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China Banks

Takeaways from financial property tour in Shenzhen

We conducted a financial-property tour in Shenzhen, and our net takeaway is net positive. First, the 828 rules (link) are likely to increase bank loan in developers' funding mix on the back of subsiding funding supports from pre-sales. Second, take-up rate for 40-year mortgage is low, and banks are having stringent requirements in offering relief measures on mortgage loans, limiting risk on mortgage loans. Third, banks believe while it takes time to settle the legacy risk projects, SML and overdue ratio of developer loans have stabilized at this stage. However, it is not all rosy; banks expect industry NIM to see headwinds in 2027 as the benefit of deposits repricing fades and pressure on asset pricing continues. And retail loan demand remains soft with banks tightening on risk appetite. Among banks, ***we prefer the Big 4 SOE banks,*** which have lower retail exposure and competitive advantage to be the lead bank in developer financing. ***We also like CMB***, which is more exposed to tier 1 cities like Shenzhen, which is witnessing a bottoming of the property market and a more muted negative impact from policy 828 (link).

Impact of the new 828 rules on banks

- **Property development model and developers:** Banks believe 828 rules represent a structural overhaul of the property development model, accelerating the transition from high leverage, rapid turnover and high profitability toward lower leverage, slower turnover and lower profitability. Smaller developers could face greater pressure. Bank managements also said the new rules could similarly make the operating environment more difficult for some developers, particularly private developers.

- **Implications for development loans:** The new framework could increase bank loans in developers' funding mix as projects can no longer rely on the previous presale model. Banks will increasingly assess credit risk at the project level, with project location, product quality and supporting facilities becoming key considerations.

- **Lead-bank mechanism (主办银行制) and competition:** One bank said the new lead-bank mechanism could intensify competition among banks in the near term, particularly given limited supply of quality projects. However, winning the lead-bank role could also generate opportunities in other businesses, including mortgages.

- **Long-term implications for asset quality:** tighter presale-fund supervision and more standardized project-level management should ultimately be positive for banks, as the new framework could reduce unfinished-project risks and lower credit risks for both development loans and mortgages. Banks therefore views the policy as positive over the longer term.

- **Impact on primary vs. secondary mortgage markets**: the new rules will delay mortgage disbursement for primary-market properties, which is negative for near-term mortgage growth but positive for risk control. Banks are therefore

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likely to focus more on secondary-market mortgages, potentially intensifying competition. Managements from one bank commented that it is also deepening its presence in the secondary-home mortgage market, including cooperation with property agencies such as Beike.

- **40-year mortgage and borrower-relief measures:** Banks said take-up of 40-year mortgages has been limited given the higher total interest expense, while utilization of mortgage-relief measures has also been low and generally requires borrowers to apply proactively. Borrower-relief measures require customer applications and are subject to eligibility requirements, and banks will not proactively offer a relief program to borrowers.

Overall real estate and mortgage loan demand and asset quality

- **Property-market outlook:** Banks believe the property sector remains in a downward adjustment cycle, with new starts and sales still declining. Home prices may be approaching the bottom, although the timing of a sustained recovery remains uncertain. Most large property risks have already been recognized after around five years of adjustment, but the sector has yet to enter a fully stable phase.

- **Regional divergence in housing demand:** The divergence across cities remains significant. In Shenzhen and nearby areas, Huizhou and Jiangmen have seen greater wait-and-see sentiment and weaker primary/secondary transactions following the new rules, while Shenzhen's primary housing supply remains tight and secondary-market transactions have become more active.

- **Mortgage demand remains weak, with limited signs of an inflection**: Banks said weak mortgage growth is primarily demand-driven, reflecting subdued household income expectations, falling home prices and increased use of housing provident fund loans. Some cities have seen sequential improvement in transactions, but there is no clear inflection point in mortgage or broader retail-loan demand. Management from one bank expects mortgage lending to expand moderately next year and plans to continue deepening its presence in the secondary-home market.

- **Early mortgage repayments:** One bank said early repayments remain elevated and are broadly flat YoY, although they have declined slightly, partly reflecting commercial-to-provident-fund mortgage (公积金贷款) conversions and limited alternative investment opportunities. Another bank said average monthly early repayments at its Shenzhen branch fell to Rmb370mn this year from Rmb430mn last year, with repayments declining both YoY and sequentially in 9M26.

- **Property developer asset quality**: Special-mention and overdue indicators broadly stable, but overall risk remains notable, it takes time to settle the legacy risk exposure, though the NPL formation ration has moderated compared to earlier in the cycle.

Other business trends: NIM and fees

- **Impact of change in PBOC benchmark rate and 2027 NIM outlook:** One bank sees the benchmark-rate change effectively represents a rate cut. Banks see pressure on industry NIM in 2027, driven partly by: a) lower pricing of local-government-related lending; b) the benefit from deposit re-pricing



moderating; and, c) pressure increasingly transmitting to asset pricing, as corporate loan pricing has already fallen meaningfully amid intense competition for quality borrowers.

- **Wealth management and capital-market sensitivity:** Wealth-management AUM and fee income remain highly correlated with capital-market performance. Equity-market weakness can lead private-bank customers to redeem products, and the bank sees capital-market performance, rather than overseas taxation, as the more fundamental driver of its wealth-management business.

- **Retail asset quality:** One bank said growth in new retail NPL formation has slowed, suggesting marginal improvement, but it is too early to call an inflection point as special-mention and overdue loans remain on an upward trend. Another bank said retail NPL balances and ratios in Shenzhen have increased slightly but remain manageable; it sees greater transmission risk from internet lending to smaller banks, while its own risk controls are relatively stringent.

- **Corporate loan demand and deployment:** One bank said it maintains a diversified corporate loan portfolio rather than concentrating on a single sector. Manufacturing is its largest corporate loan exposure at around 20%, followed by transportation and utilities, with emerging industries also a focus. The bank remains selective on areas such as data centers. Another bank said corporate lending in Shenzhen has continued to grow despite its reduction in property exposure, with the branch supporting areas including AI-related projects.

- **Broader operating environment:** One bank said it expects the banking operating environment to remain challenging over the medium term as the industry has entered a phase of competition for existing business rather than incremental growth.