

Banks - China

Another positive step toward turning around the confidence

Industry Overview

Mortgage easing overnight: another positive step

More easing policies came overnight: 1) PBOC reduced the floor lending rate for second property by 40bp to LPR+20bp, while floor rate on first property stays at LPR-20bp; 2) PBOC set the minimum down-payment of homebuyers' first property at 20% and second property at 30%, vs currently major cities like Beijing/Shanghai have the down-payment for second properties at 60-70%; 3) PBOC guided that banks will start reducing the rates on existing mortgages after Sep 25th. Meanwhile, major banks start another round of deposit pricing cuts today, at 10-25bp. We believe the policies are more than expected, and can help boost short-term market confidence and homebuyers' interests. To have a more sustained market rally, we need follow-up policy implementation and other fiscal/industrial policies to drive the recovery in economy and earnings.

Implementation details are yet to be seen

While PBOC sets the nation-wide floor levels for down-payment and mortgage rates, the implementation details will be determined by local governments and banks. Our channel checks with the banks suggest that: 1) large banks have been working on the mortgage back-book repricing, and will likely announce a coordinated action plan soon; small banks are likely to follow; 2) the scale of the rate cut will vary based on the existing minimum rate of local cities, eg Beijing is at LPR+55bp, Shanghai at LPR+30bp, Shenzhen at LPR+30bp, Guangzhou at LPR. Thus, existing mortgage borrowers in top cities are still likely to pay at LPR or above; 3) PBOC's guidance allows banks to either revise the existing mortgage contracts, or lend a new mortgage loan to replace the existing loan, but it does not allow cross-bank mortgage refinancing. The risk of excessive competition among banks should be limited; 4) we need to see whether banks will offer all existing borrowers the floor rates, or if they will differentiate among borrowers.

A coordinated campaign to make property desirable again

As discussed in our strategy report, published 7th Aug, "the key challenge currently is the lack of interests among homebuyers, due to a combination of: 1) high property ownership (90%+), 2) the perception that "property price cannot go up"; and 3) the lack of consumer confidence." Any isolated, piecemeal easing measures are probably not enough. A coordinated policy package, including mortgage easing, relaxing purchase restrictions, lowering transaction costs, other subsidies, and media campaign, will be important. We need continued policy momentum to turn around the sentiment and capture the peak sales season in Sep/Oct.

Negative on bank margins, but limited earnings impact

The lower mortgage pricing, together with the recent LPR cuts, are negative on banks' earnings. Mortgage loans account for 18% of banking sector loans, or 10% of sector assets. For the major H-share banks, the ratios are higher at 23% and 14% respectively on average. Every 10bp of rate cut would lead to around 1.4bp of margin reduction for the H-share banks. Nonetheless, the earnings impact should be partly offset by deposit pricing cuts, better mortgage loan volume growth, and reduced credit risks.

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LPR: Loan Prime Rate

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