and service to the community;
- b. That as an instrument of the state, the Indonesian National Police is authorized to provide security assistance for the implementation of court decisions or execution of Fiduciary guarantees, activities of other agencies, and community activities;

- c. That the execution of the Fiduciary Guarantee has the same binding legal force as a court decision that has permanent legal force, so it requires security from the Indonesian National Police;
- d. That based on the considerations as referred to in letters a, b, and c, it is necessary to stipulate a Regulation of the Chief of the National Police of the Republic of Indonesia concerning Security for the Execution of Fiduciary Guarantees;

This regulation is made to avoid the execution of collateral objects that are contrary to the laws and regulations or to overcome problems that may arise. The police decide according to what is stated in the Indonesian National Police Regulation Number 8 of 2011 concerning Securing the Execution of Fiduciary Guarantees (Rehulina & Putra Sitorus, 2022).

#### 4.1. *Matters Affecting Debtors in Fulfilling Their Obligations*

Overdue customers often have problems paying their credit in the field, and the customer behavior varies. Customers who experience delays tend to show the following reactions:

1. Not responsive  
When due, many customers choose to avoid and are reluctant to meet with the Account Officer.
2. Defensive  
Many creditors seem more defensive when contacted to make payments, so creditors experience difficulties when making non-face-to-face deliveries.
3. Giving Reasons  
The customer tries to explain to the Account Officer why they are late and asks for an extension.
4. Commitment  
Some customers will pay as soon as possible; others underestimate it because they feel late payment is not urgent.
5. Financial Behavior Change  
Customers try to manage their finances well and reduce expenses for additional income.

Most credits become nonperforming when the customer does not make payments for 90 days (Singh et al., 2021) If 1 day passes, the customer can be given a written letter (SP) 3 times for 7 days for each SP. When it enters SP, the customer is required to pay; if he does not pay and Pegadaian has given SP 3, Pegadaian has the right to withdraw the collateral, but if the debtor still has a good intention to pay off even though a lousy business constrains him, Pegadaian will make credit rescue efforts such as credit reconstruction where the team member will investigate the occurrence of payment arrears based on the financial statements of the debtor's business that is experiencing economic constraints (Muhammad Simanjuntak, 2021), That's why lenders are expected to deliver more accurate financial reports in reaction to creditors' need for information following the enactment of the Act (Bhambhwani, 2019) So that creditors make rescue efforts when cases like this happen. Pegadaian does not immediately withdraw the collateral by force; Pegadaian will invite the debtor to negotiate regarding the pledged goods, whether the goods are returned to leasing or sold to cover the debtor's debt.

#### 4.2. *The factors that affect debtors in fulfilling their obligations such as:*

- a. Customer's business that has experienced a decline in income.  
This is due to decreased market demand, operational problems, or unexpected inflation, which can significantly impact business. This affects business income, making customers unable to fulfill their obligations.

- b. Customer does not want to pay.  
This is a common problem where customers have bad intentions, and after disbursement, the customer moves and cannot be found. Some customers feel that there are no consequences, so the fulfillment of their obligations is put aside, and they choose to meet other needs considered more urgent.
- c. The customer is unable to pay the credit.  
In this case, it can be affected by the loss of income or the customer falling ill. Or even because the customer is trapped in other debts; of course, this is strictly prohibited because if the debtor borrows from other lending services, it can be said that the debtor is in breach of promise, and criminal proceedings can be filed. (Rehulina & Putra Sitorus, 2022).
- d. Customer passed away.  
Customers who die will still be charged with their obligations to the heirs or spouse of the customer.
- e. Collateral lost or destroyed.  
If the collateral is damaged or lost, the customer will be asked to replace the collateral, and the obligation will continue.

External factors that cause bad credit include bankruptcy, business destruction, declining income, and higher interest rates. (Putra Pratama et al., 2024). Suppose there is a default on the KREASI agreement. In that case, the debtor will be subject to a fine, as has been applied at Pegadaian CP Samarinda, of 1% to 12% of the interest for debtors who are more than 90 days late in payment and also apply to Warning Letters 1,2,3. If Warning Letter 3 is issued and the customer still has not paid the obligation, it appears that it must be claimed to cover the customer's bad credit. The credit will be covered 80% by insurance, but if the customer dies, it will be covered 100%, even though the withdrawal will still be carried out when claiming insurance. In cases at Pegadaian, there are instances where debtors refuse to meet their payment obligations for several months. This non-compliance violates the terms of the agreement and significantly impacts both the debtor and the creditor. The debtor uses violence to maintain the goods that have been Fidusiaced. Such a scenario can lead to various sanctions imposed on the debtor, which may further complicate the situation. However, resolution is possible if the debtor acknowledges their responsibilities and is willing to communicate openly. The debtor needs to take ownership of their financial commitments. Simultaneously, creditors must uphold strong work ethics throughout the process, ensuring fairness and integrity in their dealings, which can facilitate a productive dialogue and a potential resolution.

#### 4.3. Sanctions that Debtors Will Get If Default Occurs

In the process, prospective debtors will be informed from the beginning about what KREASI is and how the process works. Creditors can execute collateral if they meet the conditions, namely that there is evidence that the debtor has violated the agreement/default so that the pawnshop will issue a letter of withdrawal of the collateral pledged by the creditor. And, of course, the collateral to be executed must be submitted voluntarily by the debtor (Rehulina & Putra Sitorus, 2022). In the credit process, pawnshops will strive to avoid defaults, and even if they occur, creditors will make persuasive efforts before withdrawing collateral. Pegadaian will analyze the feasibility of the customer's income, impose a fine for each late installment of 4% divided by 30 days of the amount of the installment, give a warning letter 3 times, and visit the customer to make sure the customer is unable to fulfill his obligations so that Pegadaian can provide options to the debtor on how the credit settlement can be carried out.

The auction can be carried out when one month has passed since the written notification; the proceeds from the collateral that has been auctioned are then used to fulfill the remaining defaulted payments. If there are more than the auction proceeds, more will be given to the debtor, but if the auction proceeds are insufficient, the debtor is still required to pay the missing obligations. This has been regulated in the Minister of Finance Regulation Number 27 / PMK.06 / 2016, where this regulation regulates in detail the steps of the auction application, steps, bid guarantees, limit values in

the auction, auction announcements, and the implementation process. This regulation allows the auction process to run openly and fairly by applicable laws.(Maskanah et al., 2024). If the customer refuses to hand over the collateral and fights back at the withdrawal time, Pegadaian will take legal action in collaboration with the prosecutor's office. Because the signed agreement contains laws that bind both parties, the Constitutional Court's decision in article 15 of Law 42/1999 concerning fiduciary guarantees, which explains that "a fiduciary guarantee certificate has the same executorial power as a court decision" so that "if the debtor is in default, the fiduciary receiver has the right to sell the object of the guarantee" so that we can conclude that the creditor has the right to execute the collateral and is justified by the applicable law(Salvia & Putri, 2024).

A fiduciary agreement with collateral above IDR 25,000,000 must be registered with a notary. Fiduciary Guarantee Law No. 42 of 1999, concerning the registration of fiduciary guarantees, requires fiduciary guarantees to be registered at the fiduciary registration office; Law No. 2 of 2014 concerning amendments to Law No. 30 of 2004 describes notaries as legal officials authorized to make authentic deeds (Haryanato, 2021). According to Yolanda's research, debt collectors without a fiduciary collateral certificate are not entitled to take fiduciary collateral, even if they hold a power of attorney from the corporation. Furthermore, the method for removing items linked with fiduciary pledges does not comply with current law, which has raised worries among those affected by this circumstance. Several parties have brought this problem before the Consumer Sangketa Settlement Board (Yolanda et al., 2020). Of course, this can be avoided if only the debtor makes installments; even if there is a delay in fulfilling fiduciary payments, the creditor cannot withdraw the credited collateral (Karmila, 2023).

#### 4.4. The Impact of Bad Credit for Creditors

Of course, Pegadaian as a service provider is affected if there is a default, which can stop work in Pegadaian. Non-Performing Loan increases, Non-Performing Loan is an asset quality measurement tool that is grouped into underpaid, doubtful, and bad loans; this is regulated in SE BI No. 15/28 / DPNP July 31, 2013 (Rusnaini et al., 2019). Credit collectibility at Pegadaian CP Samarinda can be grouped into 5, namely:

1. Current Credit  
Customers can be grouped into current credit if they have never been paid late.
2. Substandard Loans  
Customers can be grouped into substandard credit if the installment payment is less than 1 to 30 days late.
3. Under Special Attention  
Customers can be grouped into special attention if the customer is late in making payments for 31 to 60 days.
4. Doubtful Loans  
The customer can be classified as doubtful credit if the installment payment is 61 to 90 days late.
5. Bad Debt  
Customers can be classified as bad debts if installments are more than 90 days late.

Knowledge of these categories helps banks categorize customers based on their credit risk (Putra Pratama et al., 2024). Access to credit information has a significant impact on lending conditions and risk assessment. A thorough investigation reveals how these variables interact, eventually influencing lenders' strategies and borrowers' opportunities (Bover et al., 2013). When NPLs increase, it results in Pegadaian not being able to extend credit because there is no turnover of funds; therefore, efficient fund allocation considerations are needed; according to Singh, the quality of loans to families and enterprises can be described by a few macroeconomic variables, including the economy's status, borrowing costs, and debt burden (Singh et al., 2021). The high NPL ratio indicates that banks are covering more bad loans. Increased credit bottlenecks might hinder rotation capital work, decreasing earnings and overall performance in bank finance (Amirudin et al., 2024). Because NPL has a ratio

in measuring whether a credit is good or bad, a high Non-Performing Loan will reduce the Return on Assets, and a low Non-Performing Loan will increase the Return on Assets (Winarso et al., 2020). Liquidity measurement might reveal a bank's inability to fulfill its maturing obligations (Amirudin et al., 2024). So, it can be concluded that the non-performing loan indicates poor credit quality, which can increase non-performing loans and suggest that the company is experiencing a problem (Maganitri Kundala et al., 2024). The maximum NPL ratio at Pegadaian CP Samarinda is 3%; if more than that, it will reduce profitability and result in outlets being locked and unable to carry out further lending. Creditors must make collections first to reduce NPLs because OJK wants to control healthy credit. Credit distribution can still be carried out if the Pegadaian Samarinda branch requests approval from the center and is approved, based on Bank Indonesia Circular Letter No. 17/19 / DPUM of 2015, where Bank Indonesia sets a maximum Non-Performing Loan ratio of 5% (Rusnaini et al., 2019). In the process, Pegadaian CP Samarinda must carry out according to the Standard Operating Procedure, starting from the execution of Warning Letter 1, Warning Letter 2, Warning Letter 3, and claims to insurance and withdrawal, because at the time of the audit, this will be considered a loss to the Company. But if the process of Warning Letter 1, Warning Letter 2, Warning Letter 3, and claims to insurance and withdrawal are not carried out properly, the company cannot compensate for losses, so the creditor will bear the loss burden because it is considered negligence in duty.

#### 4.5. Debtors' Efforts to Maintain Payment Accountability

There are various kinds of efforts that have been made or can be made by customers to maintain payment accountability; this is good for debtors because, if done, it can offer several benefits for debtors and lending institutions; here are some of the debtors' efforts to fulfill their obligations:

1. **Maintain economic stability**  
The customer maintains the economic stability of income and expenses appropriate for paying installment obligations as a debtor.
2. **Inform the replacement of identity data**  
The customer always informs Pegadaian team member on duty if there is a change in identity data as a debtor, such as a home address, telephone number, business, and others that are related to the debtor's ability to pay credit and do not make it difficult for creditors to contact/convey information about maturity. Insufficient information may lead creditors to make less-than-ideal conclusions about whether to seek enforcement or rework the agreement (Bhambhwani, 2019).
3. **Paying on time**  
Customers pay installments on time and remember the due date so that there is no delay in paying debts; if there is a delay, a fine will be imposed on the debtor. Customers manage their money responsibly by creating separate budgets for paying off debt and daily expenses.
4. **Customers prioritize debt**  
Customers make a separate budget between the budget for paying debts and the budget for meeting daily needs. Customers manage their finances responsibly by generating distinct budgets for debt repayment and daily expenses. Strive for a budget to pay debts that already exist before the due date, and do not spend it on something unnecessary; self-control is one of the primary reasons for developing good financial behavioral conditions (Asmin et al., 2021).

Those are the efforts that customers can make to maintain payment accountability; if done, it is beneficial to increase the customer's credit score. Because the debtor pays on time, the debtor shows his character is good in terms of his financial responsibilities, and the creditor will give the debtor confidence if the debtor wants to make the following loan. The impact extends beyond debtor pawnshops; individuals with good credit scores find it relatively easy to secure loans from various financial institutions. Debtors will be open to special program offers, as an appreciation of a financial

institution to debtors to retain debtors and increase debtor satisfaction. Not only is it beneficial for debtors, but it is also beneficial for Pegadaian because if debtors pay their installments on time, there will be a decrease in Non-Performing Loan (NPL) so that it provides benefits for the company, and lending can be carried out correctly.

#### 4.6. *Creditor's Efforts to Mitigate Risk*

Creditors use several stages to minimize risks that may arise in the future, namely by using 5C credit analysis. Pegadaian takes various preventive and corrective actions to overcome NPLs, including creditworthiness analysis, credit control, audit, and loan reconstruction (Putra Pratama et al., 2024) to reduce the risk of bad credit. To determine the customer's ability to make payments and apply for credit, Pegadaian needs to analyze the customer's credit history by checking through PEFINDO and using the 5C principles: character, capacity, capital, collateral, and condition. In the credit application process, Pegadaian team members will check the authenticity of data such as identity, the purpose of using credit, and BI. Checking the prospective debtor, with a classification from A, a credit risk assessment model assesses the possibility for future losses in a bank's portfolio by looking at the counterparty's ability to pay debt obligations (Locurcio et al., 2021). After checking, the creditor conducts an interview; one of the principles used is 5C. In implementing disbursement and supervision so that bad credit does not occur, a 5C analysis is needed, which is used to reduce the high risk of bad credit (Octavia, 2020). According to Kasmir, in (Amanda & Fernos, 2023) 5C consists of :

1. Character  
Creditors will analyze the customer's character and whether the prospective debtor can be trusted to apply for credit. Creditors will pay attention to prospective debtors' eye movements, expressions, appearance, and gestures.
2. Capacity  
Creditors will see how prospective debtors can pay prospective debtors and how they can control their business. So that prospective debtors can genuinely be trusted to return the credit given.
3. Capital  
Creditors see whether the use of capital is practical; this can be seen from the customer's business financial statements and will be measured in terms of liquidity and solvency. This aims to determine whether the company can bear the risks that the company may experience.
4. Collateral  
The value of the collateral should be higher than the amount of credit loaned for certainty of repayment if the debtor cannot repay his debt.
5. Condition  
Creditors will examine environmental conditions such as the social, cultural, and economic environment. Creditors see whether the customer is involved with taking illegal drugs or dishonest business actions; this can disrupt the seamless flow of credit payments, potentially putting Pegadaian at risk.

This principle is used to review customers so that there is no default in the future. , the Pegadaian CP Samarinda will also check the creditworthiness of the customer's family or spouse so that the creditor can see the ability to pay or if something happens that the creditor does not want to minimize the risk, Annual reports should include more information on a company's risks to maintain their efficacy (Amirudin et al., 2024). According to Firmansyah, less thorough background analysis and debtor data are the leading causes of bad credit (Rizwinie et al., 2023). This 5C principle is carried out so that creditors can have confidence that the disbursements provided are safe (Resky Arsyad et al., 2022). Credit significantly influences Pegadaian and is the company's main business. However, it does not rule out the possibility that this will bring down Pegadaian if no security measures are taken against loans categorized as problematic so that the pawnshop distributes credit and thinks about how

the credit can be returned (Madya Fitriani et al., 2023) Therefore, Pegadaian must conduct reviews regularly and adequately to maintain sustainability in the financing environment.

## 5. CONCLUSION

The findings of this journal show that bad debts significantly impact the accountability of debtors and creditors in the context of fiduciary-based business financing at Pegadaian CP Samarinda. Bad debts, which late payments by debtors characterize, can damage the relationship of trust between debtors and creditors. This causes debtors to face consequences such as financial losses, a poor reputation with other financial service providers, and the potential execution of the collateral in the fiduciary agreement, while creditors experience an increase in Non-Performing Loan (NPL), which can disrupt the operation of the CP Samarinda company and hinder credit distribution to Pegadaian customers.

This research highlights the importance of a clear understanding of the obligations and responsibilities of each party bound by a fiduciary agreement. Debtors must maintain accountability by fulfilling payment obligations on time and managing finances well, while creditors must conduct a thorough creditworthiness analysis and mitigate risks to mitigate potential losses. Good collaboration between debtors and creditors and implementing adequate transparency and communication practices are required to reduce the negative impact of bad debts. This will create a healthier and more sustainable financing environment, supporting economic growth by developing Indonesia's micro, small, and medium enterprises (SMEs). This is Pegadaian's vision: "To become the most valuable financial company in Indonesia and as the financial inclusion agent of the people's first choice." (Pegadaian, Pegadaian visi-misi, 2024). Ultimately, the connection between accountability, sound financial practices, and the larger economic objectives of Pegadaian and the Indonesian government is vital for creating a strong financial ecosystem. By addressing issues related to bad debt and enhancing the fiduciary financing framework, parties can contribute to ensuring a more stable and prosperous economic future for everyone. Further insight and in-depth investigations could explore the intricate relationships among various financial variables, including credit risk, accountability, debtors, creditors, return on assets, and non-performing loans. By delving into these connections, researchers could uncover valuable insights that illuminate how each factor influences and interacts with the others in the complex landscape of financial health.

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