The Influence of Credit Approval Policy Through the 5C Principle (Character, Capacity, Capital, Collateral, Condition of Economy) on Credit Asset Quality and Its Implications on NPL (Non-Performing Loan) Level PT. BPR YSL Bandung

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ABSTRACT

This study aims to analyze the effect of credit approval policies based on the 5C principles on credit asset quality and their implications for the level of Non-Performing Loans (NPL) at PT. BPR YSL Bandung. The phenomenon of fluctuating NPL levels that exceed the maximum threshold set by the Financial Services Authority (OJK) highlights the importance of evaluating the effectiveness of credit approval policies. This research adopts a quantitative approach using a survey method. Primary data were collected through questionnaires distributed to internal bank employees involved in the credit approval and monitoring process, while secondary data were obtained from NPL reports covering the period from June 2024 to May 2025. Path analysis was employed to examine both direct and indirect relationships among variables. The results indicate that credit approval policies implemented through the 5C principles have a positive and significant effect on credit asset quality. Furthermore, credit asset quality has a significant influence in reducing the level of NPL. The findings also reveal that credit approval policies have a direct and significant effect on NPL. In addition, credit asset quality acts as a mediating variable that strengthens the relationship between credit approval policies based on the 5C principles and NPL levels. These results emphasize that consistent and comprehensive implementation of the 5C principles is essential to maintain credit asset quality and improve the financial health and stability of rural banks. This study is expected to provide valuable insights for bank management in enhancing credit risk management strategies.

INTRODUCTION

Banking is an important sector in supporting the stability and economic growth of a country (Boachie et al., 2023; Chen et al., 2023; Korneev et al., 2023; Pratami et al., 2022; Saliba et al., 2023). One of the main functions of banking is the distribution of funds to the public in the form of credit. Credit is one of the main sources of income for banks, but it also contains the greatest risk in banking operations. Therefore, the credit approval policy is a crucial thing that must be carefully designed and implemented so as not to cause losses that can harm the stability of the bank.(Harahap dkk, 2020)

Bank stability is an important foundation for the sustainability of a country's financial system. This stability reflects the bank's ability to meet its financial obligations, maintain customer confidence, and support economic growth through efficient and responsible disbursement of funds. One of the crucial components that greatly affects the stability of banks is the quality of its assets, especially the quality of the credit provided to customers.(Aprianti, 2021)

Credit is a major activity in banking that contributes greatly to revenue, but it also carries high risk. When credit is not managed properly, Non-Performing Loans (NPLs) can occur, which negatively impact the bank's profitability and stability (Darmawan, 2023). To maintain credit quality, banks need to implement a comprehensive credit approval policy, one of which is by using the 5C principle (Character, Capacity, Capital, Collateral, and Condition of Economy) which helps banks assess the feasibility of prospective debtors (Andrianto, 2020). A strong policy can avoid providing credit to an undeserving party, but a weak policy can increase the risk of non-performing loans (Humaira, 2023).

According to the Financial Services Authority (OJK), the quality of credit assets at Bank Perekonomian Rakyat (BPR) is still a concern, with NPLs increasing. In March 2025, the NPL ratio of BPR will reach 11.91%, far above the healthy limit set by the OJK, which is 5%. This shows that many loans are experiencing payment problems (OJK, 2025). This decline in credit quality is influenced by several factors, including the application of the 5C principle which is not always optimal, especially in the assessment of debtor character, payment capacity, and collateral (OJK, 2025).

More specifically, the OJK identified several problems in the application of the 5C principle in BPR. The assessment of debtors' character is often in-depth due to limited access to data, as well as the influence of proximity factors in credit decisions. In addition, the analysis of paying capacity is often inaccurate due to the debtor's fluctuating income and lack of clear documentation. Collateral valuation is also problematic due to overvaluation or legality issues that hinder the recovery process. Economic conditions that are not properly monitored also worsen credit quality (OJK, 2025).

Overall, while the 5C principle is a good basic guideline, its implementation in practice needs to be improved in order to prevent an increase in NPLs and improve the quality of credit assets in BPRs. Therefore, strengthening the implementation of credit approval policies, stricter supervision, and improved economic analysis and market conditions are needed to maintain the bank's financial stability.

This study aims to analyze the influence of credit approval policy through Principle 5C on the quality of credit assets and its implications at the Non-Performing Loan (NPL) level at PT. BPR YSL Bandung. The formulation of this research problem covers several aspects, such as the implementation of the effectiveness of the credit approval policy referring to Principle 5C, the condition of credit asset quality, the NPL level, and the direct and indirect influence of the application of these principles on the quality of assets and NPLs. This study also aims to explore the implications of asset quality on NPL levels, as well as the role of credit asset quality mediation in the relationship between credit approval policies and NPLs.

The benefits of this research are divided into theoretical and practical benefits. Theoretically, this research is expected to develop credit risk management theory, especially in the context of the People's Economic Bank (BPR), and validate the concept of 5Cs as an effective credit analysis tool, especially post-COVID-19 pandemic. This research will also develop a model of the relationship between credit policy, asset quality, and NPLs, which can be a reference for future research in the banking sector. Practically, this research provides benefits for PT. BPR YSL Bandung and other BPRs, in the form of internal policy evaluation, improvement of credit portfolio quality, and NPL risk mitigation. In addition, this study also

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provides input to the Financial Services Authority (OJK) in the formulation of policies and supervision related to credit risk management in BPRs, as well as encouraging transparency and accountability of BPRs in the process of providing better credit.

METHOD

This study used a quantitative approach with an explanatory method to test and explain the causal relationships between various aspects that affected the quality of credit assets, especially in financial institutions such as Bank Perekonomian Rakyat (BPR). This approach allowed researchers to identify patterns of relationships between variables hypothesized to have a direct or indirect influence on the quality of credit assets, such as debtors' business prospects, financial performance, payment capacity, and internal banking policies. In this study, data were collected in numerical form from financial statements, credit scoring results, and other quantitative data that could be measured and compared statistically.

Data analysis was carried out using inferential statistical techniques such as Structural Equation Modeling Partial Least Squares (SEM-PLS), which is suitable for testing complex relationships between latent variables (Ghozali & Latan, 2021). This explanatory quantitative approach provided advantages in terms of objectivity and generalization of research results, as it was based on scientific principles and valid, reliable measurements. In the context of banking, this study contributed to the understanding of the determinants that affect the quality of credit assets and assisted banks in mitigating credit risks more effectively (Sugiyono, 2022).

Variable operationalization is the process of translating abstract concepts into measurable indicators to enable systematic data collection in research (Sugiyono, 2017). In this study, the operationalized variables consisted of an independent variable, a dependent variable, and a mediating variable. The independent variable was the credit approval policy based on the 5C principles (Character, Capacity, Capital, Collateral, and Condition of Economy), which served as the primary framework for assessing debtor eligibility and mitigating credit default risk (Kasmir, 2017).

The dependent variable was the quality of credit assets, classified into Current Credit, Loans Under Special Attention (DPK), Less Current Loans, Doubtful Loans, and Non-Performing Loans, with assessments based on business prospects, debtor performance, and repayment capacity in accordance with POJK No. 1 of 2024. Meanwhile, the mediating variable was Non-Performing Loans (NPL), representing the level of problematic loans, which were measured quantitatively through Gross and Net NPL ratios and qualitatively through evaluations of business prospects, financial conditions, and compliance with credit agreements (Siamat, 2005; POJK No. 1 of 2024).

The data determination technique in this study referred to how the sources of data were determined and how the data were obtained, both through the population and the sample relevant to the research objective (Sugiyono, 2018). The data sources used in this study were employees directly involved in credit decision-making at PT. BPR YSL Bandung, which consisted of BPR management, executive officers, and staff related to functional activities such as credit, funding, and operations.

This study used two types of data, namely primary data and secondary data, which were collected through various data collection techniques such as questionnaires, interviews, and observations. Primary data were obtained directly from respondents through questionnaires

distributed to employees involved in the credit approval process and credit asset quality management. Interviews were conducted in a semi-structured manner with officials involved in credit decision-making, and observations were used to observe documents related to the credit approval process (Sugiyono, 2019). Secondary data were obtained from credit administration reports at PT. BPR YSL Bandung, including reports on the quality of credit assets and NPLs that had been available.

The data analysis design used path analysis to test the hypotheses in this study. This analysis method identified the relationships between variables in a linear and causal manner. Testing of the validity and reliability of the instruments was carried out to ensure that the data obtained were trustworthy. The validity test was carried out using Pearson Product Moment correlation to assess whether each questionnaire item could measure the variable in question. The reliability test was carried out using Cronbach's Alpha coefficient, where the instrument was considered reliable if the Cronbach's Alpha value was ≥ 0.70 (Hair et al., 2019). The results of the validity and reliability tests showed that all statement items on the three study variables were valid and reliable for use in further analysis.

The model used in this study was tested using the model goodness test, which ensured that the proposed model fit the data obtained. Thus, this study provided deeper insight into the influence of credit approval policies through the 5C principles on the quality of credit assets and NPLs at PT. BPR YSL Bandung.

RESULT AND DISCUSSION

Credit Approval Policy through Principle 5 C (Character, Capacity, Capital, Collateral, Condition of Economy) as the Basic Principle of Credit Approval at PT. BPR YSL Bandung

Based on the results of the research, the Credit Approval Policy through Principle 5C at PT. BPR YSL Bandung is consistently applied as a basis for credit decision-making. The survey results showed that the Credit Decision Making indicator with the 5C Principle (X1) obtained an average score of 4.23 with the Excellent category and a percentage of 84.6%, which confirms that every aspect of the 5C principle of Character, Capacity, Capital, Collateral, and Condition of Economy is used as the main guideline in credit evaluation.

1. Character

Assessing the debtor's character is the first step that determines the success of the credit approval process. PT. BPR YSL Bandung conducts in-depth interviews, community reference verification, and analysis of the track record of prospective debtors through the Financial Information Service System (SLIK) and social media. This assessment includes the debtor's honesty, reputation and integrity. Consistent implementation of the Character indicator helps banks identify potential debtors with low moral risk, thereby reducing the potential for bad loans from the early stages.

2. Capacity (Ability to Pay Debtors)

The analysis of the ability to pay is carried out through the evaluation of financial statements, the calculation of financial ratios such as the Debt Service Coverage Ratio (DSCR), the Debt Service Ratio (DSR), and realistic cash flow projections. The bank also verifies debtors' income and expenses to ensure the suitability of the ability to pay with the set ratio

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limit. These measures improve the accuracy of risk assessments, so credit decisions are based on concrete financial data, not just assumptions.

3. Capital (Debtor's Capital / Capital Structure)

The assessment of the debtor's capital and capital structure includes an analysis of equity, debt and leverage ratio (Debt to Equity Ratio / Debt to Asset Ratio). PT. BPR YSL Bandung emphasizes the proportion of its own capital as an important factor in determining financing capacity. This Capital Evaluation ensures that the debtor has a strong financial foundation, so that the risk of default can be minimized.

4. Collateral (Collateral/Collateral)

The Bank independently assesses collateral, verifies the legality of documents and binds collateral in accordance with legal provisions such as APHT and fiduciary. In addition, periodic monitoring of collateral conditions is carried out to ensure that the liquidation value remains in accordance with credit requirements. Consistent Collateral implementation provides additional collateral for banks, so that credit risk can be controlled despite changes in the debtor's financial condition.

5. Condition Of Economy

Economic conditions and the business environment are evaluated through the analysis of macroeconomic trends, industry prospects and credit policies that are responsive to external changes. PT. BPR YSL Bandung utilizes the latest data to adjust credit decisions to economic dynamics. This allows banks to anticipate external risks, such as interest rate fluctuations or regulatory changes, so credit decisions are more adaptive and sustainable.

The Implementation of the 5C Principle at PT. BPR YSL Bandung has been proven to be effective in: 1) Improve the quality of credit assets, as each approved credit has gone through a thorough assessment of five critical aspects. 2) Lower NPL rates, through careful selection of debtors and systematic risk management. 3) Improve accountability and transparency of the credit process, so that management decisions can be accounted for professionally.

Overall, the implementation of the 5C Principle not only meets the technical aspects of credit assessment, but also builds a disciplined risk management culture, which ensures the sustainability of bank operations. The effectiveness of this policy shows that credit management based on the 5C principle can be a superior strategy in improving bank performance, reducing non-performing loans, and maintaining the financial stability of PT. BPR YSL Bandung.

The Quality of Credit Assets at PT. BPR YSL Bandung

The results of the study show that the quality of credit assets at PT. BPR YSL Bandung is in the good category, which is reflected in the average score of the asset quality assessment indicator which is above the middle value of the measurement scale. Descriptively, these findings show that banks have implemented strict credit management processes, from assessing the eligibility of prospective debtors to monitoring credit performance after funds have been disbursed. Good asset quality is reflected in the low proportion of non-performing loans in the credit portfolio, thus reflecting the effectiveness of the credit risk management system implemented.

In terms of hypothesis test results, the study proves that asset quality has a significant effect on Non-Performing Loans (NPLs). This means that the better the quality of credit assets

owned by PT. BPR YSL Bandung, the lower the level of non-performing loans that can occur. This relationship shows that the bank's success in maintaining asset quality is a key factor determining the stability of NPLs in the future.

This is strengthened by the results of correlation analysis, where asset quality has a correlation coefficient of 0.841 to NPLs with a very strong positive relationship. However, because in the context of NPLs an increase in value indicates an increase in non-performing loans, this relationship means that a decrease in asset quality will lead to a significant increase in NPLs, and conversely, an increase in asset quality will optimally suppress NPLs. This high correlation value emphasizes that asset quality is the dominant determinant in controlling the level of non-performing loans at PT. BPR YSL Bandung.

Furthermore, the correlation between the 5C principle variable and asset quality also provides an important picture of how asset quality is formed in BPR. It was recorded that the correlation between Character (0.702), Capacity (0.635) and Capital (0.754) with asset quality showed a strong and significant relationship. These findings imply that good asset quality is not only the result of credit management at the billing stage, but is also strongly influenced by the accuracy of creditworthiness analysis from the outset through the 5C principle. The more comprehensive the assessment of the character, ability to pay and capital strength of the prospective debtor, the less chance of non-performing loans occurring during the credit operational period.

Thus, the findings of the study explain that the quality of credit assets at PT. BPR YSL Bandung is not a condition that occurs spontaneously, but is a direct result of the effectiveness of the credit approval policy through the 5C principle and a consistent credit monitoring process. Good asset quality acts as a key variable that links credit approval policies to NPL stability, so the better the asset quality, the more effective the bank is in controlling the non-performing loan ratio.

The quality of credit assets is a key indicator of the health of a bank's credit portfolio. At PT. BPR YSL Bandung, the quality of credit assets is assessed based on POJK No. 1 of 2024, which groups loans into five collectability categories: Current Loans, Under Special Attention (DPK), Less Current, Doubtful, and Jammed. In addition to the 5C assessment, there is also an assessment based on three main factors, namely the debtor's business prospects, the debtor's performance, and the debtor's ability to pay.

Based on the results of the research, the condition of the quality of credit assets at PT. BPR YSL Bandung shows a relatively good level of health. Most of the credit portfolio is in the Current Credit category, which reflects that the debtor can meet payment obligations on time. This is a direct impact of the application of Principle 5C in the credit approval process, which ensures a thorough evaluation of the debtor's character, capacity, capital, collateral, and economic condition.

However, there are a small number of loans that are categorized as Under Special Attention (DPK) and Less Current, which are generally caused by fluctuations in the debtor's business conditions or changes in external economic conditions. The bank actively monitors debtors in this category through regular supervision and credit restructuring when necessary. In detail, the factors that affect the quality of credit assets at PT.

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BPR YSL Bandung includes: 1) Debtor's Business Prospects: Debtors who have a strong position in industry and good business diversification tend to have high credit quality. 2) Debtor Performance: Evaluation of financial statements, profitability ratio, liquidity, and solvency are the basis for determining creditworthiness. 3) Debtor Ability to Pay: Analysis of cash flow, liability structure and adequacy of collateral determines the risk of default and assists banks in setting appropriate credit limits.

The quality of credit assets at PT. BPR YSL Bandung reflects the effectiveness of the implementation of credit management principles based on 5Cs. Most loans are in the current category, which indicates that credit decisions taken by banks are effective in minimizing Non-Performing Loan (NPL) risks. While credit is of particular concern, the bank's supervisory and risk mitigation measures demonstrate a commitment to healthy and sustainable credit portfolio management.

The Non-Performing Loan (NPL) rate at PT. BPR YSL Bandung

The results of the descriptive study show that the level of Non-Performing Loans (NPL) at PT. BPR YSL Bandung is in the low to controlled category, although it shows a tendency to fluctuate in certain financing sectors. These findings indicate that in general BPRs have managed credit risk well, so that the proportion of non-performing loans to total loans remains within safe limits according to regulatory regulations. The low NPL rate reflects the effectiveness of risk management, the accuracy of credit approval policies, and the quality of monitoring debtors during the financing period.

Furthermore, the results of the hypothesis test statistically prove that there is a significant influence between independent variables and mediating variables on NPLs directly, the quality of credit assets has been proven to make a dominant contribution to changes in NPL levels. The better the quality of the credit assets recorded, the lower the potential for an increase in NPLs in BPRs. This emphasizes that the prevention of bad loans is not only carried out in the collection phase, but is mainly determined from the initial stage of analysis and selection of prospective debtors.

These findings were strengthened by correlation analysis, where the relationship between credit asset quality (Y) and NPLs (Z) showed a correlation value of 0.841, falling into the very strong and significant category. The value indicates that changes in the quality of credit assets will directly affect changes in NPL levels. This means that the higher the quality of the assets, the lower the level of non-performing loans and conversely the deterioration in asset quality will have direct implications for the increase in NPLs. This very strong correlation finding emphasizes that asset quality control is an important determinant in the stability of PT. BPR YSL Bandung.

The correlation between NPLs and the policy components of credit approval through the 5C principle also provides additional understanding. The correlation value between Character (0.678), Capacity (0.612), and Capital (0.769) to NPLs confirms that the more accurate the assessment of these three aspects, the lower the risk of non-performing loans that arise in the financing period. These findings suggest that NPLs can be suppressed not only through collection efforts, but especially through accurate and disciplined credit approval policies from the beginning of the credit process. Accuracy in assessing the integrity of the debtor (Character), Ability to Pay (Capacity) and Capital Ability (Capital) plays a role as the

main filter that determines the quality of prospective creditors so as to reduce the potential for non-performing financing during the credit implementation period.

The Non-Performing Loan (NPL) rate is one of the main indicators in assessing the health of a bank's credit portfolio. NPLs reflect the proportion of non-performing loans, namely loans that have difficulty repaying, including the category of Under-Current, Doubtful and Bad Loans. The lower the NPL rate, the healthier the bank's credit condition and the more effective the risk management applied.

The results of the research on the level of Non-Performing Loans (NPL) at PT. BPR YSL Bandung showed significant dynamics throughout the observation period. The average gross NPL   is at 6.10% (June 2024 – May 2025), with a minimum range of 4.40% and a maximum of 8.52%. This average figure clearly exceeds the maximum provision set by the Financial Services Authority ($\leq$ 5%), so this condition reflects that the credit quality at PT. BPR YSL Bandung is not completely in the healthy category.

If viewed from the monthly pattern, there are quite sharp fluctuations. For example, in February 2025, Gross NPL can be reduced to 4.40%, which means that BPR has managed to maintain credit quality according to health standards. However, in March 2025, there will be a drastic surge of 8.52%. This surge is the biggest contributor to the high average annual NPL. This phenomenon indicates structural weaknesses in credit risk management, both in terms of selection of prospective debtors, analysis of payability, and supervision strategies after credit disbursement.

This condition has serious implications. First, high NPLs will force banks to provide larger Impairment Loss Reserves (CKPN), which in turn suppresses profitability. Second, the high NPL ratio has the potential to disrupt bank liquidity because cash flow from credit installments is disrupted. Third, the stability of public trust, especially depository customers, can decrease if NPLs continue to be above the standards set by regulators.

In terms of credit policy, these results also show that the application of the 5C principle (Character, Capacity, Capital, Collateral, and Condition of Economy) as the basis for evaluating prospective debtors is still not optimal. For example, the character aspect may not be explored in depth, so there are debtors with low payment commitments who pass the selection. In terms of capacity, the analysis of the debtor's business ability to generate cash flow to pay installments may not have been carried out thoroughly. The same can also be seen in the condition of the economy, where BPR does not seem to be able to fully anticipate changes in the external environment that affect the debtor's ability to pay.

Overall, the NPL level at PT. BPR YSL Bandung indicated that although banks have the ability to suppress non-performing loans in certain periods, in aggregate the quality of credit assets still faces high risks. Therefore, strengthening the implementation of the 5C principle, increasing post-disbursement monitoring, and implementing more effective restructuring and collection strategies are needed so that the NPL ratio can be reduced below 5% again in accordance with the bank's health provisions.

Based on the results of the study, the NPL level at PT BPR YSL Bandung is relatively controlled, which is largely influenced by the implementation of Principle 5C in the credit approval process. The implementation of the 5Cs helps banks select debtors with low morale

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and financial risk, so that the number of non-performing loans can be minimized. In detail, the factors that affect the NPL level at PT. BPR YSL Bandung includes:

1. 5C Principles (Character, Capacity, Capital, Collateral, Condition of Economy) Application
    a. Character: Debtors who have a good track record and high integrity are less likely to be in arrears.
    b. Capacity: An analysis of the ability to pay ensures the debtor has adequate cash flow and financial ratios to meet credit obligations.
    c. Capital: A sound capital structure allows the debtor to assume financial obligations without being disturbed by liquidity.
    d. Collateral: A valid guarantee that is regularly monitored is an additional protection against the risk of default.
    e. Condition of Economy: Analysis of economic conditions and industry prospects helps banks anticipate external risks that can increase NPLs.
2. Quality of Credit Assets
    a. Loans that are in the current category significantly reduce the NPL rate. On the other hand, loans that are under special attention (DPK) or less current require intensive supervision to prevent an increase in NPLs.
    b. Banks implement regular monitoring and, if necessary, credit restructuring so that debtors can still meet their obligations.

The NPL rate at PT. BPR YSL Bandung shows the effectiveness of credit risk management through the application of the 5C Principle and credit asset quality assessment. Although there is a small percentage of non-performing loans, the mitigation measures implemented, such as the evaluation of debtors' ability to pay, collateral monitoring and credit adjustments, keep NPLs at safe levels. This confirms that the credit approval policy based on Principle 5C not only improves the quality of credit assets, but also plays a direct role in maintaining the stability of the bank's credit portfolio.

The Effect of Credit Approval Policy through Principle 5 Cs (Character, Capacity, Capital, Collateral, Condition of Economy) on the Quality of Credit Assets at PT BPR YSL Bandung.

The results of the study show that the credit approval policy through the application of the 5C principles (Character, Capacity, Capital, Collateral, and Condition of Economy) has a significant influence on the quality of credit assets in PT. BPR YSL Bandung. These findings reflect that the accuracy and firmness of BPRs in analyzing prospective debtors based on these five aspects can determine the level of credit quality provided, thereby minimizing the risk of non-performing loans in the future.

Based on the results of the descriptive analysis, the indicator in the Credit Approval Policy variable obtained a mean value of 4.23 with the category of Excellent, which shows that the credit analysis process has been carried out with precision and in accordance with the principle of prudence. On the other hand, the Credit Asset Quality variable obtained an average of 4.19 with the Good category, which indicates that most of the financing disbursed has a current status and the risk of asset deterioration can be controlled.

The application of the 5C Principle (Character, Capacity, Capital, Collateral, Condition of Economy) in the credit approval process at PT. BPR YSL Bandung shows a significant influence on the quality of credit assets. Based on the results of multiple regression analysis, the regression coefficient values were obtained as follows: Character (0.321), Capacity (0.287), Capital (0.254), Collateral (0.209), and Condition of Economy (0.198), all of which were significant at $p < 0.05$. This shows that each 5C dimension contributes positively to the quality of credit assets, so the better the implementation of the 5Cs, the higher the quality of the credit assets generated.

In addition, the determination test (R^2) showed a value of 0.684, which means that 68.4% of the variation in credit asset quality could be explained by the application of Principle 5C, while the remaining 31.6% were influenced by other factors outside the model. This shows the effectiveness of the model in explaining the phenomenon of credit quality in banks.

1. Character

Character assessments are carried out through in-depth interviews, reference verification, and analysis of the debtor's track record. The results of the t-test showed that t-count = 3.212 > t-table = 2.064, so that Character had a significant effect on the quality of credit assets. Debtors with good character tend to be able to maintain credit payment commitments, so that the risk of NPLs decreases.

2. Capacity (Ability to Pay Debtors)

Capacity analysis includes cash flow evaluation, financial ratios and payment projections. The results of the t-test showed t-count = 2.987 > t-table = 2.064, confirming that ability to pay has a positive and significant effect on credit quality. Debtors with high paying ability have a lower risk of default.

3. Capital (Capital / Capital Structure)

The evaluation of the debtor's capital through the leverage ratio and the proportion of the capital itself shows that t-calculation = 2.654 > t-table = 2.064, so that Capital contributes significantly to the quality of credit assets. Debtors who have a healthy capital structure can bear better financial obligations.

4. Collateral (Collateral/Collateral)

Collateral assessment includes legality verification and periodic monitoring. The statistical results show t-count = 2.421 > t-table = 2.064, which means that collateral is significant to the quality of credit assets. Valid collateral reduces the risk of bank losses in the event of default.

5. Condition Of Economy

Analysis of external economic conditions yielded t-count = 2.203 > t-table = 2.064, showing a significant influence on credit quality. Debtors who operate in stable economic conditions tend to have good quality of payments.

The results of this study are consistent with the findings of Ardani (2021) which shows that the application of the 5C principle improves credit quality and reduces NPLs. Jeconiah and Aji (2022) also emphasized that the evaluation of character, capacity, capital, collateral and external conditions is simultaneously effective in managing credit risk. Wulandari (2023) added that the ability to pay and external economic conditions are significant predictors in determining the quality of credit assets.

Based on the results of the research, it can be concluded that the implementation of the credit approval policy based on the 5C Principle has a positive and significant effect on the quality of credit assets at PT. BPR YSL Bandung**.** Each of the 5C dimensions makes a tangible contribution to assessing creditworthiness, mitigating the risk of default and improving the quality of the credit portfolio. This effectiveness can be seen from the low NPL rate and the high proportion of current loans.

The Effect of Credit Approval Policy through Principle 5 C (Character, Capacity, Capital, Collateral, Condition of Economy) on the Non-Performing Loan (NPL) Level at PT. BPR YSL Bandung

Based on the results of the study, the credit approval policy through the application of the 5C principle has been proven to have a significant influence on the level of Non-Performing Loans (NPL) in PT. BPR YSL Bandung. The results of the descriptive analysis showed that the variable of the application of the 5C principle obtained an average score of 4.23 with the category of Excellent, which reflects that the debtor assessment process has been carried out strictly and guided by the prudential banking principle. Meanwhile, the NPL variable also showed Very Good conditions, confirming that the level of non-performing loans is still under control and within healthy limits.

These findings are reinforced by the results of correlation analysis showing that each component of the 5C principle has a strong relationship with NPLs. The correlation value between Character to NPL is 0.678, Capacity is 0.612, and Capital is 0.769, while the aggregate correlation of the application of the 5C principle to NPL shows a very strong relationship. The highest correlation value in the Capital aspect illustrates that the debtor's capital ability is the most decisive factor in preventing potential non-performing loans. In other words, the better the assessment of the 5C principle is applied, the less risk credit can potentially fall into the NPL category.

These findings provide an understanding that credit risk can not only be controlled through post-disbursement collection efforts, but also starts from the initial process of creditworthiness analysis. A thorough evaluation of Character, Capacity, Capital, Collateral, and Condition of Economy functions as a risk filter, so that banks can reduce lending to debtors who have the potential to default. The implications of the consistent implementation of the 5Cs are clearly seen through the maintenance of the NPL value in PT. BPR YSL Bandung at a healthy level.

Thus, the results of this study confirm that the credit approval policy through the 5C principle has a real and significant contribution in reducing the level of Non-Performing Loans (NPLs). The more comprehensive and disciplined the application of the 5C principle is, the more effective the bank will be in controlling credit risk, maintaining asset quality, and supporting the stability and sustainability of PT. BPR YSL Bandung. Theoretically, the 5C principle is a credit analysis method that has long been used by the banking industry to reduce credit risk.

Character emphasizes the debtor's honesty and integrity, as bad character is often the main cause of default. Capacity looks at the ability of the debtor to generate cash flow to pay obligations. Capital assesses the strength of capital or equity owned by the debtor as an indicator of financial health. Collateral serves as collateral to minimize bank losses if the debtor defaults on payment. Meanwhile, the Condition of Economy emphasizes the importance of

paying attention to the business conditions and economic environment of the debtor, including the industrial sector involved.

From the results of interviews and secondary data at PT. BPR YSL Bandung, non-performing loans often occur due to negligence in the aspects of Character and Capacity. For example, debtors who have historically had a poor record or have no fixed source of income, but are still given credit. This uncertainty results in an increased risk of default which leads to an increase in NPLs.

These results are consistent with the research of Kurniawan & Yuniati (2018) which states that the application of the 5C principle has a significant influence in reducing the NPL ratio in banking institutions, especially in People's Economic Banks (BPR). Research by Indah & Handayani (2020) also found that the quality of character assessment and the capacity of debtors are the dominant factors in maintaining credit quality. Similarly, Arum & Hidayat (2019) emphasized that credit control through the 5C principle has proven to be effective in suppressing non-performing loans, because each dimension of the principle complements each other in providing a comprehensive picture of debtor eligibility.

In addition, the application of the 5C principle is also in line with the policy of the Financial Services Authority (OJK), which sets a maximum NPL limit of 5%. BPRs that are able to keep NPL ratios below the threshold show that the credit approval process is well carried out and credit risks can be minimized. This is also in line with the opinion of Rivai & Sagala (2019) who stated that the success of banks in maintaining asset quality is largely determined by the quality of risk management, one of which is through the application of the 5C principle.

Thus, it can be concluded that the implementation of a credit approval policy based on the 5C principle is not only an administrative procedure, but is a vital risk management strategy. Consistent implementation at PT. BPR YSL Bandung has proven to be able to reduce NPL levels, maintain bank financial stability, increase public confidence and ensure the sustainability of the banking business amid increasingly fierce industry competition.

The Effect of Credit Asset Quality on Non-Performing Loan (NPL) Levels at PT BPR YSL Bandung

The results of the study show that the quality of credit assets has a significant effect on the level of Non-Performing Loans (NPL) at PT. BPR YSL Bandung. The better the quality of the credit assets that the bank has, the lower the level of non-performing loans that occur and conversely, the decline in the quality of credit assets will directly increase the risk of NPLs.

Descriptively, the credit asset quality variable obtained an average score of 4.18 with the category of Excellent, which reflects the high level of accuracy and control of banks in assessing the debtor's business feasibility, financial condition, compliance with credit agreements, and the quality and feasibility of collateral. The indicator with the highest score is the feasibility of collateral disbursement, followed by the debtor's compliance with the credit agreement, which shows that the assurance and legal binding aspects are important foundations in maintaining the health of credit assets.

These findings are in line with correlation results that show a very strong relationship between the credit asset quality variable and NPL levels, with a correlation value of 0.841. This means that the quality of credit assets is the main predictor variable that determines the high

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and low NPLs in BPRs. The high positive correlation also indicates that any decline in asset quality will trigger an increase in NPLs, so asset quality management plays a central role in credit risk control.

Interpretively, these results provide evidence that asset quality management is not only related to the administration of credit disbursement, but is a strategic component in maintaining the bank's financial stability. The accuracy of the analysis of debtors' business prospects, financial performance monitoring and collateral evaluation has been proven to be able to minimize the potential for loans to enter the problematic category. This effort is consistent with the prudential banking principle that asset quality reflects the overall effectiveness of the credit risk management process.

Thus, the higher the quality of credit assets, the lower the Non-Performing Loan (NPL) level at PT. BPR YSL Bandung. These findings confirm that improving the quality of credit assets must be the focus of the sustainability of BPR's risk management policies to maintain the health of the credit portfolio, strengthen financial performance and support the bank's business sustainability in the long term.

The quality of credit assets is one of the main indicators in assessing the health of banks, especially in microfinance institutions such as Bank Perekonomian Rakyat (BPR). Good quality credit assets show that the loans disbursed are on target, managed with the principle of prudence, and able to make a positive contribution to bank revenue. On the other hand, the decline in the quality of credit assets has direct implications for the increase in the Non-Performing Loan (NPL) ratio.

The results of this study show that the quality of credit assets has significant implications for the NPL level at PT. BPR YSL Bandung. Statistical data shows that the lower the quality of credit assets, the higher the NPL rate. This is in line with banking principles that emphasize that credit management does not only stop at the distribution stage, but also includes monitoring, periodic assessment, and risk mitigation.

The real implications of the quality of credit assets on NPLs can be seen through several aspects. First, loans with a good assessment of character, capacity and collateral tend to be of higher quality so that the risk of bad luck can be reduced. Second, periodic monitoring of the debtor's external business and economic conditions allows banks to take anticipatory steps, such as credit restructuring before the debtor enters the problematic category. Third, healthy credit portfolio diversification also influences maintaining asset quality so that risk concentration in one sector can be avoided.

This finding is consistent with research by Ardani (2021) which confirms that the quality of credit assets is the main determinant of the NPL ratio. Research by Jeconiah and Aji (2022) also found that the better the credit quality evaluation through the 5C aspect, the lower the risk of non-performing loans borne by banks. Meanwhile, Wulandari (2023) emphasized that the ability to pay debtors and external economic conditions are significant predictors in determining the quality of credit assets.

From a regulatory perspective, the Financial Services Authority (OJK) sets a maximum gross NPL limit of 5% for all banking institutions, including BPRs. The application of this standard is intended for banks to maintain the quality of credit assets consistently through the application of the prudential principle. Therefore, the quality of credit assets is well maintained

at PT. BPR YSL Bandung will have a direct impact on compliance with OJK regulations, maintain liquidity, and increase public trust in banks.

Thus, it can be concluded that the quality of credit assets not only affects the bank's profitability, but also has direct implications for the level of financial health of the bank as measured through NPLs. Good credit asset quality will reduce NPLs, maintain business stability and increase the competitiveness of PT. BPR YSL Bandung in the long term.

The Effect of Credit Approval Policy through Principle 5 C (Character, Capacity, Capital, Collateral, Condition) on BPR Asset Quality and Its Implications on the Non-Performing Loan (NPL) Level at PT. BPR YSL Bandung

The results of the study show that the credit approval policy through the application of the 5C principle has a significant influence on the quality of BPR assets and provides important implications for the reduction of the Non-Performing Loan (NPL) level at PT BPR YSL Bandung. Descriptively, the variable for the application of the 5C principle obtained an average score of 4.23 (Very Good category), while the variables for credit asset quality and NPL variables obtained an average of 4.18 and 4.09, respectively, indicating that the credit assessment process and credit portfolio management have been running according to prudential banking principles.

Based on the results of the correlation analysis, all 5C dimensions show a strong relationship with asset quality and NPLs. This is reflected in the correlation value of Character NPL of 0.678, Capacity NPL of 0.612, and Capital NPL of 0.769, which shows that the quality of credit approval is an important determinant in reducing the potential for non-performing loans. At the same time, credit asset quality has a very strong correlation with NPLs, which is 0.841, which shows that asset quality is a very decisive intermediate variable in manifesting the impact of the 5C principle on non-performing loan levels.

Thus, the results of the study prove that the influence of credit approval policies through the 5C principle on NPLs does not only occur directly, but also indirectly through the quality of credit assets as a mediation variable. Interpretively, the stronger the application of the nature, capabilities, capital, collateral, and business conditions of prospective debtors in the credit analysis process, the better the quality of the credit assets owned by the BPR. The improved asset quality then significantly reduces the likelihood of non-performing loans or NPLs.

These findings confirm that NPL control efforts are not only carried out through collection and restructuring, but more effectively through increased discipline in creditworthiness assessment from the initial stage of financing application analysis. With the consistent implementation of the 5Cs, the potential for lending to high-risk debtors can be minimized, the quality of credit assets can be improved, and the implications are reflected in the stability of NPL levels that are in the healthy category.

Statistically, the results of the Sobel test and mediation analysis show that the influence of the 5C principle on NPLs becomes more significant when going through the credit asset quality channel. The indirect influence coefficient is greater than the direct influence, which shows that the quality of credit assets plays an important role as a mediator. In other words, the application of the 5C principle will be effective in reducing non-performing loans if accompanied by sustainable monitoring and management of the quality of credit assets.

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Conceptually, this can be explained through credit risk management theory. The 5C principle is used to screen out potential eligible debtors, while the quality of credit assets describes the outcome of such decisions in the bank's portfolio. If the initial selection is carried out properly (through the evaluation of character, capacity, capital, collateral, and economic conditions), then the disbursed credit will be in the current and healthy category, thereby reducing the chance of bad loans. However, without sustainable asset quality management, the potential for current credit to turn problematic remains.

This finding is in line with the research of Ardani (2021) which states that the application of the 5C principle improves credit quality which in turn reduces NPLs. Jeconiah and Aji (2022) emphasized that the evaluation of the 5C principle will only have a significant impact on the reduction of NPLs if banks also maintain the quality of credit assets through monitoring, business sector analysis, and collateral management. Furthermore, Wulandari (2023) added that the quality of credit assets is an intermediate variable that bridges the relationship between credit policy and the health of banks, because external factors such as economic conditions and debtors' ability to pay affect asset quality, which ultimately has an impact on the NPL ratio.

Thus, the relationship between the application of the 5C principle and the level of NPL in PT. BPR YSL Bandung is partial directly and stronger indirectly through the variable quality of credit assets. This emphasizes that the banking strategy to reduce NPLs is not enough to stop at credit selection with the 5C principle, but must also be followed by sustainable credit asset quality management.

CONCLUSION

The research concluded that the 5C principle (Character, Capacity, Capital, Collateral, Condition of Economy) was implemented effectively at the bank, particularly in assessing debtors' character and payment ability, resulting in good and stable credit asset quality dominated by current credits, in line with prudential banking principles. However, NPL levels exceeded OJK limits with fluctuations, revealing credit risk management weaknesses. Path analysis showed the 5C principle had a positive, significant direct effect on credit asset quality and NPL reduction, an indirect effect via credit asset quality mediation, and that higher asset quality significantly lowered NPLs. For future research, exploring the integration of digital tools like AI-driven credit scoring with the 5C principles could enhance predictive accuracy and further minimize NPL risks in rural banks.

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