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# Optimizing Risk Management in Subsidized Mortgage Distribution: A Case Study of BTN Syariah in Ciayumajakuning

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## **Abstract –**

This study aims to analyze risk management and distribution of subsidized mortgage funds and the effectiveness of their implementation at Bank Tabungan Negara (BTN) Syariah in the CIAYUMAJAKUNING area. BTN Syariah plays a role in sharia-based housing financing, with a focus on distributing subsidized mortgages to low-income communities (MBR). The implementation of appropriate risk management is important to ensure increased distribution of subsidized mortgage funds. This study uses a qualitative approach with a case study method. Primary data was obtained through in-depth interviews with BTN Syariah leaders, financing analysts, and BTN Syariah customers. The results of the study indicate that BTN Syariah implements risk management through a 5C analysis (Character, Capacity, Capital, Collateral, and Condition) to screen potential customers. The non-performing financing (NPF) ratio improved from 3.31% in 2022, 2.87% in 2023, and 2.87% in 2024. The high level of risk management effectiveness reached 96.69% in 2022, 97.61% in 2023, and 97.13% in 2024, thus BTN Syariah succeeded in managing risks.

**Keywords –** risk management; subsidized mortgages; Islamic banking

## **I. INTRODUCTION**

Currently, Islamic banking in Indonesia is experiencing rapid development, accompanied by increasingly complex risks in its operations. The growth of Islamic banking introduces various risk factors that must be managed effectively to ensure stability and sustainability in this sector (Choirunnisak & Mahriadi, 2022). The rapid growth of Islamic banking has had a positive impact on increasing the professionalism of each Islamic bank, with the goal of attracting as many customers as possible (Rahmayati, 2021). Therefore, Islamic banks need effective risk management (Mahfud, 2020).

According to the Financial Services Authority Regulation POJK No. 65/POJK.03/2016 concerning the implementation of risk management for Sharia Commercial Banks and Sharia Business Units, risk is the potential loss resulting from a particular event. Meanwhile, risk management is a series of methodologies and procedures used to identify, measure, monitor, and control risks arising from all bank business activities. Types of risks in Sharia Commercial Banks and Sharia Business Units include credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk, sharia compliance risk, yield risk, and investment risk (Wahyuningsih, 2023). Home financing is one of the funding products in Sharia banking using the murabahah contract. According to DSN MUI Fatwa No. 04/DSN-MUI/IV/2000 concerning general rules of murabahah in Islamic banking, banks purchase goods needed by customers on behalf of the bank and the purchaser must be legitimate and free from usury, then the bank sells the goods to the customer at a selling price that includes the purchase price plus a profit margin. Banks must be honest and transparent about the cost of goods and the costs required, including subsidized mortgage financing for Islamic banks

Subsidized mortgages from BTN and BTN Syariah in Indonesia have declined over the past five years (Azis & Mariskha, 2023). Subsidized mortgages are a type of financing aimed at low-income communities (MBR) and are subsidized by the government, in collaboration with the Ministry of Public Works and Public Housing (PUPR), which aims to help lower-middle-class communities achieve their dream of owning a livable home (Batubara & Fadhilah, 2022). Based on Regulation of the Minister of Public Works and Public Housing of the Republic of Indonesia Number 21/PRT/M/2016 concerning housing and residential areas, low-income communities are given support to own a home through policies of convenience, construction assistance, and home acquisition (Kennedy et al., 2020). Home financing facilities supported by government assistance are provided by banks to customers for use in owning a home for occupation or personal use (Wisudaningsih & Aqidah, 2023).

The distribution of subsidized mortgage funds owned by BTN Syariah in the CIAYUMAJAKUNING area decreased in 2023. One of the causes was the increasing risk of bad debts due to debtors being unable to fulfill their payment obligations. According to Ario Priyana, Head of the MCFU and KPR Unit of Bank Tabungan Negara (BTN) Syariah Cirebon Branch, the emergence of arrears in subsidized mortgage installments can lead to bad debts. Furthermore, the rampant practice of data fraud in the subsidized mortgage registration process increases operational and credit risks. The use of false or inaccurate data by debtors can cause banks to channel financing to unworthy parties, which is at high risk of future default. This demonstrates the importance of effective risk management, particularly in identifying high-risk debtors and implementing mitigation measures.

A total of 5,108 subsidized mortgage units are unoccupied by the original debtors. The large number of subsidized mortgage units that have not been utilized by the debtors or original owners can pose risks for banks, particularly related to asset management and smooth payment (Kennedy et al., 2020). These subsidized mortgage units are unoccupied, transferred, or are in the process of being transferred to other parties, so the government's subsidized mortgage program has not been fully distributed evenly to low-income communities (Priyana, 2024). To optimally manage Islamic banking, it is important to pay attention to the various risks and obstacles that arise in each transaction (Syadali et al., 2023). The success of effective financing distribution can be measured specifically from a management perspective, where the management system is able to evaluate whether the implemented policies and procedures are appropriate (Batubara & Fadhilah, 2022). Based on the above obstacles, Bank Tabungan Negara (BTN) Syariah must be able to determine the most appropriate risk management to overcome the obstacles arising from the subsidized mortgage program. (Lanniza & Anggraini, 2021). The implementation of appropriate risk management is crucial to ensure increased distribution of subsidized mortgage funds. Furthermore, the operational efficiency of Islamic banks is closely linked to risk management practices within the banking sector. Research shows that banks with effective management frameworks tend to perform better financially, as they are better able to face challenges (Kabir et al., 2015).

This research gap is the lack of in-depth studies on risk management in increasing subsidized mortgage disbursement, particularly at BTN Syariah. While numerous studies have discussed risk management in general in

banking, specific research examining how risk management can increase disbursement is still very limited. Furthermore, limited existing research examines how risk management can be adapted to address the challenges faced by Islamic banks in subsidized mortgage disbursement. This study aims to analyze risk management and subsidized mortgage disbursement, as well as the effectiveness of their implementation at Bank Tabungan Negara (BTN) in the CIAYUMAJAKUNING area.

## II. METHOD

This research is a qualitative study with a descriptive approach. Qualitative research is a research method that describes certain phenomena in the form of scientific discussions (Firdaus et al., 2021). This study uses a descriptive approach with a case study method. The case study method is defined as a scientific activity that explores a particular phenomenon to obtain detailed and in-depth information about the phenomenon (Ramdhan, 2021). In this study, the author collected data from the research object, namely Bank Tabungan Negara (BTN) Syariah in the CIAYUMAJAKUNING area. The data source is the provider of information to obtain the required data (Pahleviannur et al., 2022). The data collected in this study concerns risk management, the amount of subsidized mortgage funds disbursed, and the effectiveness of risk management at Bank Tabungan Negara (BTN) Syariah in the CIAYUMAJAKUNING area. Data analysis is a process carried out after all data has been collected to solve the research problem and ensure that the required data has been obtained completely. This study employed the Miles and Huberman model of qualitative data analysis, where analysis was conducted interactively and continuously at each stage of the study. The data analysis process involved several steps. First, the data reduction stage, which involved summarizing, selecting key points, focusing on important points, and identifying relevant thematic patterns. This reduced data provided a clearer and more understandable picture, facilitating further data collection. The data display stage then organized the collected information into a systematic and structured format, facilitating further data processing and understanding (Abdussamad & Sik, 2021).

## III. RESULTS AND DISCUSSION

### **Risk Management of the State Savings Bank (BTN) Syariah in Increasing the Amount of Subsidized Mortgage Funds Disbursed in the CIAYUMAJAKUNING Region.**

Risk management is a systematic process aimed at identifying, assessing, managing, and minimizing risks that could hinder the achievement of bank objectives. Risk management is crucial in the process of distributing subsidized mortgage funds at BTN Syariah. Risk management automatically implements risk mitigation measures aimed at minimizing risks and increasing the distribution of subsidized mortgage funds. According to Khan and Ahmed's (2001) theory in their research (Abdullah & Awaluddin, 2022), risk management in Islamic banking is the process of identifying, measuring, managing, and controlling risks that Islamic banks may face in their operations. This is done to minimize potential losses while remaining in line with sharia principles.

Based on interviews with the Micro Credit Financing Unit (MCFU) Head of BTN Syariah KCS Cirebon, Consumer Financing Service of BTN KCS Cirebon and Consumer Financing Analyst of BTN KCS Cirebon, risk management is important to mitigate risks that may occur from the beginning of the subsidized mortgage fund distribution process which includes primary identification in selecting prospective subsidized mortgage customers through 5C analysis. The 5C analysis is character, capacity, capital, collateral and condition.

The risks faced by BTN Syariah in distributing subsidized mortgage funds are operational and financing risks. This operational risk occurs if one of the steps is intentionally missed, such as not conducting BI Checking or not digging deeper during interviews with prospective customers. Meanwhile, financing risks originate from external factors of the bank, namely from its customers. If the bank has implemented according to SOP but there is an X factor that occurs during the installment process. Operational risk is the risk that occurs due to errors during filing, such as documents containing fictitious customer data or by borrowing someone else's identity. In filing subsidized mortgages, it is divided into two: fixed income customers or customers with a fixed income, such as employees, the obstacle that occurs when customers increase their pay slips. Non-fixed income customers or customers with irregular incomes, such as entrepreneurs, the obstacle that occurs when customers do not have financial records as one of the requirements for subsidized mortgages. All parties involved in the process of distributing subsidized mortgage funds have the responsibility to mitigate risks, because each party involved has their own risks..

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Meanwhile, credit risk is the risk that occurs during installment payments due to a customer's inability to pay. The first step is to conduct intensive collection and issue three warning letters (SP) with a 14-day period. The second step is restructuring through rescheduling. If the restructuring is unsuccessful and the customer fails to fulfill their obligations, the final action is to sell the collateral.

Based on the research results, risk management plays a crucial role in increasing the disbursement of BTN Syariah subsidized mortgage funds in the CIAYUMAJAKUNING area. Risk management is carried out through risk identification and mitigation from the beginning of the process, such as the selection of prospective developers and customers using the 5C analysis (character, capacity, capital, collateral, and condition). Risks faced include operational risks, such as fictitious or incomplete customer documents, and financing risks due to customer defaults on installments. To mitigate these risks, various parties involved carry out their respective responsibilities: Consumer Financing Marketing ensures the developer's eligibility, Consumer Financing Service checks the completeness of the files, and Consumer Financing Analysts verify the OTS results before forwarding them for final approval. In addition, if financing risks occur during the installment period, handling steps include intensive collection, restructuring through rescheduling, and even the sale of collateral if the restructuring fails. This comprehensive approach ensures that these risks can be minimized, so that the distribution of subsidized mortgage funds runs effectively in accordance with sharia principles.

#### **Increasing the Number of Subsidized Mortgage Funds Disbursed by the State Savings Bank (BTN) Syariah in the CIAYUMAJAKUNING Region.**

Siswati (2019) explains that fund distribution is an act of channeling or providing funds to other parties for a specific purpose. In the banking sector, fund distribution refers to the provision of credit or financing to customers for various purposes. Based on interviews conducted by researchers with Consumer Financing Marketing at BTN KCPS Cirebon, Sharia Branch Head (SBH) BTN KCPS Indramayu, subsidized mortgage customers and developers in Cirebon and subsidized mortgage customers and developers in Majalengka. The results of this study obtained the realization of the amount of increase and decrease in subsidized mortgage fund distribution in the CIAYUMAJAKUNING area as follows:

Table 1. Realization of the Amount of Subsidized Mortgage Funds Disbursed in the CIAYUMAJAKUNING Region

Region	2022	2023	Percentage increase
	Distribution of funds	Distribution of funds	
Cirebon	108,722,490,000	115,842,501,000	6.5%
Brass	12,509,063,250	25,373,883,750	103%
Indramayu	4,624,357,500	8,693,295,000	88%
Majalengka	8,968,293,750	3,317,047,500	-63%
<b>Total</b>	<b>134,509,063,250</b>	<b>153,226,727,250</b>	<b>14%</b>

Based on the table above, the distribution of subsidized BTN Syariah mortgage funds in 2022-2023 showed an increase in the Kuningan and Indramayu areas. Cirebon also experienced an increase, although not as significant. Meanwhile, a decrease occurred in Majalengka. In Cirebon and Kuningan, the property sector is growing rapidly, with the emergence of many new developers opening housing projects. Kuningan experienced a greater increase than Indramayu. This is because the regional conditions in Kuningan support housing sector growth, such as the availability of strategic land, numerous new business opportunities, and high public demand for subsidized housing. Therefore, Kuningan attracts more new housing developers than Indramayu. Meanwhile, Indramayu has a tendency for people to hold back their funds when purchasing subsidized mortgages, as there is still a large amount of family land.

The increase in subsidized mortgage disbursement is influenced by BTN Syariah's effective marketing strategy, which begins with mapping potential property areas, followed by field surveys, and offering partnerships to housing developers. The fast and efficient service process is a key factor attracting developers to partner with BTN Syariah. Under this partnership, developers provide subsidized mortgage properties, while the bank provides the financing.

In the Cirebon area, there has been an increase in subsidized mortgage loans, although not by much. This is due to limited land available for subsidized housing development and competition from the more dominant commercial

housing sector. Meanwhile, in the Majalengka area, there has been a decline in subsidized mortgage loans. This decline is influenced by Majalengka's status as a red zone, where many residents have online loans with poor credit records due to defaults on installment payments.

### **The Effectiveness of the Risk Management of the State Savings Bank (BTN) Syariah in Increasing the Amount of Subsidized Mortgage Funds Disbursed.**

Risk management begins to demonstrate its effectiveness when relevant parties have implemented risk mitigation from the outset, thereby minimizing the likelihood of potential risks occurring. Effective risk management plays a crucial role in maintaining the continuity and optimal performance of a bank, particularly in the face of uncertain situations. Appropriate risk management implementation can mitigate the negative impacts of various potential risks (Ni'mah et al., 2024).

Many parties are involved in ensuring the effectiveness of BTN Syariah's risk management. These include Consumer Financing Marketing, which ensures collaboration with reputable developers. Consumer Financing Service ensures that incoming documents are unobstructed and that the customers are legitimate. Financing Admin conducts On-The-Spot (OTS) for non-fixed income customers or self-employed customers. Consumer Financing Analysts verify the accuracy of OTS results by phone. The Micro Credit Financing Unit (MCFU) Head reanalyzes by directly viewing the OTS and analysis results. The Deputy Branch Manager (DBM) of Business makes the final decision on whether or not the loan is appropriate. Furthermore, subsidized mortgages will undergo numerous audits, both internal and external. Effective risk management contributes to increased disbursement of subsidized mortgage funds. A strong NPF (Non-Performing Financing) at BTN Syariah indicates healthy customer credit, leading to better disbursement of subsidized mortgage funds.

Effective risk management contributes to increased disbursement of subsidized mortgage funds. A strong BTN Syariah NPF means healthy customer credit, which in turn improves the disbursement of subsidized mortgage funds. Effective risk management at BTN Syariah contributes to maintaining the stability of Non-Performing Financing (NPF). Non-Performing Financing (NPF) is one indicator used to measure the effectiveness of risk management. The effectiveness level is calculated using the following formula  $(1 - \text{NPF}) \times 100\%$ , as shown in the following table:

Table 2: Level of effectiveness of risk management at BTN Syariah

Year	Level of effectiveness	Information
2022	96.69	effective
2023	97.61	effective
2024	97.13	Effective

Source: processed data

Based on the table, BTN Syariah has successfully managed risks. Effective risk management at BTN Syariah has increased the disbursement of subsidized mortgage funds, as demonstrated by the stability of the Non-Performing Financing (NPF) ratio (NPF) during 2022-2024, which is categorized as good and very effective. This success was achieved through the implementation of risk mitigation measures from the beginning of the process, such as selecting qualified developers, strict file verification, OTS (Online Payment System) for non-fixed income customers, and final analysis by DBM Business. Solid coordination between various units, internal and external audits, and guidance for customers who delay payments also contributed to this achievement. By maintaining a stable NPF, BTN Syariah ensures that customer credit remains healthy, ensuring the smooth disbursement of subsidized mortgage funds and in accordance with sharia principles.

## **IV. CONCLUSIONS**

Risk management at Bank Tabungan Negara (BTN) Syariah plays a crucial role in increasing the distribution of subsidized mortgage funds in the CIAYUMAJAKUNING area. Through risk identification, assessment, and mitigation, BTN Syariah can address operational and credit risks that could hinder the distribution of subsidized mortgages. The prospective customer assessment process, which uses the 5C analysis (character, capacity, capital, collateral, and condition), ensures that prospective customers meet the required criteria, ensuring that funds are disbursed effectively and in accordance with sharia principles.

The distribution of subsidized mortgage funds by BTN Syariah in the CIAYUMAJAKUNING area showed a significant increase, particularly in Kuningan and Indramayu. The Cirebon area also experienced an increase, although

not as significant. Despite a decline in Majalengka, overall, BTN Syariah has succeeded in increasing access to housing finance for low-income communities. This success is supported by the growth of the property sector and collaboration with responsive developers, thus opening up more opportunities for people to own subsidized homes.

The effectiveness of risk management at BTN Syariah can be measured by the decline in Non-Performing Financing (NPF) from 3.31% in 2022 to 2.39% in 2023 and 2.87% in 2024, indicating effective risk management. The high level of risk management effectiveness, reaching 96.69% in 2022, 97.61% in 2023, and 97.13% in 2024, reflects BTN Syariah's success in managing risk and increasing the distribution of subsidized mortgage funds. Furthermore, the personalized service approach and financial education also contribute to reducing the risk of bad debt, thus supporting the broader goal of subsidized mortgage distribution.

The limitation of this research is that it only uses one indicator to measure the effectiveness of risk management, therefore further research can add indicators to measure the effectiveness of risk, for example using Value at Risk (VaR), Risk Adjusted Return On Capital (RAROC) to measure the level of return generated by financing with the risks taken, stress testing and sensitivity analysis help banks to anticipate the impact of external factors such as market volatility on the quality of financing, or other relevant methods.

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