Banks skirt credit control measures

By Wang Xinyuan

As lending tightens, banks may prefer selling bank-trust asset management products to finance local infrastructure projects instead of giving loans, a tactic that will allow them to bypass stringent regulations associated with lending quotas, such as the capital adequacy ratio, analysts said Wednesday.

Many asset management products are set up by trust companies, a number of which are subsidiaries of mammoth State-owned Enterprises such as PetroChina and Sinopec.

"Many (bank-trust) products were sold in January and February, and a product with three-month maturity offered a 2.5 percent annualized return rate, which is higher than the current annual interest rate of 2.25 percent, sold out in two hours last week," said Wang Fei, a customer service clerk at a Bank of China in Beijing's Central Business District.

Apart from investing in securities portfolios, the money raised by banks selling asset management trust products is transferred to local financing platforms for infrastructure projects such as building roads, railways, and industrial parks, said Zhao Yang, an analyst at the Trust and Asset Management Institute of Southwest University of Finance and Economics in Chengdu, capital of Sichuan Province.

In the first three months, China Construction Bank launched a series of trust products, and the capital raised was transferred to provincial government-backed infrastructure companies.

China Merchants Bank, well known for its asset management, also invested trust funds it raised in transportation and water facilities in southeast provinces and regions, the 21Century Business Herald reported Wednesday.

Banks sold 355 bank-trust products in March, almost double the 182 products sold in February, Zhao said, citing data from the institute.

There are two types of trust products: One includes investments in securities and bonds portfolios, while the other centers on credit related to infrastructure projects.

The amount of credit trust products raised on average was 113 million yuan ($16.54 million) per product in December, an average that increased to 298 million yuan ($43.63 million) in February.

"It's beneficial for banks to sell trust products, as they can earn commission supposedly without taking responsibility for default risks. Also, they can maintain a good customer relationship by providing new product information," said Wen Chunling, associate director of Fitch Ratings China.

In addition, the trust products sold at banks are not loans, and are thus not subject to the stringent requirements like the capital adequacy ratio rules, she said.

In a document issued to financial institutions by the China Banking Regulatory Commission (CBRC) in December, the regulator asked banks and trust companies to pay close attention to local government projects for their bank-trust products.

The institutions are required to fully understand local fiscal revenues and assess their cred-ibility, and are forbidden from financially supporting problematic projects.

The CBRC raised the capital adequacy ratio to 11.5 percent from 11 percent last year, the Economic Observer confirmed March 29, citing an executive with China Construction Bank.

The tightened rule means banks have to increase the issuance of shares on the stock market or issue bonds to raise their capital to support their lending expansion.

Source: Global Times

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