

## **China tightens credit control on property projects**

The People's Bank of China (PBOC) and the China Banking Regulatory Commission (CBRC) are urging rigorous credit management on commercial property projects to curb possible risks that could threaten the banking sector.

Analysts said the policy aimed at improving the property credit market with the central bank's resolution and devotion to implement the tight economic policy and the banking regulator's prevention against possible financial risk.

The policy would have significant impact on property developers as financing would be more difficult.

According to the joint-circular issued late on Wednesday evening, no loan would be given to developers to cover land transfer costs. Loans for land reserve acquisition would be secured by property developers through the use of a mortgage and require a legal land use certificate. The amount of the loan should be less than 70 percent of the estimated value of the project. The credit period would be confined to two years.

Provision of credit would be more cautious to government-approved construction projects that hadn't started within a year after a land concession contract was signed.

This would also apply to projects where its developed land area was less than one-third of the total, or where the investment was less than a quarter of the total within a year after starting construction.

No credit of any kind would be offered to projects where land had been idle for two years or more, the statement said.

Analysts said the policy would keep lenders away from risks caused by the possible reform of the country's property sector due to the global economic downturn and China's possible post-Olympics economic slowdown.

In the first half, nationwide credit for commercial real estate amounted to 5.2 trillion yuan (761.5 billion U.S. dollars), up 22.5 percent year on year, accounting for 15 to 20 percent of the total assets of the banking industry.

Analysts said the rate of non-performing loans was increasing. Stagnation in property sales and capital chain rupture would leave banks subject to high risk, which would in turn put the country's economy in danger.

As of Aug. 23, cash outflow outnumbered cash inflow among 55 developers by 25.5 billion yuan in the first half, up 477.2 percent from a year-earlier level, according to Wind Info, a Chinese financial data provider.

The developers posted their operating income at 58.3 billion yuan, up 37.96 percent year on year. Operating profit was 13.02 billion yuan, up 44.46 percent, while net profit stood at 9.94 billion yuan, up 49.4 percent. The figures were far from the more than 80 percent year-on-year growth rate posted last year.

Due to the credit crunch, property developers had sought to broaden channels of financing. Typically, they shifted some of their attention to trusts, funds and bonds.

The PBOC and the CBRC also called for financial support for indemnificatory housing construction. Strict credit management on rural collective land for construction should be enhanced. Loans would not go to projects in such areas for commercial properties or to rural residents' land purchase for home construction.

*Source: Xinhua*

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