Financing Model for Low-Income Communities (LIC) to Rural Property Ownership in Langkat Regency

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Abstract

The importance of research regarding the problem of property credit financing is needed for low-income Communities (LIC). This research design is quantitative with factor test research to examine the property financing model. The data source used in this research is a questionnaire with a sample size of 96 respondents. The results of this study can explain that the factors that can be a model of financing the property industry for low-income people are formed from 11 factors, namely demand, behavior, supply, community income, needs, facilities, number of dependents, level of education, security, risk and benefits. This model can be used as a reference for banks to identify the demand and supply of property loans. The results of the study can be taken into consideration in conducting supervision, especially on the development of property lending in Indonesia. The property financing model in question is a financial structure or scheme used to assist low-income individuals in purchasing, building, or developing property. This financing can include a wide range of financial products and services offered by financial institutions such as banks, financing institutions, or insurance companies.

Keywords: Financing Model, Low Income Communities and Rural Property Ownership

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Introduction

Along with the development of the national economy, the property industry in general has also experienced a direct increase. Increased activity in the property industry can be used as an indication of improving or reviving economic activity. In other words, activities in the property sector can be used as an indicator of how active economic activities in general are taking place (Veronica & Pebriani, 2020). However, the development of the property industry needs to be examined carefully because it can have an impact on two different sides. On the one hand, the property industry can be a driver of economic activity because increased activity in the property sector will encourage increased activity in other related sectors. In this case, the property sector has a multiplier effect by encouraging a series of activities in other economic sectors (Larosa, 2023). All economic activities both in the field of services and goods will basically always require property products as one of the production factors.

One of the factors driving property development is credit for property purposes, especially home ownership subsidized by the government, which also tends to increase in the same period. Data from Bank Indonesia shows that during the period January 2014 to July 2018, the position of commercial bank property loans increased by around 160 percent (BI.go). This figure would be even greater if the amount of property loans from banks and finance companies were also included. In the period 2015-2017, the proportion of consumption loans disbursed by commercial banks averaged 32 percent. Property loans ranked third after consumption loans, with a proportion of around 22 percent of total loans disbursed by all types of banks in Indonesia.

An unsupervised increase in property loans can have adverse effects on the economy, especially if banks are unable to properly assess the potential or ability to pay of a debtor. It is feared that an unsupervised increase in property loans could disrupt Indonesia's financial stability. Furthermore, too much property credit can cause inflation, if the production sector is not running well (Kadi, Hochstenbach, & Lennartz, 2020). On the other hand, economic growth that relies solely on property growth does not guarantee its sustainability. In Latin, credit is called "credere" which means trust. In addition, credit demand is also defined as a loan made by parties who lack and need funds (Ramadhani, 2020). Credit demand is basically a demand for money, so credit demand can be interpreted as a demand for money.

The importance of research on the issue of property credit financing is needed as a reference for economic stability in Indonesia. Research related to the factors that influence households' decision to borrow (demand for consumer credit) and banks' decision to lend to households (supply for consumer credit) has not been widely conducted, especially in Indonesia. In developed countries such as the United States and Italy, research on factors affecting the demand and supply of property credit has been conducted. This research is important because it can be used as a reference for Bank Indonesia as the Central Bank to find out the variables that affect the demand and supply of property loans. The results of the study can be taken into consideration in conducting supervision, especially on the development of property lending in Indonesia.

Financing offers (credit) can be defined as loans provided by financial institutions, both public and private, to individuals or business entities to finance the working capital needs of their customers (Chen & Wu, 2020). The existence of the financial sector with all its functions will be largely determined by the performance of the institution itself. In this context, banks can play a role in carrying out the intermediation function, which is to bridge the excess funds with those who lack funds. Credit distribution by a financial institution must be based on trust (Zheng et al, 2022). In this case, credit is only given to those who are truly believed that the prospective borrower can return the trust on time in accordance with the terms agreed between the borrower and the creditor. In granting credit, financial institutions are faced with a higher risk of default than others, so that in the implementation of credit offers will be influenced by these risks so that banks will calculate high returns on their loans (Jagtiani, Hanson & Lambie, 2021).

The dynamics of the financial sector derived from the movement of bank lending interest rates will balance the bank credit market, so that the supply in the credit market in the BB model (Bezemer et al, 2023). Credit supply is also influenced by interest rates and credit allocation risk, where the higher the interest rate, the smaller the amount of credit offered. Financial institutions are faced with the risk of credit failure caused by macroeconomic conditions and specific factors. In other words, debtors who have been given credit are unable to fulfill their obligations in accordance with the original agreement. In this condition, financial institutions will face bad credit conditions which can result in losses for both banks and debtors (Bu & Liao, 2022). These losses occur because each party cannot get positive incentives as planned. The greater the risk of bad credit will further increase the value of Non Performing Loan (NPL) so that the amount of credit offered will decrease.

In this case, financial institutions with a large level of lending without the ability to maintain credit quality will have an impact on the decline in the health of the credit channeling institution. Furthermore, the health level of these financial institutions is decreasing. This will have an impact on the disruption of the intermediary function of these financial institutions in the economy. The risk of bad debts caused by debtors who fail to do business or the bank's lack of prudence in providing loans can occur. So that bank credit supply is not only influenced by available funds, but also by the risk of lending provided or influenced by the number of bad loans NPL (Akey, Heimer & Lewellen, 2021). This lending activity is very risky which can affect the health and sustainability of the bank's business. The financial liquidity, finance, solvency and profitability of financial institutions are generally influenced by their success in managing their loans. Realizing that credit is the backbone for the survival of the business of financial institutions, the provision of credit must be carried out systematically to prevent non-performing loans. The source of public funds from savings and deposits is called Third Party Funds (DPK). These third party funds tend to be allocated more to credit activities because credit activities are more productive (Isaac & Daley, 2020). Productive credit means generating interest income on credit which is also the largest income for banks which ultimately affects the bank's profitability performance. Deposits or time deposits are also one of the sources of funds for banks that can be collected by banks, the greater the amount of credit that can be channeled or offered by banks (Naili & Lahrichi, 2022).

Method

This research design is quantitative with factor test research to examine the property financing model. The data source used in this research is a questionnaire with a sample size of 96 respondents. Factor test (or factor analysis) is a statistical technique used to identify the structure of the relationship between a number of correlated variables by finding one or more hidden variables called "factors". The purpose of this factor test is to formulate a model by:

a. Dimensionality Reduction: Reducing a large number of variables to a few simpler factors.
b. Structure Identification: Finding patterns among variables that may not be directly visible.
c. Data Simplification: Grouping variables into fewer factors for easier interpretation.

The steps in conducting this factor test are as follows:

1. Data Collection
   Collect data from a number of variables that are considered to be related to each other.
2. Correlation Between Variables
   Analyzing the correlations between variables to ensure that they are correlated enough for factor analysis.
3. Factor Extraction
   Using statistical techniques (such as Principal Component Analysis or Principal Axis Factoring) to extract factors from the variable correlation matrix.
4. Factor Rotation
   Rotate the factors to facilitate interpretation. Orthogonal rotation (such as varimax) or oblique rotation are the most commonly used.

5. Determination of Number of Factors
   Determine the number of factors to use based on criteria such as eigenvalue > 1, scree plot, or proportion of variance explained.
6. Factor Interpretation
   Factor interpretation is done by looking at the factor loading, which is the correlation between the original variables and the extracted factors.
7. Factor Validation: Test the validity and reliability of the factors found to ensure that the results of factor analysis can be applied to a wider population.

Results

The results of this study were carried out by analyzing the factors that became a model of property financing for low-income people using Factor Analysis KMO and Bartlett's Test as follows:

Table 1. KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.438
Bartlett's Test of Sphericity	Approx. Chi-Square	336.265
	df	276
	Sig.	.008

Source: *Data Processing Results, 2024*

KMO Value: 0.438. Barlett Test of Spehricity: 336.265 with sig: 0.000. Then the KMO and Barlett Test of Spehricity requirements are met. Next, we will look at the Measures of Sampling Adequacy (MSA) value as follows:

Table 2. MSA

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Component	Total	%of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	%of Variance	Cumulative %
1	1.884	7.849	7.849	1.884	7.849	7.849	1.640	6.833	6.833
2	1.828	7.616	15.466	1.828	7.616	15.466	1.515	6.311	13.144
3	1.631	6.798	22.263	1.631	6.798	22.263	1.461	6.088	19.232
4	1.492	6.218	28.482	1.492	6.218	28.482	1.422	5.925	25.156
5	1.443	6.011	34.493	1.443	6.011	34.493	1.383	5.761	30.917
6	1.391	5.794	40.287	1.391	5.794	40.287	1.359	5.661	36.578
7	1.222	5.091	45.379	1.222	5.091	45.379	1.354	5.643	42.221
8	1.195	4.979	50.358	1.195	4.979	50.358	1.345	5.603	47.824
9	1.096	4.567	54.925	1.096	4.567	54.925	1.297	5.404	53.228
10	1.083	4.511	59.436	1.083	4.511	59.436	1.281	5.336	58.563
11	1.034	4.307	63.742	1.034	4.307	63.742	1.243	5.179	63.742

Extraction Method: Principal Component Analysis.

Source: *Data Processing Results, 2024*

Based on this table, look at the "Component" column which shows that there are 11 components that can represent the variables. Note the column "Initial Eigenvalues" which is determined to be 1 (one). So that a total of eleven factors will be able to explain the variable by 7.849% + 7.616% + 6.798%+ 6.218%+ 6.011%+ 5.794%+ 5.091% + 4.979% + 4.567% + 4.511% + 4.307% = **63,741%**.

After knowing that the maximum factors that can be formed are 11 factors, the next step is to determine which factor each variable will fall into, whether factor 1, 2 or 3 and so on. The table above shows how much a variable correlates with the factor to be formed.

Table 3. Component Matrix

Component Matrix[a]											
	Component										
	1	2	3	4	5	6	7	8	9	10	11
Inquiry	.220	-.132	.577	.182	.294	-.168	.190	-.097	.160	.149	-.034
Behavior	.550	.444	.160	.017	-.096	-.238	.265	.287	.241	.152	.231
Supply	.075	.157	-.072	.466	.518	-.031	-.010	.427	.249	.099	-.004
People's Income	.389	.402	.143	-.110	-.031	-.163	-.095	.109	.158	-.212	.579
Needs	.369	.068	-.269	.287	-.131	.259	.286	-.046	.598	.025	.132
Facilities	.305	.155	.377	.258	-.120	.591	.066	.030	-.253	.147	-.071
Number of Dependents	-.010	.588	-.040	-.046	.337	.138	-.224	-.135	.220	-.216	.137
Education Level	.131	-.345	.234	.001	-.086	.112	-.143	.521	.002	.079	.325
Security	.417	.151	-.120	.543	-.021	-.030	-.151	-.038	-.167	.301	.055
Risk	-.091	.115	-.396	-.062	-.332	-.140	.520	.252	.053	.180	.036
Benefits	-.101	.308	-.032	.272	-.085	.336	-.307	-.016	.170	.545	-.195
Extraction Method: Principal Component Analysis.											
a. 11 components extracted.											

Source: *Data Processing Results, 2024*

Determination of which variables enter which factor is determined by looking at the largest correlation value. The table above has been sorted from the largest to the smallest value per factor.

Discussion

The results of this study can explain that the factors that can become a model of financing the property industry for low-income people are formed from 11 factors, namely demand, behavior, supply, community income, needs, facilities, number of dependents, education level, security, risk and benefits. This model can be used as a reference for banks to identify the demand and supply of property loans (Chen & Wu, 2020; Zheng et al, 2022; Naili & Lahrichi, 2022). The results of the study can be taken into consideration in conducting supervision, especially on the development of property lending in Indonesia. What is meant in this research model is how the actions of low-income people in utilizing mortgage loans. The action in using home ownership credit is the fulfillment of needs. These needs can be primary needs or secondary needs (Jagtiani, Hanson & Lambie, 2021; Bezemer et al, 2023) (Bu & Liao, 2022; Akey, Heimer & Lewellen, 2021). So the action or behavior of customers in utilizing

mortgage credit is the process of achieving goals that have subjective intentions with the most appropriate means or actions taken as an operational form of the attitude taken.

Based on the rationality of social action, this property financing model can be divided into four types. The more rational the social action, the easier it is to access property for low-income people. The first is Zwerk Rational, which is pure social action (Zheng et al, 2022; Jagtiani, Hanson & Lambie, 2021; Bezemer et al, 2023; Bu & Liao, 2022; Akey, Heimer & Lewellen, 2021). In this action, the actor not only assesses the best way to achieve the goal but also determines the value of the goal itself. The goal in Zwerk rational is not absolute. It can also be the means of the next goal. When the actor behaves in the most rational way, it is easy to understand his actions. The second is Wrekrational Action, which is in this action the actor cannot judge whether the means he chooses are the most appropriate to achieve this other goal pointing to the goal itself. In this action indeed between goals and ways of achieving them tend to be difficult to distinguish. However, this action is rational, because the choice of means already determines the desired goal. This second type of action is still rational although not as rational as the first. Therefore it can be accounted for to be understood. The third is Affectual Action - action that is made up, which is influenced by the emotions and pretense of the actor. This action is difficult to understand. Less or irrational. The fourth is Traditional Action, which is action based on habits - habits in doing things in the past only. Based on the rationality of social action, this property financing model can be divided into four types. The more rational the social action, the easier it is to access property for low-income people. The first is Zwerk Rational, which is pure social action (Zheng et al, 2022; Jagtiani, Hanson & Lambie, 2021; Bezemer et al, 2023; Bu & Liao, 2022; Akey, Heimer & Lewellen, 2021). In this action, the actor not only assesses the best way to achieve the goal but also determines the value of the goal itself. The goal in Zwerk rational is not absolute. It can also be the means of the next goal. When the actor behaves in the most rational way, it is easy to understand his actions. The second is Wrekrational Action, which is in this action the actor cannot judge whether the means he chooses are the most appropriate to achieve this other goal pointing to the goal itself. In this action indeed between goals and ways of achieving them tend to be difficult to distinguish. However, this action is rational, because the choice of means already determines the desired goal. This second type of action is still rational although not as rational as the first. Therefore it can be accounted for to be understood. The third is Affectual Action - action that is made up, which is influenced by the emotions and pretense of the actor. This action is difficult to understand. Less or irrational. The fourth is Traditional Action, which is action based on habits - habits in doing things in the past only.

The results of this study are in line with the theory further developed by Talcot Parsons Chen & Wu, 2020; Naili & Lahrichi, 2022). Parsons argues that action is not behavior. Action is a mechanical response or response to a stimulus while behavior is an active and creative mental process. According to Parsons, the main thing is not individual action, but social norms and values that guide and regulate behavior. Parsons sees that individual and group actions are influenced by three systems, namely the social system, cultural system and personality system of each individual. We can associate individuals occupying a certain place (status) and acting (role) in accordance with the norms or rules made by the system and behavior is also determined by the type of personality.

In adjusting their behavior in financing behavior for low-income people, individuals usually look to their reference groups, namely groups that are used as role models or individual references (Jagtiani, Hanson & Lambie, 2021). This reference group does not need to be an organized group but a group that has similar goals and characteristics such as income level, risk, number of dependents and needs. Usually individuals use the reference group as a benchmark or guide in evaluating their own behavior and is the source of the goal of acquiring property. The role of this reference group is important in regulating and directing individual financing behavior, on the other hand, from the individual's side, it is expected that there is a willingness to comply with applicable rules and norms.

The principal difference from each factor is that the component in value orientation points to general normative standards, rather than decisions with value orientation pointing to the standards used in accepting/rejecting various cognitive interpretations of situations. The appreciative dimension, points to the standards included in the expression of feelings / affective involvement. While the moral dimension in value orientation points to the abstract standards used to assess alternative types of actions according to their implications for the overall system in which the action is rooted. The implications of the results of this study explain that if applied in this study that the actions of customers in utilizing mortgage loans have a purpose, namely to meet family needs by installments. Where customers in utilizing mortgage credit are colored by the situation, needs and goals of the customer. Meanwhile, efforts to achieve these goals by using other funds to fulfill daily needs. Understanding and assessment of the mortgage credit program by customers will affect their behavior (ezemer et al, 2023; Bu & Liao, 2022). Rational and directed action or behavior of customers according to the above approach is based on customer knowledge and behavior in utilizing the mortgage credit. If mortgage customers have good knowledge and positive behavior about mortgage credit, it will affect their actions in utilizing the mortgage credit.

Conclusion

The conclusion of this research can explain that the property industry financing model for low-income people can be used as a reference for banks to identify the demand and supply of property loans. The research results can be taken into consideration in conducting supervision, especially on the development of property lending in Indonesia. The property financing model in question is a financial structure or scheme used to assist low-income individuals in purchasing, building, or developing property. This financing can include a wide range of financial products and services offered by financial institutions such as banks, financing institutions, or insurance companies. Subsidized mortgages are the most common form of financing used for home purchases. Under this scheme, a bank or financial institution provides a loan to a home buyer, who then repays the loan in installments over a period of time.

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