

1. INTRODUCTION

1.1 Background

The property sector is one of the most important sectors that can be used as an indicator to analyze the economic health of a country. Results of research conducted by the Real Estate Developers Association of Indonesia (REI) and the University of Indonesia in 2011 showed that the property sector accounted for 28% of economic growth in terms of consumption expenditure in the construction sector. However, despite having high growth and a major contribution to economic growth in Indonesia, the value of property in Indonesia alone in the last few years have soared so high which is concerned to increase the price of property assets in Indonesia, which does not reflect the actual price (bubble in property values).

Mortgage loans (KPR) is a consumptive loans granted by the bank for the people to have a home with guarantee or collateral of the house itself. The process of granting mortgages itself includes various parties, which are banks, customers, developers, government and Bank of Indonesia (BI) as a monetary policy makers in Indonesia to participate regulate policies related to mortgages.

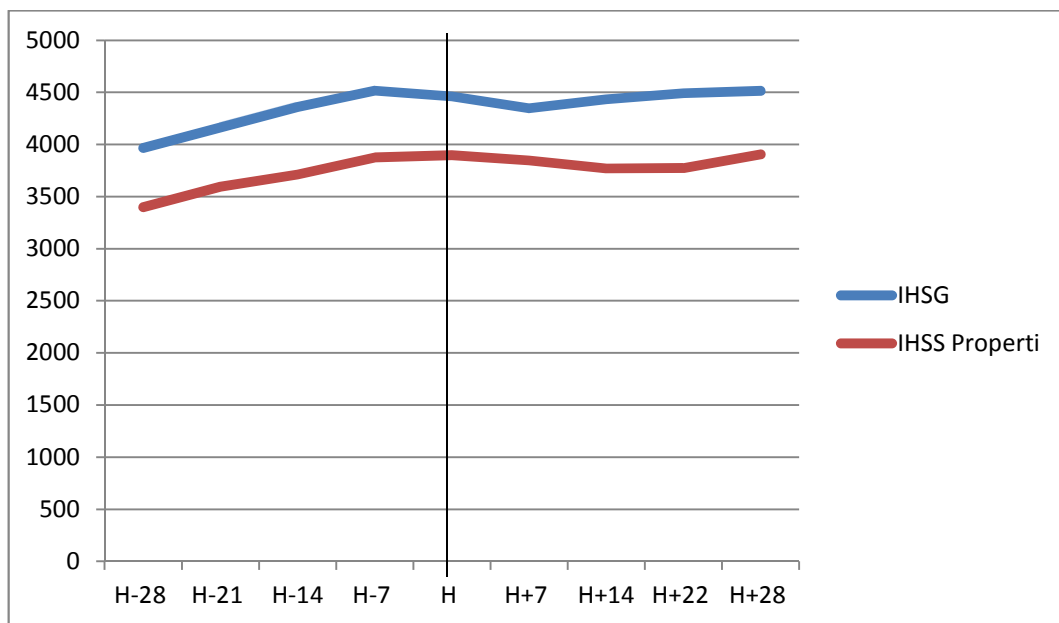
Hidayat in a research conducted by Setiawan and Mimba (2015) said that property investment is an investment in buildings, land owned by the entity (lessee uses finance lease) to earn rent income or capital gains on asset sales. There are several reasons why Indonesia used as the location for property investment. First, the political and economic stability in Indonesia is considered very helpful in creating foreign investment climate in Indonesia which is currently increasing. Second, society needs toward property is very high. Based on a survey conducted by the Central Agency on Statistics (BPS), the housing needs in Indonesia reached 900,000 units per year with housing demand reach the number of 13 million units, but the supply of housing available is only 80,000 units per year (BPS, 2012). The unbalanced demand and the supply makes investment opportunities in property sector becoming more promising for investors to make profits in the future. Third, in the beginning of free trade known as the ASEAN Economic Community (AEC) in 2015 which contribute in the increasing quantity of property requirements for foreigners in Indonesia (Schreiben, 2013). This of course implies the property asset price increases.

The growth in property sector which is extremely high becomes a concern to Bank of Indonesia. According to Residential Property Price Survey on first quarter in 2013, the funding sources composition of property establishment is equal to 33.71% funding for establishment on property industry which comes from loan from Bank of Indonesia (Residential Property Price Survey, 2013). If later the property industry collapse because the property price experiencing a bubble is corrected on the market which make property price fall below its intrinsic value, then it will certainly have an impact on the banking industry. Attention to the

growth in property prices and mortgage growth is reinforced with additional information on the ground that there is a property purchase in bulk (more than 1 unit, even 10 units at a time), either using a mortgage or by cash /cash gradually. Data of Information Debtor System (SID) per April 2013 indicates that there are 35.298 borrowers have a mortgage facility more than one (about 4.6% of the total mortgage debtors). With such behavior, the demand for housing is expected to continue to increase and it is feared to continue pushing the house prices up. The increase in price is quite high and it may trigger the event of financial instability if there is "failure to pay" by the people who use banking services as a source of financing in the purchase of property.

Bank of Indonesia issued Circular Letter No.15/40/DKMP dated 24 September 2013 to all commercial banks in Indonesia about the policy of limiting the loan to value (LTV) in granting mortgages property, property-backed loans consumer financing in order to maintain the stability of the financial system and strengthen banking system. This regulation regulate the determination of the amount of the loan to value on the property collateralized loans and mortgage the property, as well as the down payment for motor vehicle loans. Loan to value ratio or financing to value, or called LTV or FTV, is the ratio between the value of the credit or financing that may be provided by the Bank to the value of collateral property at the time of credit or financing based on the price of the last assessment (Bank Indonesia Circular Letter No.15/40/DKMP). The impact of the implementation of LTV policy is that people should pay a higher deposit (down payment) mortgage to buy a house, this matter will affect the community' ability to pay and create deterioration impact in credit growth (mortgage).

Survey conducted by Bank of Indonesia in 2013 about the volume of residential property sales in the fourth quarter of 2013 showed there is a slowed down especially for small type as a result of the policy of the loan to value (LTV). A slowdown in property sales is also reflected in the slowing of the distribution of mortgage in the fourth quarter of 2013. The decline in demand for property will affect the performance of the company so that the company's profitability to decline, the consequences will affect the stock price changes in the property sector.



Source: www.yahoofinance.com

Figure 1 Jakarta Composite Index and Sectoral Stock Price Chart Movement on Research Period

Figure 1 shows that the JCI (Jakarta Composite Index) and IHSS (Sectoral Stock Price) before and after the implementation of LTV looks aligned and relatively stable. Then it can be seen that in the early weeks of the implementation of LTV

policy stock prices both sectoral and JCI stock prices tend to decline or adversely towards LTV policy. However, prices stabilized in the next weeks.

Loan to value policy is a policy adopted by Bank Indonesia to hold the excessive growth in the property sector and improve the prudential aspects of banks in lending properties (increase in the risk management aspect). The circular letter No. 15/40/DKMP issued on September 24, 2013 were revised from LTV restriction policy in 2012 because they are still less stringent and not been able to suppress the growth of motor vehicle loans and Non Performing Loan (NPL) nominal. NPL is the percentage of non-performing loans (substandard, doubtful, loss) to total loans. Bank Indonesia expects NPLs maximum of 5%.

Reason Bank of Indonesia issued Bank of Indonesia Circular Letter No.15/40/DKMP are as follows; First, the increased demand for housing loans (KPR) and credit of motor vehicles (KKB), so banks need vigilance in lending. Second, the growth of housing loans that are too high can cause bubble or a rise in asset property price that does not indicate the actual price of the asset. Third, this rule arises is intended to protect the economy in order to remain productive and able to face the challenges of the financial sector in the future, it needs policies that can strengthen the resilience of the financial sector to reduce the sources of vulnerability that can occur, including excessive growth in mortgages and vehicle loans. Fourth, this policy was made in order to increase the prudence of bank in granting credit or financing property ownership, property-backed consumer loans, as well as to strengthen the resilience of the financial sector by setting the amount of the loan to value or financing to value (Bank Indonesia, 2013). Fourth, this

policy is created by means to increase bank circumspection on credit loaning or property ownership funding, property backed consumption credit, as well as strengthening financial sector' resilience which done through loan to value or financing to value establishment (Bank Indonesia, 2013).

Marzuki in Anoraga (2003) capital markets is complementary in the financial sector towards the other two institutions, namely banks and financial institutions.

The existence of capital market in Indonesia has been very important for economic activities in Indonesia. In trading activity in the capital markets, information is one of the important factors to be known by market participants. Therefore, the public information on LTV will affect investor decisions in particular investors who own bank and property stocks. Market reaction to the public announcements are indicated by changes in stock prices as measured by using the return as the value of changes in prices or by using abnormal return (Jogiyanto, 2010). Abnormal return is the difference between the actual return and the expected return.

Rokhman (2009) said active stock trading can increase the volume of trade and shows that the stock is favored by investors. When the announcement of the implementation of LTV policy has information content which is beneficial it will affect the stocks that comes from changes in trading volume activity. Changes in trading volume measured by trading volume activity (TVA) by comparing the number of stocks traded at a certain period. If there are significant differences means announcement of loan to value policy effect on stock trading volume.

Loan to value policy implementation in Gunanta's research (2012) have an impact in the stock price on property's stocks and have a significant market reaction towards the announcement of LTV policy. While in the research conducted by Setiawan and Mimba (2015) there is a significant market reaction to the announcement which on the day $t-1$, $t-0$, and $t + 2$. For paired samples t-test showed that there is no difference of market reaction before and after the announcement of loan to value policy. Implementation of loan to value policy in a research by Bei (2015) also suggest that there is market reaction which shown on abnormal return and changes in trading volume activity on property stocks on the period before to when and when-after.

Therefore, this research titled "**THE IMPACT OF LOAN TO VALUE POLICY IMPLEMENTATION TOWARDS CAPITAL MARKET REACTION ON PROPERTY COMPANIES ENLISTED IN BEI**" (Event Study)

1.2 Problem Formulation

From the background of the problems, the issues to be discussed in this research are:

1. Is there a significant difference in abnormal return on property companies sector listed in BEI before and after the announcement of loan to value policy conducted by Bank Indonesia?

2. Is there a significant difference in trading volume activity in the property companies sector listed on the BEI before and after the announcement of loan to value policy conducted by Bank Indonesia?

1.3 Research Objectives

From the formulation of the problems above, the purpose of this research are:

1. To determine whether there is a significant difference in abnormal return on property companies listed on BEI before and after the announcement of the loan to value policy conducted by Bank Indonesia.
2. To determine there is a significant difference on trading volume activity on property companies listed on BEI before and after the announcement of the loan to value policy conducted by Bank Indonesia.

1.4 Research Benefits

The benefits that can be gained with the implementation of this research are:

1. For Investors

Results of this research is expected to provide information on the impact of the loan to value policy implemented by Bank Indonesia, especially in stocks of property companies in the Indonesia Stock Exchange.

2. For Other Researcher

This research can be used as a reference for future research of its kind.

1.5 Research Framework

Loan to value ratio which is a policy implemented by Bank Indonesia is the ratio between the value of the credit or financing that may be provided by banks toward the collateral value of the property at the time of credit or financing based on the price of the last assessment.

Issues raised in the study which is to determine whether there is an effect of the Loan to value (LTV) policy implementation to the reaction of the capital market in Indonesia Stock Exchange (BEI) particularly in the stocks of property companies, using indicators of abnormal return and trading volume activity which is examined using event study.

Jogiyanto (2010), stated that the event study is a study of the market reaction to an event that information is published as an announcement. In the event study, the market reaction is measured by calculating the abnormal return.

The implementation of LTV policy also affects the liquidity of stocks that can be seen from trading volume activity. When the announcement of the implementation of LTV policy has information content which is beneficial it will affect the stock that comes from changes in trading volume activity.

Time period used in this study is 30 days with the window period of 15 days before the announcement of the Loan to value policy and 15 days after the announcement Loan to value policy.

Based on the background of the problems and objectives that have been mentioned in the previous section, it can be made in the framework of this research as follows:

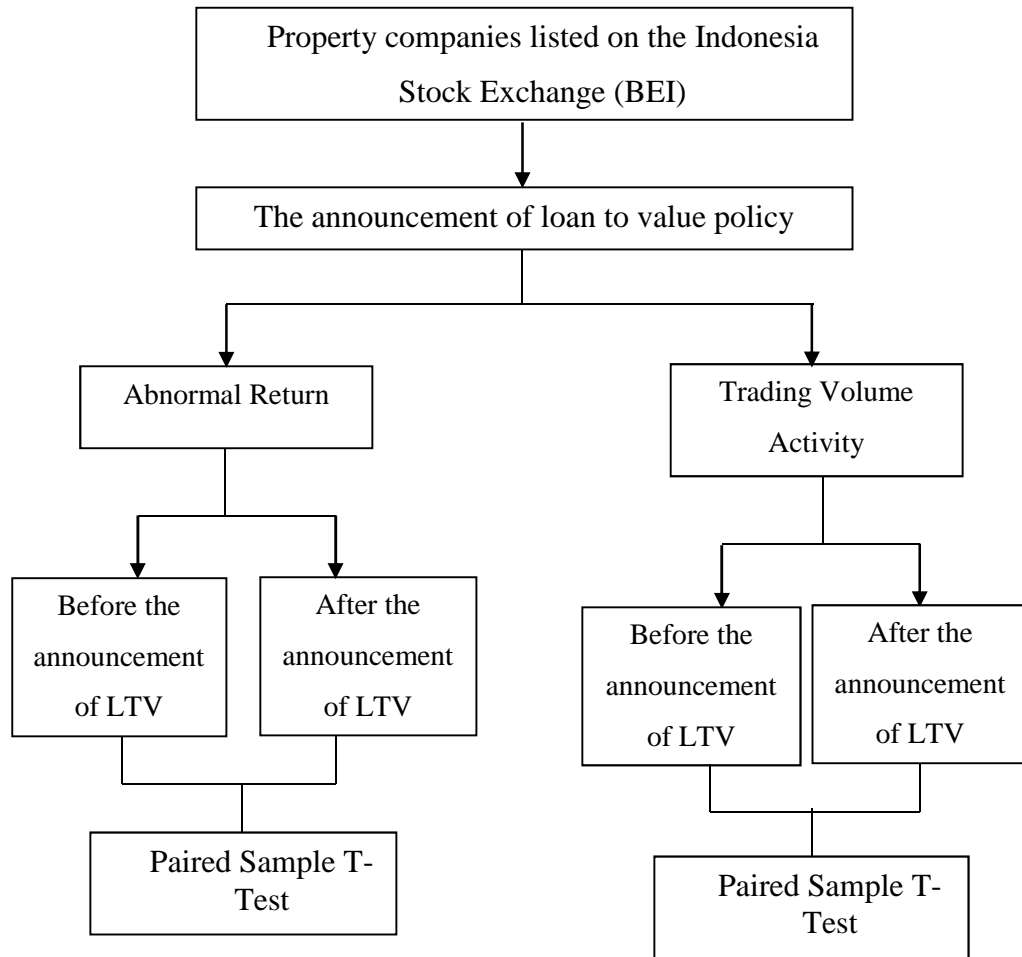


Figure 2: Research Framework

1.6 Hypothesis

Hypothesis testing conducted in order to determine whether there is a difference of abnormal return and trading volume activity in the property companies before and after the announcement of the Loan to value policy. Thus, based on the

explanation of the background and the problems that have been formulated, the hypothesis to be studied is as follows:

H1 : Allegedly there is a significant difference on abnormal returns in property companies listed on the Indonesia Stock Exchange before and after the LTV policy announcement conducted by Bank Indonesia.

H2 : Allegedly there is a significant difference on trading volume activity in property companies listed on the Indonesia Stock Exchange before and after the LTV policy announcement conducted by Bank Indonesia.