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Analysis of Countermeasure and Implementation of Forest Right Mortgage Loan Business in Agricultural Bank of China

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Abstract: After the reformation of collective forest right system, the Agricultural Bank of China has taken a series of measures to provide financial services to the forest tenure reform. It has launched forest right mortgage loan in Jiangxi, Fujian, Yunnan and Guangdong since 2006. In order to comprehensively understand the implementation of forest right mortgage loan business and accurately assess the risk profile of the credit products, this study analyzes the problems and constraints of forest right mortgage loan business in the whole Agricultural Bank of China's range. It points out that standardizing the forest right mortgage business, setting up credit management policy system, strengthening forestry management of credit risk and setting up the cooperation concept are necessary.

Key words: Agricultural bank of China, forest right mortgage loan, forestry enterprises, non-performing loans

INTRODUCTION

Forestry loan is the traditional business of the Agricultural Bank of China. After the reform of collective forest right system, the Agricultural Bank of China accordingly has taken a series of measures to provide financial services for forest right reform. It actively provides financial services for industry such as wood timber production, wood pulp and study and furniture manufacturing industry. On the one hand, Fujian, Guangdong, Jiangxi, Henan and Hunan were chosen as Forestry Right Mortgage Loan pilot areas because of their advantages of forestry resources. On the other hand, the bank's innovation of the forest right mortgage loans, loan guarantees, forest forestry directly group lending, "forestry enterprises+farmers" loans .Other products formed a complete set of the forestry financial products system initially.

Total business volume of forestry right mortgage loan:

Until 2012, the Agricultural Bank of China has a total of 26 primary branches that ran forest right mortgage loan business, whose outstanding loans were totaling 7.249 billion yuan. The payment of personal loan was 11.01 billion yuan which loaned to 978 individual customers and the balance of non-performing loans is 0.19 million yuan; the payment that loaned to 978

enterprise customers was 61.48 billion yuan and the balance of non-performing loans was 500 million yuan. The overall average NPL ratio (7.17%) of forest right mortgage loan is higher than the average level of non-performing loan rate (1.86%) of the Samong agriculture, rural areas and farmers© Division 5.31% and the overall non-performing loan rate (1.5%) 5.67% points. Specific circumstances are shown in Table 1.

Regional distribution of forest right mortgage loan: From a regional perspective, forest right mortgage loan is mainly in areas which have rich forest resources such as Guangdong, Yunnan and Fujian. Six branches in Guangdong, Yunnan, Hubei, Guangxi, Fujian and Sichuan have forest right mortgage loan more than 6.329 billion yuan, accounting for 87.31% of all forest right mortgage balance. Specific circumstances are shown in Table 2.

From the volume and regional distribution of forest right mortgage loan business, we see that the business focuses on the southern rich forestry resources region. It mainly loans to legal entities with the characteristics of a large amount of loan business and high-performing loan ratio. This study analyzes the problems and constraints of forest right mortgage loan business in the whole Agricultural Bank of China's range. After that, it puts forward specific proposals.

Table 1: Agricultural Bank of China Forest Right Mortgage Loan in late January, 2012

Loan type	Loan balance	Balance of non-performing loans	NPL ratio (%)	Average NPL ratio of ABC (%)
Personal loans	110068	1924	1.75	0.88
Corporate loans	614818	50080	8.15	2.30
Total	724886	52004	7.17	1.86

Table 2: A Forest Right Mortgage Loan balance at the end of the larger branches in late January, 2012

Branch	Corporate loans	Personal loans	Non-performing loans	NPL ratio (%)
Guangdong	99479	61158	56	0.03
Yunnan	136683	18796	45902	29.52
Hubei	109210	8108	0	0.00
Guangxi	68976	421	41	0.06
Fujian	56495	12227	1064	1.55
Sichuan	61322	0	0	0.00
Guizhou	42576	0	0	0.00
Jiangxi	14250	6741	3281	15.63

MATERIALS AND METHODS

This study mainly analyzes the problems and constraints of forest right mortgage loan business.

Main problems of forest right mortgage loan business: Generally speaking, the amount of Agricultural Bank's forest right mortgage loan is relatively small and loan coverage is narrow. Currently, the Agricultural Bank loans are mainly concentrated in the countryside and forest area of "gold" customer. The forest right mortgage business mainly serves the leading enterprises, forestry downstream operating and processing enterprises and forestry industry enterprises. But the coverage of small and medium-sized enterprises or small and medium agroforestry's forestry is low. As a new business, forest right mortgage loan mainly has the following four problems.

Many restrictions on business processing and operating flexibility are insufficient: First, high entry barriers. For example, in the area of forest that can be mortgaged, the natural person must provide collateral for the relatively concentrated area of 100 mu (including) above and corporate customers provide more than 300 mu (including). In addition, it has a high requirement to the age of six years. Small and medium forest workers have difficulty in meeting these regulations which make them obtain the loan by means of group lending and micro-credit loans. Nevertheless, these ways are difficult to meet their demands. Second, the loan term is shorter. The time limit of Forest right mortgage loan is three years which does not match the growth of the trees and the cutting down cycle. Third, the forest is in low mortgage rates. According to the different tree species, tree age and degree of difficulty to liquidate, the highest mortgage rates should not exceed 50% of the value of the collateral assessment. Fourth, loans are used for tighter rules. General provisions of forest right mortgage loan can only be used for forestry production, not for other purposes.

Loan products are not rich enough and lack of business innovation: Forest tree not only has long growth cycle

and low growth efficiency but also be restricted by many factors. They are the main characteristics of forest management. This would require the financial products have a longer loan term and the country should offer certain policy to support for. The loan time of the National Development Bank is longer now, while other financial institutions loan time limit is in a year or so. Due to the lack of financial products which is adapted to the forestry characteristics, they can only be replaced by other financial products which will make it difficult to give loans and increase the risk. At present Agricultural Bank has a total of six forest right mortgage business models: Direct forest right mortgage model, forest right counter guarantee loan model, foresters guaranteed loans model, forestry industrialization leading enterprise commitment shall mode, small forest right mortgage loans mode and forestry community credit model. These are far fewer than other kinds of loan business models. Besides, product distinction is small and there are no experienced forest right mortgage business personnel. As a result, the diversity of the business is poor and efficiency is low.

Loan management system lags behind, normative operation is not strong: Forest right mortgage loan has developed for many years but parts of the ABC branch have no corresponding loan management methods or enforcement regulation for a long time and just continue to use and reference to other similar lending approaches. Due to the lag system, lending operations lack of compliance. First, orientation and purpose of loan are too wide. "The forest right mortgage management method" of Agricultural Bank China rules the purpose of the forest right mortgage is for forestry as well as the related industrial financing needs but the real orientation is multifarious. Forestry and forest products processing accounted for less than half in forest right mortgage lending industry which is 46.86%. Besides, 16.44% of agriculture accounted and 12.93% of urban infrastructure. Other industries include water conservancy, environment and public facilities management, construction, steel, medicine, business, etc. Such as Hubei Xiangyang Municipal Construction Investment Management Co. Ltd., (795 million yuan), the biggest customers of forest right mortgage balance, who loan to the city

infrastructure construction in the government financing platform rectification, the government has set mortgages as collateral for the loan of forest right. Second, the revaluation of the mortgaged property is not standard. The agricultural bank has yet to develop its own forest rights assessment professionals. Besides, the revaluation of forest right value lack of professional skills and scientific methods, at the same time, forest reserves and value calculation method is not mature. All these factors lead to that it is hard to do accurate which affect the value of the collateral.

Mortgage loan quality is poor and the defective rate is higher:

Until January 2012, forest right mortgage defective rate is 7.17%, higher than the average of finance loans of Sannong's finance department. The branch which has higher defective rate is in Liaoning, Yunnan, Hainan, Jiangxi, whose rate are 100, 29.5, 27.94 and 29.52%, respectively. Non-performing loans are mainly concentrated in Yunnan branch, whose balance of non-performing loans is up to 459 million yuan, accounting for 90.68% of the total of the balance of forest right mortgage non-performing loans. It is important to note that after the year 2010; 132 million of non-performing loans has been formed, accounting for 25.38% of the balance of non-performing loans of the 5.324 billion yuan issued in the forest right mortgage. From the aspect of corporate customers, the formation of non-performing loans which as a consequence of the customer's own poor management or market risk is by 12 to total of 215 million yuan, accounting for more than 42.86%. The mechanism of Yunnan Jing Gu Forestry Co. Ltd., (non-performing loans totaled 141 million yuan), whose shareholders have differences opinions in production and operation management is not sound. In addition, its personnel burden is heavy, artificial cost is high which led to difficulties in production and management. As a result, its main business lost and bad loans formed. Non-performing loans (NPLS) formed by the forest property right disputes is by 4-102 million yuan, accounting for 20.28%. For example, Yunnan Green Spring County Red Ran Rubber Co. Ltd., (non-performing loans totaled 63 million yuan). Because part of the rubber forest ownership is not clear, rubber farmers rioted collectively and petitioning for many times which affect normal operation of the enterprise, causing bad loans. The total amount of non-performing loans formed by the natural disaster is 2,17.9 million yuan, accounting for 3.57%. In Yunnan Wen Shan Oasis Fruit Industry Co. Ltd., (non-performing loans totaled 16.5 million yuan), because hail attacks pomegranate base, foresters suffered serious losses. After that, 1000 acres grapes suffered severe flood

waterlogging disaster which caused a loss of more than 1000 yuan and postponed the return of the mature, thus forming non-performing loans. From the aspect of individual customers, the main factors that leading to the non-performing loans are poor management of the borrower, disasters, poor borrowers repayment willingness and unreasonable date of returning.

Restricting factors of forest right mortgage loan business:

The ownership of the certificates of forest flaws and dispute of forest property involves in the forest right mortgage. The schedule of collective forest land ownership reform is different from place to place. On the one hand, some foresters don't get the Certificate of Forest, causing that there is no way to obtain the loans. On the other hand, part of Certificate of Forest in the loan documents is still the old permit issued by the 90s, the ownership and use right information is incomplete which raise the stakes of mortgage rights maintenance. In addition, the expression of the rights on Certificate of Forest also has certain defects and part of the forest right mortgage customers involves property disputes (Huang *et al.*, 2009). Yunnan Meng Lian County Gong Xin rubber Co. Ltd., (non-performing loans totaled 25 million yuan) whose ownership of forest rights and rubber farmers exist dispute, causing serious mass event in 2008, 2 rubber farmers were killed. After the incident, the government gives all beech forest right to the farmers for reducing the tension between enterprises and farmers and adapting to market development. As a result, bad loans form and the second pay-off source are lost.

Valuation of forest right mortgage is substandard and forest rights value is difficult to determine:

First, the standard of assessment is not clear. "The right in the forest mortgage should have the right to appraisal agency and issue the evaluation report. Appraisal agency must be approved by Tier-one branch of Agricultural Bank of China". "The forest right mortgage management method prescribes". But it gives no specific standards for assessment agencies and assessment personnel qualification which makes tier-one branches difficult to control the standard. Besides, there are irregularities in some branches. Hubei Jingmen Zhongxiang branch issued the forest right mortgage loans to "Hubei Purple Garden Landscape Engineering Co. Ltd., and "Zhong Xiang Xing Li Food Co. Ltd., The forest right assessment institution for Zhongxiang City forestry bureau subordinate "Zhongxiang City forestry survey planning and design team the appraisal institutions have no qualification of the tier-one branches of access. Second, forest tree evaluation market is not perfect and lack of necessary

evaluation supervision mechanism forest right and the market price fluctuated strongly and it is difficult to determine the value of the mortgaged property. Mature evaluation standard has not yet been established at present and lacking of necessary supervision mechanism at the same time reduced forest right impartiality and authority of the assessment. Valuation of arbitrary is large and individual forest right evaluation value is on the high side (Jiang and Zeng, 2010). Sichuan Yong Xin Great Meat Food Co. Ltd., has loan of 18.92 million yuan from Ziyang Branch. The mortgaged property is located in the township Mei Gu Xian zero unit price 19000 yuan mu^{-1} of forest right assessment of the value. And the appraisal is described as the "Land of trees all cut down and all sales income are regarded as the quotation". But what was ignored are the factors such as cut down expense and transportation costs which caused the realized evaluation value higher than the market price. Third, the assessing and mortgage registration fees are higher. This objectively increases the enterprise's cost of funding and has a certain influence on business development. For example, the cost of Danjiangkou city which is 500000 million yuan or less is 6000s, between 500000 and 1 million yuan is 5000s, from 1-10 million to 2.5 per 1000. A forest right mortgage appraisal cost minimum need 2500 yuan and highest need to 25000 yuan. Fourth the mortgage registration is not standard and evaluation procedures are complex. When handling the mortgage registration, the ownership and the use right of the woodlands and forests is disunity and procedures and requirements are not consistent in registration departments. In addition, assessment registration formalities need half a month.

Part of the loan did not deal with insurance and recovers after the mortgaged property cannot be compensated:

Forest resources are easily affected by natural disasters. It is easy to trigger a chain reaction once breaking out of fire and pests. So dealing with forestry insurance to protect the interests of mortgagee rights is particularly important. But at present, our country forest insurance is still in the bud. Many insurance companies are not involved in the field which is a factor that causing the forest right mortgage insurance is difficult to deal with and exerting an influence on the forest right mortgage promotion (Zhang, 2010). Even with individual insurance company accepting, there also exist the following problems: First, there's a shortage of insurance types. In addition to the fire, drought, frost and other natural disasters have no corresponding coverage; second, the charge is high. Such as the insurance company in Heilongjiang Province, whose forest fire insurance premium rate is 0.8% of the premium, Anhui Guo Yuan

insurance company insured fire insurance premium rate is 0.6-0.65%, whose rate is obviously on the high side compared with the Agricultural Policy insurance. Third the claim is not reasonable. There is a deductible clause for the affected area where the damage is less than 50 acres. Besides, some property insurance companies' limited ShanChang insurance amount should not exceed 500 yuan mu^{-1} . But the average market price of trees is in 1000-3000 yuan mu^{-1} ; fourth is the short term. Forest insurance time limit is one year, while the duration of the forest right mortgage up to 10 years.

Collateral supervision and disposal are difficult, bad loans are very hard to collect:

First, collateral supervision is difficult. The mortgage forest land area is larger, distribution area is wide and they are in a remote mountainous area which all increase the difficulty in post-loan inspection. Besides, the mortgaged property ownership is also difficult to verify. Woodland general distributes in the mountains and as a result, it takes a lot of manpower and material sources to effectively guard against the risks of unlawful or illegal deforestation, etc. The second point is that collateral disposal is difficult. Disposal of the forest right mortgage mainly has two ways: One way is to realize the collective forest rights transferring; the second is to sell them after logging out. The two methods of disposal practice will face greater difficulties. In terms of forest property circulation, although the forestry property rights trading center have established throughout the country but in most areas the forest right reform measures is not perfect, the mechanism of forest rights transfer market is not sound, timber trading right and disposing right are limited by policy and the standardization of the forest property circulation and activity are low which makes the forest right has the price rather than the market and it is hard to be cashed (Tian and Qin, 2009). Yunnan is the area that the non-performing loans concentrated. From the survey, it has yet to form a specialized platform of unified and standard in forest right trade circulation. It also cannot provide a unified standard in accordance with legal procedures, price information and evaluation, registration, disposal and other related services. It faces a lot of policy risk in terms of logging: First is cut-timber quotas policy. If the forest right mortgage is realized, the cutting license cannot be obtained which will make the forest right mortgage guarantee effect failed. Second is once countries divide the trees that enterprise or individual invest into the ecological public welfare forest trees according to their needs, trees will be banned or restricted from deforestation, operate are limited and banks will not guaranteed the forest right mortgage. Third, obtaining the

land uses rights by means of bid invitation, auction and open consultation. The land don't be afforested within a certain period of time will be taken back by the government according to some local legislation. If this is used to set up the forest right mortgage, it will lead to a loss due to the government's taking back. The disposal of collateral has all sorts of difficulties, leading that there is no cases that recovering non-performing loans by the disposal of forest right mortgage in agricultural bank.

RESULTS AND DISCUSSION

Through the analysis above, the forest right mortgage business has disadvantages in operational flexibility, business innovation, standardized operations and loan quality. This study makes the following recommendations for the development of forest right mortgage business.

Standardize the forest right mortgage business, adjust measures to local conditions to develop effective operation model: The quality of forest right mortgage loan among Agricultural Bank of China branches is different. The main reason is that the banks don't form a unified standardized operation when handling the forest right mortgage business. So it is of great necessity to establish and improve the standardization of the forest right mortgage business process.

One is to adhere to the principle that the "reform first, matching complete, scale priority". The areas that are launched the forest mortgage loan business must have thorough collective forest rights reform, complete forest right mortgage registration, evaluation and transfer other supporting. Besides, the scale of forest trees should be large. Second, form the multi-level and broad cover product system gradually. Regard the benefit of farmer card and farmers small amount loans as financial service platform. As 30000 yuan or less of small loans can be incorporated in the forestry farmers' microcredit system solution and we can consider further development based on the corresponding card and moderately amplify lines according to the specific mortgage situation of small loan varieties of forestry. On this basis, we can expand credit intervention model actively, develop forest multi-family group lending, forestry Guarantee Company secured loan and forestry short, quick and small business loans. Third is to actively guide small forest worker build forestry cooperative joint venture or forest resources Co. Ltd., on a voluntary basis. Then Agricultural Bank issue forest right mortgage assets to the cooperative or company when they have the stock related as collateral

(Zhang, 2005). Fourth, strengthen the communication and coordination with forestry enterprise, forest farmers and relevant government departments. Optimize the credit process design. Reduce examination and approval process on the premise of strict control risk in order to provide customers with fast and convenient service.

Set up credit management policy system that corresponding to forest right reform: First of all, studying and formulating the financial services policy matched the forest right reform. Continuous area, commercial forest tree which stock volume reaches a certain standard at per acre and the species of commercial forest base camp forest tree that are implemented as well as industrial raw material forest, timber forest should be supported unequivocally. Besides, set mortgage standards scientifically. According to the actual situation of forest trees, determine reasonable, flexible loan term matching principle (Yu and Nie, 2007). Second, according to different loan varieties, design differentiated business process in order to improve the efficiency of approval and issuing forest right mortgage loan. Third, the headquarters of the relevant departments shall actively and earnestly fulfill the credit management responsibility of forest; branch shall set up the forestry credit business team in forestry regions which have credit advantages; volume larger forest county branch should have special forestry credit account manager.

Revise "method" and strengthen forestry management of credit risk: Forest right mortgage is just a guarantee way and cannot be managed as a single credit product. Therefore, we need further solicit opinions from the branch and revise the "method" comprehensively. The details include: First, clear the types of collateral and classify the mortgage. Forest rights that be mortgaged must be considerable economic value and large forest category that has value-added space, different forest category and age should set up different mortgage rates, forest under 3 years old shall not be used for mortgage in principle, the 8 years or less should be controlled below 10%; Second is to perfect the mortgaged property evaluation. Make sure that assessment agencies and assessment personnel qualifications. Combine the internal evaluation and external evaluation. In addition, make sure that the evaluation is fairness and accuracy. Clear evaluation responsibility system for work strictly. The forming of false assessment, evaluation and false evaluation because of dereliction of duty, malpractice, irregularities in violation should be severely pursued the responsibility. Third is to make different post-loan management requirements. Clear differentiation of field

inspection and the revaluation of the mortgaged property and collateral value complement relevant regulations according to the particularity of the way that forest right mortgage guarantee in order to ensure that the collateral value effectively (Li, 2007).

In addition, due to the feature of forestry credit:

Long-term, regional stability and natural force majeure, designing of risk prevention should be strengthened. First, strict evaluation, mortgage and guarantee risk control of each part should be strict before the loan, it is important to focus on the mortgaged property location, traffic conditions, location of forest stock volume, purchase or original price, etc. Second, establish and improve early warning mechanism of the risk. Carry on mortgage forest resources monitoring and verify loan value regularly. Collect the market information and make predictions accurately through the information that we has grasped. Third, strengthen post-loan management work. Banks must know the implementation of tube head of the household responsibility and the main risk person who has the monitoring responsible in relative forestry enterprises, perform post-loan management responsibilities seriously according to system requirements and executive of customer manager site inspection with the customers on a regular basis.

Set up the cooperation concept, strengthening the cooperation of the banks and government and bank-enterprise:

It is of great necessity to strengthen the cooperation with relevant government departments, establish information communication mechanism, promote the construction of property rights trading market and build the credit risk-prevention linkage mechanism. The head office or branches should strengthen communication with the state forestry administration and local forestry administrative departments and coordinate them to help bank of the administration of forest right mortgage. Such as sign “the forest right mortgage regulatory cooperation agreement” to clear the following: First, cooperate bank should in charge of verifying the legitimacy, uniqueness of forestland certificates and making sure whether there is a prior mortgage. Second, standardize and reduce the fees of forest rights value evaluation, the transfer and mortgage registration. Ease the burden on enterprises and supervise the accuracy of forest right evaluation. Third, the competent forestry departments shall not approve the borrower for the cutting go through the forest rights transfer formalities and other mortgage registration without the consent of the bank during the period of the forestry mortgage contract. Give priority to arrange cutting index when loan risk arise in the bank and

bank need to handling the trees. In addition, the bank needs to strengthen the cooperation with forestry enterprises, Guarantee Company and insurance company, making the company+farmers, guarantee company+farmers loan business actively and steadily, expand the forest insurance coverage and scatter forestry credit risk.

CONCLUSION

As an innovative financing business, forest right mortgage business provides a new financing channel for the development of forestry industry. We come to a conclusion that we must standardize the forest right mortgage business, set up credit management policy system, strengthen forestry management of credit risk and set up the cooperation concept to promote the better development of forestry industry.

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