

Banks and firms feel loans squeeze

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Local banks have become increasingly tightfisted with loan applicants amid stringent supervision by the Hong Kong Monetary Authority.

"We will only extend loans if the return is good enough," Donald Lam Yin- Sing, commercial banking head of Hang Seng Bank (0011), told Sing Tao Daily, the sister newspaper of The Standard.

The bank scrapped its Hong Kong interbank offered rate-based mortgage lending business in February due to low profit margins amid a greater emphasis on commercial loans. But even that comes at a price for firms.

"The 2.5-3 percent interest rate for commercial loans is now history," said Lam. "Now, enterprises must pay at least 4 percent."

The bank's loan growth has slowed in the past few months - probably to a single digit from a year back, Lam said.

The bank is by no means the only tough lender in the territory.

"Currently, banks frequently meet enterprises, asking for operational details and keeping a close eye on their cash flow [in a bid to ensure they do not default]," said Hong Kong Small & Medium Enterprises Association president Felix Chan Kwok-wai.

If the interest rate on loans rises to 5-7 percent, Chan said, his members would need to operate their business to yields a return of at least 8 percent.

A more stringent Monetary Authority is making it more difficult for enterprises to seek loans.

The watchdog has warned banks of the potential risks of rapid loan growth, and has even demanded some banks lower their loan-to-deposit ratio to 80 percent, a private banker said.

As of May 30, the average loan-to- deposit ratio surged to 82.4 percent.

In order to meet regulatory requirements, banks have to slow down their pace of lending and attract deposits by offering high interest rates.

Some bankers warned if such trends continue, they would adversely affect bank's 2011 profits, which in any case is expected to be less than last year.