Markets

China Considers Allowing Refinancing on $5.4 Trillion in Mortgages

- Plan would let homeowners switch banks for cheaper loans
- Property slump has dragged down consumption, household wealth

By Bloomberg News
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China is considering allowing homeowners to refinance as much as $5.4 trillion of mortgages to lower borrowing costs for millions of families and boost consumption.

Under the plan, homeowners would be able to renegotiate terms with their current lenders before January, when banks typically reprice mortgages, people familiar with the matter said, asking not to be identified discussing private information. They would also be allowed to refinance with a different bank for the first time since the global financial crisis, the people said.

Authorities are ramping up a push to reduce mortgage costs after the central bank encouraged such support last year and banks responded with a rare rate cut on outstanding mortgages of first homes. It wasn't immediately clear if the latest considerations apply to all homes.

While lower mortgage rates would hurt profitability at state-run Chinese banks, authorities are facing renewed pressure to stem a housing-led slowdown in Asia's largest economy.

"If implemented, the move would send a signal that the central government is intensifying measures to support overall economy, protect household wealth and spur consumption," said Raymond Cheng, head of China property research at CGS International Securities Hong Kong. "It would also indirectly help the real estate sector."

A Bloomberg index of Chinese developers jumped more than 8% in afternoon trading Friday, with Shimao Group Holdings Ltd. surging as much as 28% and China Vanke Co. jumping up to 17% in Hong Kong. China's offshore yuan currency also hit the strongest in over a year, amid optimism that further property stimulus would ease market concerns about the housing downturn and China's growth prospects.

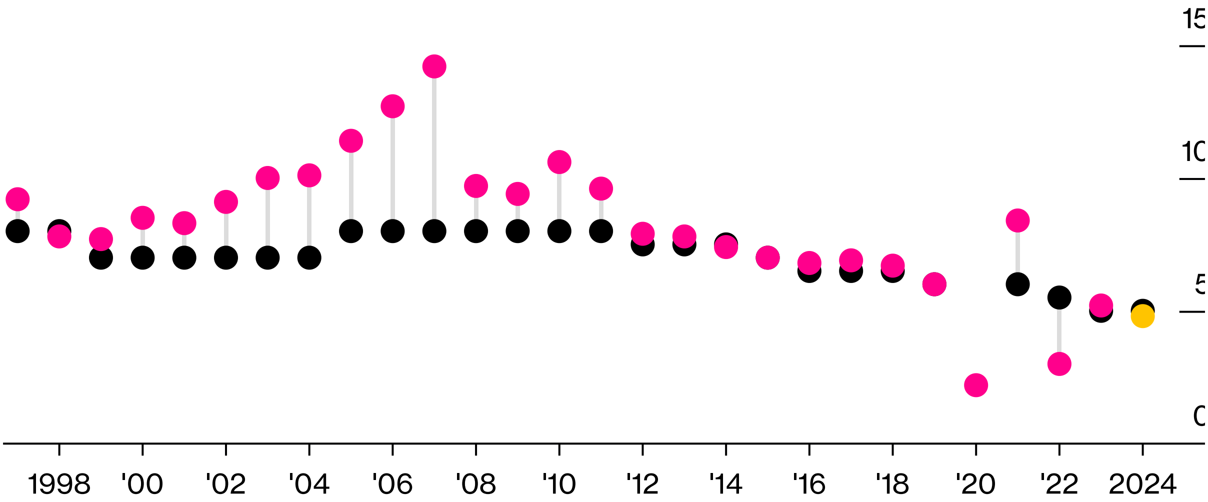
Concerns about a deteriorating outlook intensified this week after a string of disappointing earnings reports from consumer companies and a cut to China's growth forecast by economists at UBS Group AG. The downgrade reflects an emerging consensus among global banks that the country might miss its growth target of around 5% in 2024. The nation last fell short in 2022, amid Covid lockdowns and abrupt policy changes.

The People's Bank of China and the National Financial Regulatory Administration didn't respond to requests for comment.

China Seen Missing Growth Target in 2024

Economic momentum has waned amid persisting property slump, tight fiscal stance

● Target ● Actual growth ● Median forecast by economists



Sources: National Bureau of Statistics, Bloomberg
Note: China didn't set an annual growth target for 2020, when the pandemic first hit.

The new plan targets existing homeowners, who have been left out as new homebuyers have enjoyed sizable cuts to key interest rates this year.

If approved, it may serve to ease mortgage burdens faster than expected. While China has pushed average mortgage costs to a record low this year, most households haven't benefited since banks won't reprice existing loans until next year.

Shujin Chen, China economist at Jefferies Financial Group, estimated the refinancing move could cut rates on existing mortgages by maximum 1 percentage point, saving homeowners about 300 billion yuan ($42 billion).

"The move is going in the right direction if homeowners are allowed to switch banks for lower rates in the long run, it's more market oriented and better than a one-off reduction," said Chen. "It might boost consumption a little but won't have material impact on the property sector" as home buyers already enjoy cheap rates.

Banks' net interest margin could be squeezed by around 10 basis points, which is still "manageable" as banks have various ways including trimming deposit rates to cushion the impact, according to Chen. Michael Chang, head of Asia Financials at CGS International, estimated a milder impact of about 5 basis points.

The banking industry's average net interest margin tumbled to a record low of 1.54% as of end-June, well below the 1.8% threshold regarded as necessary to maintain reasonable profitability.

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WATCH: Bloomberg Originals explores how China's real estate sector became such a mess and what the implications could be for the global economy.

China's forceful steps to lower mortgage costs in recent years have mostly helped new property buyers. The five-year prime rate, a benchmark for long-duration mortgages, was cut to 3.85% in July. In May, the central bank scrapped a nationwide mortgage rate floor for first and second home purchases. Earlier, some mega cities allowed buyers who previously had a mortgage – even if fully repaid – to qualify for lower rates.

The disparity has driven a wave of early mortgage repayments, which has strained lenders in recent years. Homeowners have taken advantage of cheap consumer loans to prepay mortgages, a practice that is banned by regulators.

While China has been easing its policies since the end of 2022 to revive the property market, the implementation of the measures has been slow, with limited impact, according to UBS. The weak property market will have a bigger drag on the overall economy than expected, including through household consumption, the Swiss bank said.

The real estate crisis, now in its fourth year, has dragged down everything from the job market to consumption and household wealth. While retail sales beat expectations in July, it was largely due to a seasonal uptick and was still well below the pre-pandemic trend.

More on China's economy and mortgage loans:

China's 5% Growth Target Faces Rising Doubt as UBS Cuts Outlook

China's Underwater Mortgages Pile Pressure on Homeowners, Banks

Chinese Banks Face Another Blow From Mortgage Refinancing Push

The mortgage plan would add further pressure on the nation's banks, which Beijing has relied on to help revive the flagging economy. The banking sector is struggling with falling earnings amid record low margins.

China's outstanding amount of individual mortgages stood at 38.2 trillion yuan ($5.4 trillion) at the end of March, and count as prime assets at Chinese lenders. More than 90% of China's outstanding mortgages were for first homes as of late 2021, according to the latest public data available from the banking regulator.

(Adds market reaction, analyst comments throughout.)