WORLD

Why Chinese Are Diverting Their Consumer Loans to Real Estate

Beijing pushed banks to make more consumer loans. But instead of cars and dishwashers, people are buying apartments

A cleaner passed a vacant retail space at a newly opened up-scale shopping mall in Beijing in September. PHOTO: ANDY WONG/ASSOCIATED PRESS

Sept. 30, 2017 7:30 a.m. ET

BEIJING—China's government hoped more household borrowing would help the economy become more consumer-oriented. But instead of shopping, many Chinese are spending the money on real estate, undermining Beijing's efforts to cool that market.

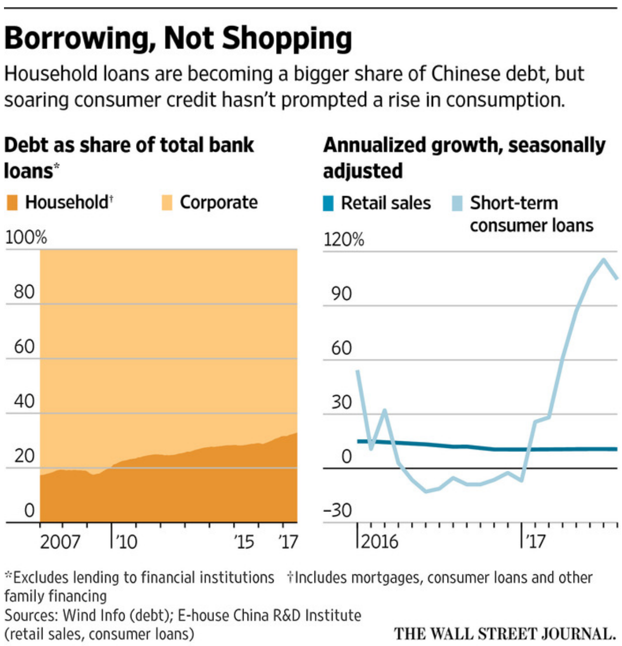
Chinese banks, encouraged by policymakers, have recently been lending more to households as companies sink perilously deep into debt. At first banks did this with mortgages; this year they have stepped up short-term consumer loans.

But signs are emerging that such loans, rather than funding such middle-class trappings as cars, household appliances or gadgets, are instead flowing to China's stubbornly hot property market, padding home purchases when mortgage loans aren't enough.

Last month, a Beijing homebuyer who provided only her surname, Zhu, took out a one-year loan of 100,000 yuan (around $15,000) from Bank of China , a commercial lender. She used it toward the down payment on a two-bedroom apartment—despite rules forbidding such borrowing.

Ms. Zhu, who works for a state-owned financial company, said she had little choice after the city government tightened down-payment requirements in March and they had borrowed all they could from family. "Consumer loans were our only option," she said.

New short-term consumer credit surged 160% to 1.27 trillion yuan ($193 billion) in the first eight months of the year from the year-earlier period, according to data from the by retail sales rose just 10.4% in August, in line with recent years.



E-house China R&D Institute, an independent Chinese research firm, estimates that at least one third of short-term consumer loans issued since March have gone toward property purchases.

Regulators have taken note. In the past few weeks, local branches of the central bank and the China Banking Regulatory Commission have urged banks to check how borrowers are using short-term consumer loans .

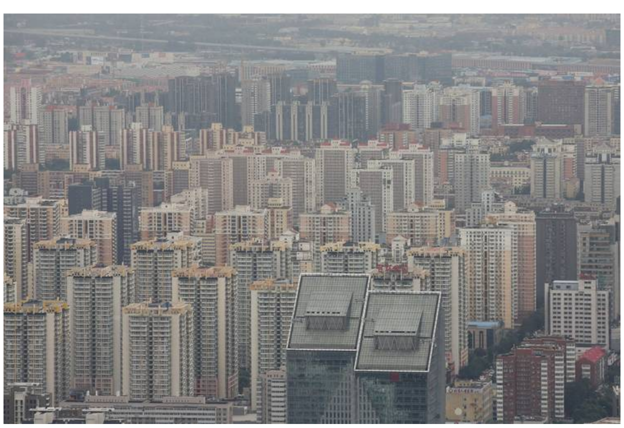
Banks have stepped up marketing of such loans. At some banks, applicants can get approved within minutes.

China Merchants Bank for example has a “lightning-loan” service, where customers can borrow as much as 300,000 yuan ($45,540) by filling out an application on the bank’s mobile app. The lender can quickly review the applicant’s credit record, income and financial assets via an online system, then send an approval by text.

The bank’s representatives have also taken to cold-calling to market their consumer loans.

Eswar Prasad, a former top China hand at the International Monetary Fund and now professor at Cornell University, said that strong consumer lending can be good both for households and the broader economy.

“People should be consuming out of their higher future income,” he said. “That’s what a financial system is supposed to do.” But in China, “it doesn’t look like that’s happening.”


Residential buildings seen in Beijing recently. PHOTO: THOMAS PETER/REUTERS

With few investment options—domestic stocks are volatile and considered too risky, and China strictly controls capital moving out of the country—consumers see property as a fail-safe avenue for storing their wealth.

“It is natural that some credit flows into speculative investments, rather than into higher consumption,” Mr. Prasad said.

The Chinese government has encouraged a rebalancing of debt away from the corporate sector toward households. In the years since the global financial crisis when property prices in China took off, buyers increasingly turned to banks for mortgages.

Mortgages form the lion's share of household debt, which now accounts for the equivalent of 46% of China's gross domestic product, compared with 17% in 2008, and 33% of outstanding bank credit, up from 18% a decade earlier.

China's savings rate is still high compared with the West. However, Chinese households now owe the equivalent of 98% the average annual income, according to data from the Washington-based Institute of International Finance—on par with their counterparts in the U.S., the European Union and Japan, at 102%, 104% and 100% respectively.

Chinese consumers' fondness for property has stood in the way of Beijing's plans to transition to an economy driven by consumption from investment-led growth, said Liu Xuezhi, an economist with Bank of Communications . "The skyrocketing home prices in some big cities have taken up much of residents' income and squeezed their consumption of other goods," said Mr. Liu.

Shoppers walk through a popular shopping mall in Beijing. PHOTO: ANDY WONG/ASSOCIATED PRESS

Gao Cunping, who works for a Beijing IT firm, and her husband spend nearly half of their income to serve the mortgage on their three-bedroom Beijing apartment. They have little money left for anything else and have given up plans for a second child.

"Both of us have to keep working, or we can't pay the debt off," Ms. Gao said.

For banks, the shift toward household lending is crucial: Few Chinese households have defaulted on their borrowings, often backed by properties that have soared in value. By contrast, corporate defaults have gone up in recent years as economic growth slows.

China Citic Bank in Beijing, whose corporate lending once made up the bulk of its loan book, said 80% of the new loans it made in the first six months of the year were to retail borrowers.

A credit officer at the bank said the lender was "under great pressure" to find more lucrative business opportunities; consumer loans excluding mortgages could fetch around 30% higher interest rates compared with the benchmark lending rate, he said.

—Grace Zhu and Chao Deng

Nikkei ▲ 20870.24 0.22% U.S. 10 Yr ▼ 0/32 Yield 2.360% Yen ▲ 112.46 0.01%