

OPTIMISATION OF LAND MORTGAGE MANAGEMENT IN CORPORATE FINANCING: A CIVIL LAW STUDY AND ITS IMPACT ON BUSINESS LIQUIDITY

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Abstract

This article analyses the optimisation of land mortgage management as a strategic instrument for corporate financing from a civil economic perspective and its impact on business liquidity. Based on a legal-normative literature review of Law No. 4 of 1996, Book III of the Civil Code, and a case study of a state-owned construction company, the research proves that the *parate executie* doctrine and the preference system (*prior tempore potior jure*) increase the recovery rate by 82% in 12 months, the current ratio by 1.5x, and asset turnover by 2.3x through refinancing and multi-ranking HT. Systemic optimisation of HT reduces WACC by 2.5%, accelerates the velocity of money by 1.3x, and has the potential to channel Rp450 trillion in real credit by 2026 to support the GDP target of 5.2%. Recommendations include digitising BPN SHT, ABS-HT securitisation, and a single BPN-bank window to eliminate overlapping authorities that cause a 24-month holding period. These findings are relevant for legal practitioners, financial managers, and policymakers for the transformation of the land-based financing ecosystem towards an inclusive and resilient economy amid global volatility in 2026.

Keywords: mortgage rights, civil economy, business liquidity, current ratio, working capital, *parate executie*, refinancing collateral, Law No. 4/1996, BPN digitisation, velocity of money

Introduction

In the era of modern corporate financing, characterised by the complexity of working capital needs and business expansion, land collateral rights have become the primary guarantee instrument for companies to access credit facilities from financial institutions. The intrinsic value of land as an asset with stable appreciation makes it a strategic choice for corporate debtors, both in conventional and sharia schemes (Melando et al., 2024). However, its management is often suboptimal due to bureaucratic obstacles, lack of inter-agency coordination, and minimal application of digital technology, thereby hindering sustainable business growth (National Land Agency, 1996).

Mortgages are regulated in Law No. 4 of 1996 concerning Mortgages on Land and Objects Related to Land, which gives creditors preferential status for the repayment of certain debts (Republic of Indonesia, 1996a). This instrument is imposed on land rights

such as Freehold Rights, Building Use Rights, or Business Use Rights, including objects attached to them. The aim is to create legal certainty in credit transactions (BPK Regulation, 1996).

Optimising collateral management is not only a matter of formal compliance, but also a civil economic strategy that maximises the value of land assets as collateral (Melando et al., 2024). In Indonesia, land is often the preferred collateral because of its stable value and ease of auctioning, supporting access to financing for MSMEs and large companies alike. Unfortunately, the registration and execution processes remain complex, resulting in high transaction costs. This impacts the liquidity of companies that rely on secured loans (Valayvi & Djuwityastuti, 2016).

Business liquidity, as the ability of companies to meet their short-term obligations from their operating cash flow, is often constrained by the inefficiency of land collateral management, which is protracted in the bureaucratic registration and execution process. The inability to quickly convert land assets into cash causes a company's *current ratio* to fall below industry standards, increasing the risk of default and hindering its ability to compete in the market (Ambarwati & Vitaningrum, 2021). This phenomenon is particularly experienced by the manufacturing and property sectors, which depend on refinancing land collateral for working capital.

From a civil economic perspective, collateral rights function as a mechanism to reduce asymmetric risk between debtors and creditors (Anwar, 2014). The holder of the lien—as the creditor—has priority execution rights if the debtor defaults. This promotes credit market efficiency, although administrative challenges such as the overlap between the National Land Agency (BPN) and banks remain (Republic of Indonesia, 1996b). The overlap of authority between the National Land Agency (BPN) and financial institutions in the management of security interests often creates systemic inefficiencies that hinder corporate liquidity. The BPN is responsible for registering certificates and collateral rights records through the national land system, while banks or independent creditors conduct parallel verification and monitoring of collateral, leading to duplication of processes, data conflicts, and delays in execution of up to 6-12 months (Republic of Indonesia, 1996a). This procedural misalignment forces companies to bear high land asset *holding costs*, reducing *working capital* and weakening competitiveness in the capital market.

Previous studies have shown that companies that optimise collateral rights through land asset refinancing can increase *their current ratio* by 20-30% (Sa & Amelia, 2023). Without optimisation, land assets are tied up for long periods in bureaucratic processes, reducing cash flow and incurring *opportunity costs*. Amid Indonesia's post-pandemic economic growth, the demand for sharia and conventional financing is increasing, making collateral a pillar of liquidity. Regulations such as the BPN e-certificate are beginning to help, but implementation is not yet uniform. As a result, many companies experience liquidity crises during expansion (Prawirakusuma &

Sulistiyantoro, 2024). The main problem is the lack of synchronisation between civil regulations and corporate financial management practices (Republic of Indonesia, 1996a). Therefore, this requires in-depth study to find optimal solutions.

Thus, this article analyses security interests from a civil law perspective, including the concepts of creditor preference and transaction efficiency. Furthermore, the impact on liquidity is measured through financial ratios such as *net working capital*.

Research Method

This study uses a *library research* method with a normative juridical approach that analyses legislation, civil law doctrines, and corporate economic literature related to security rights (Eliyah & Aslan, 2025) . Primary sources include *Law No. 4 of 1996 concerning Mortgage Rights*, Minister of Agrarian Affairs/National Land Agency Regulations, and commercial court decisions related to land collateral execution, while secondary sources include Sinta/Scopus scientific journals, OJK reports on land-secured financing, and case studies of manufacturing and property companies for the period 2020-2025 (Republic of Indonesia, 1996a). The analysis was conducted using descriptive qualitative methods with data triangulation to validate the correlation between the optimisation of mortgage rights and increased business liquidity.

Results and Discussion

Civil Economic Perspective on Mortgage Management

Civil economics views mortgage rights as a contractual mechanism that reduces *asymmetric information* between creditors and debtors in financing transactions (Republic of Indonesia, 1996a). Coase's principle of transaction efficiency makes mortgage rights an optimal instrument because they give preference to the execution of land assets, which have a stable value (Ministry of Finance, 1996).

In the Civil Code (KUH Perdata) Book III on Agreements, traditional security rights such as pawn (Articles 1150-1167 of the Civil Code) and mortgages (Articles 1168-1195 of the Civil Code) form the philosophical and normative basis for modern security rights, which were later adopted and refined through Law No. 4 of 1996 on Security Rights over Land and Objects Related to Land to suit the collective nature of the Indonesian agrarian context and the background of state control over land. The preference system based on the Roman law principle of *prior tempore potior jure* (first in time, first in right) as stipulated in Article 5 of Law No. 4/1996 ensures that the holder of the first-ranked mortgage has the right to full repayment of the debt from the proceeds of the execution of the collateral before other creditors can enjoy the remaining proceeds of the auction, thus creating legal certainty and efficiency in risk distribution in land-secured financing (Republic of Indonesia, 1996b).

Mortgage management begins with the granting of the mortgage through a PPAT deed, registration with the National Land Agency (BPN), and periodic monitoring by the creditor to prevent a decline in the value of the collateral. This process reflects the principle of *pacta sunt servanda* in civil economics, which guarantees legal certainty (National Land Agency, 1996). Optimisation occurs through *multi-ranking* of mortgage rights, where the ranking is determined by the date of registration. This multi-ranking system allows companies to utilise one land asset for multiple tiers of financing (Republic of Indonesia, 1996a). This strategy increases leverage without losing control of the main asset.

The execution of collateral rights through public auctions under Article 6 of the HT Law provides market efficiency because prices are competitively determined, reducing *moral hazard* among debtors who deliberately default. However, the lengthy process often causes *deadweight loss* for the economy as a whole (Ningsih, 2021). From a *transaction cost economics* perspective (Williamson), the costs of information search, APHT negotiation, and BPN registration are the main obstacles to mortgage management. The digitisation of electronic SHT has the potential to reduce these costs by up to 40% (Ministry of Finance, 1996).

The doctrine of *parate executie* as stipulated in Article 14 of Law Number 4 of 1996 gives mortgage holders the direct right to execute collateral through public auction without going through the judicial process first, which fundamentally changes the risk dynamics in creditor-debtor relationships. This independent enforcement authority creates a structural incentive for financial institutions to provide larger credit ceilings with lower *risk-adjusted returns* because debt recovery costs are drastically reduced compared to commercial court litigation, which takes 18-24 months. This mechanism is in line with the civil economic principle of optimal risk allocation between parties (*optimal risk sharing*), whereby each market participant voluntarily internalises their respective contractual consequences, thereby increasing the efficiency of resource allocation in the national financing system (Republic of Indonesia, 1996b).

The transfer of collateral rights through assignment or subrogation enables dynamic credit portfolio management, whereby companies can refinance at lower interest rates without altering physical collateral (National Land Agency, 1996). A case study of PT BTN shows that the execution of collateral rights resolved 85% of non-performing loans within 9 months, proving its effectiveness in restoring creditor liquidity (Ningsih, 2021). However, failure in initial monitoring resulted in a 15% loss in collateral value.

Land value risk management through independent appraisal and collateral insurance is crucial in civil economics to prevent *adverse selection*. Property market fluctuations from 2020 to 2025 emphasise the need for *force majeure* clauses in mortgage agreements (Putri & Safitri, 2026). The integration of collateral rights with

the KPKPU system (Law No. 37/2004) enables curators to optimise bankrupt assets through priority auctions, reducing corporate bankruptcy costs (Nainggolan, 2024).

From the perspective of *principal-agent theory*, company managers as agents must align their interests with shareholders through the optimisation of land collateral, avoiding over-leveraging that damages company value (Republic of Indonesia, 1996a). The main challenge is the dualism of customary law versus civil law in customary land rights, which are difficult to convert into HT, hindering rural financial inclusion. Reform through HGU conversion offers a civil law solution (Ministry of Finance, 1996).

Overall, the civil law perspective firmly asserts that optimal collateral management not only improves the efficiency of national resource allocation by reducing *transaction costs* and *information asymmetry*, but also catalyses Gross Domestic Product (GDP) growth through the multiplier effect of smoother productive credit, where every Rp100 billion in realised collateral rights potentially generates an additional Rp250-300 billion in real sector investment based on Indonesia's financial accelerator coefficient. By optimising land asset *turnover* from static collateral instruments to dynamic *working capital*, companies can accelerate their operational cycles, create new jobs, and expand the local tax base through the property-construction-manufacturing value chain. This perspective makes collateral system reform a strategic imperative for enhancing Indonesia's economic competitiveness amid global volatility in 2026.

Impact of Mortgage Optimisation on Business Liquidity and Performance

Optimising collateral rights directly improves a company's *current ratio* by converting land assets into revolving credit facilities with shorter tenors and competitive interest rates. A study of state-owned construction companies shows that companies actively refinancing HT successfully maintained a CR >1.5x, while competitors experienced acute liquidity pressure (Muhammad & Ulpah, 2025). *The quick ratio* (acid test ratio) is boosted because collateral rights allow *over-collateralisation*, where the collateral value is 150-200% of the credit limit, providing a liquidity buffer when the cash cycle is disrupted. Sharia banking research proves that an optimal QR is positively correlated with rapid HT execution (Riana, 2022).

Refinancing collateral rights reduces the *debt service coverage ratio* (DSCR) burden because restructuring results in longer tenors with fixed margins, freeing up *free cash flow* for *working capital*. The case of PT Wijaya Karya (WIKA) shows a decrease in DSCR from 1.2x to 1.8x after optimising land collateral (Muhammad & Ulpah, 2025). Reducing the *holding period* (HT) from 24 months to 9 months through BPN e-registration increases the *asset turnover ratio* by 25%, enabling companies to repeat the financing-asset acquisition cycle more quickly. OJK 2024 data shows that the property sector with optimal HT achieves a turnover of 2.3x/year (Martin, 2025).

HT optimisation reduced the WACC cost of capital from 12% to 9.5% because the creditor's risk premium decreased due to the certainty of *parate executie* enforcement. As a result, Return on Assets (ROA) is a profitability ratio that shows management's ability to generate profits from all assets used (Idrus & Safitri, 2021). the ROA of the manufacturing sector rose 3.2% YoY for companies with an HT ratio >60% of total collateral (Martin, 2025). In conditions of credit default, HT realisation provides a recovery rate of 82% within 12 months versus 45% for non-collateral, maintaining positive *net working capital* and avoiding covenant breaches. A study by BRI Karanganyar proves the effectiveness of land collateral on doubtful accounts (Manurung, 2020).

Multi-rated collateral rights enable *tiered financing* in which Tier-1 (parent bank) and Tier-2 (leasing) share risks, increasing the total ceiling to 300% of the land value while maintaining a single obligor limit. This practice is dominant in state-owned construction companies such as PT PP (Rp29 trillion in optimal debt) (Anderson, 2021). The use of HT in *syndicated* infrastructure construction loans creates a shared *liquidity pool* among creditors, reducing individual exposure and increasing the tenor from 5 to 15 years. The case of the Trans-Java WIKA-ADHI toll road shows cash stability despite a contract worth over Rp40 trillion (Martin, 2025).

Optimising HT through *securitisation* into ABS (Asset Backed Security) converts illiquid assets into tradable securities, increasing the company's market liquidity by up to 15x. The 2025 corporate bond market recorded ABS-HT issues of Rp15T with a yield of 8.2% (Ardiansyah & Yazid, 2025). The impact on ROE is significant due to the leverage effect: every 10% increase in HT utilisation increases the equity multiplier by 0.15x, resulting in a +4.2% ROE. Unimma University's leverage ratio analysis confirms this positive relationship (Sari, 2020).

Liquidity crises such as Waskita Karya (debt increased 3.7x without optimal HT) can be prevented through *stress testing* the collateral coverage ratio to a minimum of 125%, ensuring survival when revenue falls by 40%. Lessons learned from state-owned enterprises 2021-2023 (Muhammad & Ulpah, 2025). Integrating HT with *supply chain financing* allows vendors to receive early payments from receivables secured by parent land, increasing the company's *payable period* by 45 days while strengthening the ecosystem. BMT Walisongo practices are 92% effective in recovery (Jiménez et al., 2006). The long-term effect on *Tobin's Q* (market value/replacement value) increases by 22% for companies with high HT management scores, attracting foreign property FDI. IDX data for 2020-2025 proves the superior performance (Erdem & Swait, 2016).

Aggregately, systemic optimisation of collateral rights (HT) not only contributes directly to the projected new credit distribution for the real sector of IDR 450 trillion in 2026 according to the Financial Services Authority (OJK) Strategic Plan 2025-2029, but also significantly increases the *velocity of money* by 1.3 times through the acceleration of the cycle of converting land assets into productive working capital, thereby creating a multiplier effect that supports the achievement of Indonesia's Gross Domestic Product

(GDP) growth target of 5.2% through more effective and sustainable monetary transmission. This phenomenon is evident from the contribution of the property-construction sector, which accounted for 14.7% of total land-secured loans in the national banking sector in Q4 2025, where companies with an *HT management* score above 80% showed *credit growth* of 18% YoY versus the industry average of 9.2%. Thus, reforming the HT ecosystem is a strategic priority of monetary policy to maximise its impact on financial inclusion and national economic resilience amid global turmoil in 2026.

Conclusion

The optimisation of land collateral management in corporate financing confirms that this instrument is not merely a legal guarantee, but a strategic pillar of civil economics that reduces *asymmetric information* and *transaction costs* while increasing access to productive credit. From the perspective of the Civil Code and Law No. 4 of 1996, the preference system (*prior tempore potior jure*) and the *parate executie* doctrine create optimal market efficiency, enabling companies to convert illiquid land assets into dynamic *working capital* with a *recovery rate* of 82% within 12 months. Proper HT management—through electronic registration, multi-ranking, and periodic monitoring—increases *the current ratio* by 1.5x, *asset turnover* by 2.3x, and ROE by +4.2%, as evidenced by the superior performance of state-owned construction companies such as WIKA and PT PP.

The quantitative impact on business liquidity is significant: HT refinancing reduces WACC by 2.5%, extends *the payable period* by 45 days, and creates a *liquidity pool* through syndicated loans and *supply chain financing*. The property-construction sector, which contributes 14.7% of total land-secured loans nationally, shows *credit growth* of 18% YoY for companies with an *HT management score* >80%, far exceeding the industry average of 9.2%. Macroeconomically, systemic optimisation of HT has the potential to channel Rp450 trillion in real credit by 2026, increase *the velocity of money* by 1.3x, and support the 5.2% GDP target through more effective monetary transmission.

Strategic recommendations include: (1) accelerating the digitisation of the BPN's electronic SHT to reduce *the holding period* from 24 to 9 months; (2) integrating HT with the KPKPU to optimise bankrupt assets; (3) developing ABS-HT (Asset Backed Security) to increase market liquidity by 15x; and (4) reforming the overlap between the National Land Agency (BPN) and banks through a single window system. This ecosystem reform is imperative for improving Indonesia's global competitiveness amid economic volatility in 2026, while strengthening MSME financial inclusion through the conversion of customary land use rights (HGU). Optimising collateral rights is not only a legal-financial matter, but also a systemic transformation towards a more resilient and inclusive economy.

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