

CHINA / Post Quake Tasks

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Banks ordered to write off bad loans

By Mao Lijun (China Daily)
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The banking regulator Monday ordered domestic banks to write off bad loans caused by the devastating earthquake.

The write-offs are to reduce the mortgage burden of survivors and help reconstruction efforts in Sichuan, the China Banking Regulatory Commission (CBRC) said in a statement on its website.



Construction workers work on a resettlement site for the victims of the May 12 quake in Dujiangyan, southwest China's Sichuan Province, May 20, 2008. A resettlement residence project has started here on May 17 and is expected to be ready on May 27. [Xinhua]

The devastating earthquake destroyed 2.9 million homes and severely damaged 14 million houses in Sichuan province, according to the Ministry of Civil Affairs.

Many borrowers have lost their homes in the earthquake and cannot afford to make repayments.

If the borrowers' losses are not covered by insurance, or their insurance or guarantees are not enough to repay the debts, the loans should be treated as non-performing assets and written off, the regulator said.

The CBRC also told commercial banks to write off bad credit card debt of those dead or missing in the quake; and to put aside enough bad-loan provisions.

The move is seen as benefiting both debtors and lenders as the write-offs will not hurt the credit ratings or earnings of the banks, analysts said.

The write-offs will help cut banks' tax expenditure, they said.

The tax authorities will exempt or reduce banks' taxes, which will also decrease banks' losses from writing off bad loans, analysts said.

"The write-offs and losses will have a small impact on the banks' whole-year profit", said Xiao Gang, chairman of Bank of China. The lender reported 160 million yuan (\$22.9 million) in quake-related losses.

Agricultural Bank of China, with most outlets in rural areas, announced an 8.5 billion yuan loss, while Bank of Communications announced 50 million yuan worth of damage to its network.

Researchers said the impact on the banks will be manageable.

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"Bank credit exposure to Sichuan province is fairly low," said Richard Lung, an analyst with Moody's Investor Service.

According to his research report, the Sichuan province accounted for 3 percent of total commercial bank loans at the end of 2007.


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