

IPR mortgage loans prove beneficial

Two years ago, when a few commercial banks in China began accepting intellectual property rights (IPRs) as collateral for loans for small- and medium-sized enterprises (SMEs), many thought it might be too risky.

But the new model is slowly proving to be an effective financing channel for capital-strapped SMEs and a profit making business for commercial banks.

Bank of Communications (BoCom), one of the first to initiate the new financing model, says as of August this year, it had lent 402.75 million yuan (58.89 million U.S. dollars) to 37 enterprises in IPR mortgage loans, all of which were repaid on time.

"The new loan offering not only helped the technology-based SMEs get financed, but also created a new business domain for the bank," Zhang Xin, director of retail credit department of BoCom said at the 10th China Hi-Tech Fair held in Shenzhen in October.

In recent years, many small companies found it hard to get funding when their businesses were still in the initial stages. IPR mortgage loans would be of great benefit for innovative SMEs that possess advanced technologies in certain areas.

According to BoCom's IPR mortgage regulations, enterprises with good credit, and with total assets of no more than 40 million yuan and annual sales of no more than 30 million yuan could use the patents, utility patents or profitable trademark they own as guarantees to apply for the loan. Each company is allowed to ask for a maximum of 10 million yuan with a maturity of three years.

As of the end of last year, more than 300 IPR mortgage contracts involving more than 700 patents with a total value of 6 billion yuan were registered in the State Intellectual Property Office.

Although the business has a rosy picture for further development, it still has risks as IPRs are not as stable as tangible assets, people related to the business say.

"Besides the risks existing in common bank loans, IPR mortgage loans also face legal risks," says Zhang.

"As the law concerning IPR is not comprehensive in China, there are many uncertainties regarding the ownership and owners' interests on the patent rights," he adds.

To control the risks in IPR loans, BoCom adopted a credit model by partnering with independent rating institutions and law firms for comprehensive assessments and legal advice.

Liu Wutang, director of Beijing-based Liancheng Assets Evaluation Co, which works with BoCom, says evaluating of patent rights is crucial for a successful loan.

"Because factors like technological innovation may affect the value of IPRs rights as time goes by, its risk are more unpredictable than other common assets," Liu tells China Business Weekly.

"Risk evaluation analysts are responsible for identifying every possible risk that could happen and provide suggestions for the bank on whether it is controllable or not," he says, adding that the rating institutions and law firms involved share the possible risks with the bank.

Bank of Beijing has also decided to make a foray into the IPR loan business, according to Liu, and provinces such as Hunan and Anhui have also made progress in trying the new loan model. In Changsha, capital of Hunan, the local Intellectual

Property Office signed a cooperative agreement with Changsha Commercial Bank earlier last month to provide IPR mortgage loans to SMEs in the province. More than 10 enterprises have applied for the loans.

In Anhui Province, the local Science and Technology Department recently recommended 35 projects touted by 31 enterprises to the Industrial and Commercial Bank of China's Anhui branch. Combining tangible and intangible assets, the bank loans reached 650 million yuan, with 71 invention and utility patents as guarantees.

Source: China Daily

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