

AUTO FINANCE NEWS

THE INSIDER'S GUIDE TO AUTO LENDING & LEASING OPPORTUNITIES

WWW.ROYALMEDIA.COM



CHINA'S NEW SILK ROAD HAS BUMPS, BUT HUGE REWARDS

General Motors Acceptance Corp. is paving the road to China. Together with **Shanghai Automotive Group Finance Co.**, the captive financing arm of **General Motors Corp.** is taking the necessary steps to originate loans there.

China represents a market of staggering opportunity, especially with its rising consumer class and a population of 1.3 billion. But the country has a relatively untested credit market, a weak banking system, and a web of local regulations that will make for many a bump and curve ahead, meaning lenders may face a long march to success.

On Nov. 12, **DaimlerChrysler AG**, **Ford**, and **GM** all announced plans to export thousands

of vehicles to China in the next two years. GM's deal was by far the largest, with plans to export about 17,500 vehicles, mostly Cadillac models, at more than \$1.3 billion.

"The biggest risk is there are no credit bureaus," said **Richard Clout**, GMAC's executive vice president for international operations. "We will have to rely on face-to-face discussion, employment records, and so forth. That makes the process extremely slow and extremely risky."

Increasing competition is leading lenders to assume higher risks, according to the **People's Bank of China**, the country's central bank. Auto loan originations in the first quarter of 2003, the most recent statistics available, amounted to

Continued on page 5

GM MAKES PLAY IN CHINA

continued from page 4

\$2.4 billion, \$1.36 billion more than the same period last year. At the same time, investigation into the industry by the central bank last May showed that the nonperforming rate for auto loans had reached 15%, up from a rate of about 1% two years earlier.

Lenders in China have no legal recourse for debt collection, and quantifying chargeoff risks in the young market remains difficult.

The total dollar value in China of all types of nonperforming loans is estimated to be around \$60.5 billion, according to **China Banking Regulatory Commission (CBRC)**, an entity that was formed when China was accepted into the **World Trade Organization** two years ago. While the total value of nonperforming loans is on the rise, due to increasing originations, delinquency rates are going down.

Average nonperforming loan rates for the four-largest state-owned banks, which account for more than two thirds of all banking activity in China, totaled 21.4% at the end of September, down from 22.2% at the end of June, and 25.2% at the beginning of 2003, according to the CBRC. Loans are categorized as nonperforming when no payment has been received for 180 days. The government is pressuring the four state-owned banks to cut their average nonperforming loan rates to less than 15% by the end of 2005.

Rural credit unions, which provide banking services for many of China's non-coastal residents, have a much higher average nonperforming loan rate — about 50% — according to the CBRC, but for now, the majority of auto loans are made in the wealthier urban east.

Much of the origination strategy has to do with

Continued on page 6

GM MAKES PLAY IN CHINA

continued from page 5

regulation. Though China's national auto finance regulations were instituted in early October as part of a commitment made when it joined the WTO, local lending laws create Chinese walls between provinces, and even cities.

Franchising, for example, is not permitted across the borders of China's 23 provinces, and lenders can only legally register a security interest in a vehicle in three East Coast cities: Shanghai, Tianjin, and Guangzhou. Those cities represent about 17% of all auto sales in China, according to GMAC's Clout.

China represents a staggering market opportunity, especially with its rising consumer class and a population of 1.3 billion.

ICBC borrowing rules stipulate that "the lender, the borrower, the auto distributor, the insurer, and the guarantor shall be in the same city," according to its web site.

The People's Bank of China's study into the auto finance industry revealed that lenders had

reduced or even eliminated downpayments, lowered interest rates, and extended loan terms from a norm of three years to between five and eight. Credit checks, too, said the bank, were becoming less rigorous.

Still, lenders seem prepared to take the risk because the reward potential is so high. September year-to-date

sales of passenger vehicles — which include cars, SUVs, and MPVs — was 1.5 million, according to Shanghai-based research firm **Automotive Resources Asia Ltd.**, up 69% from the same period in 2002. Most analysts expect that by 2007, China will surpass Germany as the third-largest car market after the United States and Japan.

"We run business cases to justify entrance to every country," said Clout. "Based on our very successful history in auto finance joint ventures and partnerships in developing countries like Indonesia and Thailand, we're comfortable we can manage the risk and get our estimated forecast results."

www.icbc.com.cn/e_index.jsp
www.pbc.gov.cn/english/
www.cbrc.gov.cn/english/
www.auto-resources-asia.com

Rumblings

KI TO
RVICING

kowski
Financial
nance
on, Texas-
ings Bank,
t of asset
nd
announced

brought
on Nov. 15
xpanding
collateral
m. FSB
ases auto
and
ervicing for

GM'S CHINA PARTNER DIVESTS STAKE IN CARMAKER'S COMPETITION

China's second largest automaker, **Shanghai Automotive Industry Corp.** (SAIC), which has a 50% stake in **GM Volkswagen AG's** Chinese operations, gave up its 20% interest in automaker **SAIC-Chery Automobile Co.**, industry sources told *Reuters* last month.

General Motors Corp. is involved in a dispute with Chery over the company's new QQ minicar. GM believes the QQ, which sells only in China, may be a pirated copy of its Chevrolet Spark, which is scheduled for release in that country by early 2004. GM is also investigating whether the design of Chery's Oriental Sun model violates the intellectual property rights of its **GM Daewoo Magnus**.

"Shanghai Automotive has given up, not sold, the stake in Chery," a source familiar with the situation told *Reuters*, without elaborating further. Chery allotted Shanghai Automotive

the 20% interest in 2001 in exchange for branding and technology licenses.

Word of the divestiture came days after **General Motors Acceptance Corp.** filed an application to provide auto finance services in China, in a joint venture with an SAIC affiliate, **Shanghai Automotive Group Finance Co.**

General Motors did not have anything to do with SAIC's decision, GM sources told *Reuters*, although strengthening relations between the two companies may have been the icing on the cake for SAIC to make a move it had considered for some time.

Last June, the *Jiefang Daily*, a Shanghai newspaper, reported that SAIC planned to pull out of the venture, complaining that Chery did not adequately disclose management and operational procedures, and denied several proposals to restructure joint ownership.