

Study on the Disposal Preference of Non-Performing Loans in Chinese Commercial Banks

Shuyi Zhang

Risk Asset Disposal Department

Agricultural Bank of China

No. 69, Jianguomen Inner Street, Beijing, P.R.China100005

Abstract

This paper analyzes the situation of non-performing assets of Chinese commercial banks, and creatively puts forward the concept of “disposition preference” with reference to risk preference. The disposal preference can help the commercial banks to set up accurate diversified NPL disposal targets in different periods from their own operation and management, and avoid the deviation of disposal behavior from the real objective of commercial banks. This paper analyzes the relationship between the three dimensions of disposal preference (liquidity goal, profit objective and safety objective) and validates it with the available data. According to the relationship between the three dimensions, this paper also proposes the steps and formulas for the commercial bank to set the disposal preference. Finally, the paper gives some advice on how to use disposal preference to guide NPL disposal.

Keywords: commercial banks, non-performing assets, asset disposal, disposal preference.

1. Introduction

In recent years, the Chinese has stepped into “China's New Normal” economic period. With the shift of economic growth, the deepening of structural adjustment, the continuous reform of the financial sector, and the interest rate marketization, the establishment of deposit insurance system, and the rise of Internet finance, today, the business environment of Chinese commercial banks has undergone significant and profound changes. Under the new normal conditions, in the process of de-production, de-stocking and de-leveraging of the real economy, the exposure of credit risk of regional, industrial and group clients is exposed. With the explosive growth of non-performing assets of commercial banks, so the quality control of assets is very serious. As an important means of asset quality control and credit risk mitigation of commercial banks, the disposal of non-performing assets is facing great pressure and challenges.

In order to adapt to the economic and financial situation, China's commercial banks continue to increase the disposal of non-performing assets, with the total amount of disposal of non-performing assets increased year by year, but the disposal rate can't keep up with the rate of growth of non-performing assets. Also with the increase of total disposal, the erosion of disposal loss for financial resources consumption of commercial banks also becomes serious. Under the new economic conditions, the disposal of non-performing assets of commercial banks is subject to multiple constraints. The disposal target has become diversified: it is necessary to quickly reduce the non-performing asset balance (liquidity targets) and minimize the loss of disposal of non-performing assets (profit targets) as much as possible, but can't touch the red line of financial supervision, in other word, NPL must be disposed of in accordance with the law (security objectives).

However, due to the current Chinese law and restrictions on NPL disposal, the relationship between the total disposal and the disposal of income level is contradictory, so it is difficult to achieve the maximization of both liquidity and profit. Under the given policy, commercial banks must focus on and balance the disposal speed, the disposal benefits and the compliance with disposal policies, according to their own strategic positioning, risk preference and operating conditions. The diversification of the disposal of strategic objectives determines that commercial banks can neither rely solely on the transaction to quickly realize the non-performing assets in a short period of time nor entirely on the traditional disposal methods of NPLs (may improve gain of NPL value with more careful chosen of disposal method).

This paper puts forward the idea of "disposal preference" from the perspective of innovation, which can help commercial banks to set accurate and diversified disposal targets in different periods from their own operation and management so as to avoid deviation between disposal behavior and actual target. The "disposal preference" has improved the credit management mechanism of China's commercial banks, quantified the original qualitative disposal objectives, and raised the level of risk management of commercial banks.

2. The Presentation and Definition of Disposal Preference

(I) Based on "risk preference", put forward "disposal preference"

1. Risk preference

The modern bank is the enterprise to operate and manage risk, and the management ability level mainly manifests the risk management ability level. With the intensification of competition in the domestic banking market and the deepening of the overall risk management concept, the domestic mainstream banks have adopted the method of setting risk preference to guide the bank's business activities^[1]. The risk preference of commercial banks is the quantity and variety of risks they are willing and able to take in the course of realizing the strategic objectives, in essence, a concrete manifestation of banking strategy in risk management^[2]. One of its core roles is to draw a clear line between acceptable and unacceptable risks and to act as an internal consensus and basis for the day-to-day business development and ongoing management of the bank^[3]. Risk preference is actually the number of total exposures the bank is willing to bear or retain based on a risk-reward balance. Effective risk management does not dictate what goals should be selected, but rather that management should develop procedures to align strategic objectives with the mission and ensure that selected strategies and related objectives are consistent with corporate risk preference^[4].

2. Disposal preferences

According to the risk appetite of a commercial bank - that is, the risk appetite it is willing to take at the point of balance, the commercial bank should further set its "disposal preferences" to guide the disposal targets, and develop strategies and procedures to make disposition and disposal preferences adapt. In this paper, the disposal preference is defined as the rate at which the bank is willing to take or achieve the speed of realization of non-performing assets based on the degree of compliance on NPL policies and the rate of return on non-performing assets. There are two dimensions of risk preference that can't be simultaneously optimized. The expected return is similar to the risk willing to assume. There are three mutually constraining dimensions of disposal preference, namely non-performing asset return rate, non-performing asset realization rate and policy security aim.

Among them, non-performing asset return rate refers to the ratio of the amount of monetary capital obtained back from nonperforming assets to the book value of non-performing assets. The non-performing asset realization rate refers to the time required to realize non-performing assets with fixed book value; Policy security aim refers to the degree of compliance of commercial banks in the process of disposal of NPL - the higher the compliance, the less likely the commercial banks will face the challenge (or even punishment) from its regulator.

3. The relationship between the three dimensions of disposal preference

(I) The return rate of non-performing assets and the realization rate of non-performing assets

1. In the case of traditional disposal (e.g. Recourse debtor), the relationship between the return rate of non-performing assets and the realization rate of non-performing assets

At present, there are two main theories about the return rate of nonperforming assets and the timing of disposal of non-performing assets, namely, "Popsicle theory" and "Root carving theory"^[5].

(1) Popsicle theory from the perspective of commercial banks

In the early stage of disposal of non-performing assets in China's asset management companies, a "popsicle theory" is prevalent in the industry that the value of non-performing assets, like melting ice popsicles, will accelerate depreciation over time, so it should bring forward the disposal time as early as possible^[5]. This paper argues that, for the non-performing assets like recourse right on debtor's (private-owned firms') equity or real estate, the rate of return does have the characteristics of the above reduction over time, in the process of holding the foreclosed assets, commercial banks may not only need to pay human and material resources to maintain, but also face a higher risk of capital occupation and pressure of depreciation of assets.

But if the subject of non-performing assets of commercial banks - nonperforming loans is discussed, the Popsicle theory may only show one aspect of the rate of return of nonperforming assets, that is, the debtor's condition. In fact, after the occurrence of non-performing loans, the asymmetry of information between commercial banks and debtors is common and intensified than in normal loans. Under the premise of asymmetric information, commercial banks need some time to gradually investigate and understand the situation and assets of the non-performing debtor. In other words, even if the debtor's assets become less and less like Popsicles theory predicts, the timing of non-performing loans for commercial banks is not the sooner the better.

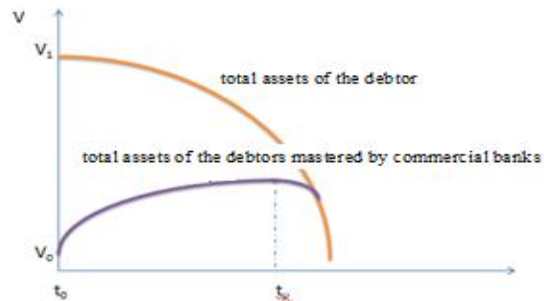


Figure 1: Popsicle theory schematic from the perspective of commercial banks

As shown in Figure 1, the above-line is the total assets of the debtor, and the down-line is the total assets of the debtors mastered by commercial banks. The value of total assets of the debtor declines quickly with the passage of time based on the original Popsicle theory. The total assets of debtors mastered by commercial banks rise quickly in the initial stage, and then the growth rate slows down in the medium term, with accelerated declining in the late. The main reason is: because it takes time for the due diligence of banks or to hire professional organizations to investigate the debtor's assets, the mastery of clues is gradual, so the total assets of debtors mastered by commercial banks rise quickly in the early stage of non-performing loans; After a period of time, with the decline in the total assets of debtors, part of the property clues investigated by commercial banks may have lapsed, so the total amount of assets controlled actually declines with the passage of time.

Any time commercial banks try to dispose the non-performing assets, the maximum amount of compensation is the smaller one between the total amount of debtor assets the total assets mastered by commercial banks. If, according to the simple Popsicle theory, the bank should dispose of nonperforming loans at t_0 . The upper limit of the amount of non-performing loan is $\min(V_0, V_1) = V_0$ without taking into account the disposal time-consuming (such as litigation execution time, negotiated disposal time). It is clear from the graph that this is not the optimal solution for the timing of disposal. The optimal solution of this function should be reached at t_u . When the disposal time is shorter than t_u , due to inadequate grasp of asset clues, resulting in non-performing assets can't be fully compensated; when the disposal time is longer than t_u , due to the debtor assets accelerate disappearing, so it misses the optimal disposal price.

Furthermore, if the release disposal time-consuming assumption of zero, the timing should be slightly ahead of the treatment t_u , but it still not complies the theory of popsicles advocated by "the sooner the better."

(2) Root carving theory

China's financial asset management companies in the practice of disposing of non-performing assets found that not all the changes in the value of non-performing assets are to follow the "Popsicle theory", for example, non-performing assets such as non-ferrous metals, hydropower and other resources with broad prospects, as well as real non-performing assets of real estate's with appreciation space in large and medium-sized cities, they can't blindly pursue speed of realization. In 2007, Cinda Asset Management Corporation put forward the "root carving theory" on the value of non-performing assets that deep processing and fine processing transformed the low-value assets from the "dead roots" into priceless "works of art"^[6].

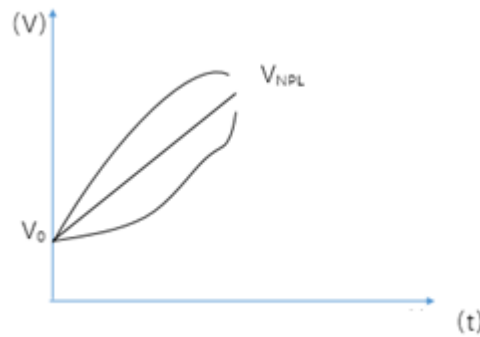


Figure 2: Root carving theory schematic

The "root carving theory" is expressed as a function form: $V_{NPL} = V_0 + g(t)$, which can be expressed as Figure 2. As can be seen from the figure, t gradually increases with time, and the expected value of non-performing assets V_{NPL} gradually increases. Since the functional relationship between V_{NPL} and t may be linear or non-linear, we can simply simulate several fundamental changes depending on the specific asset situation. As shown in the above figure, V_{NPL} increases with t from the input of factors, which reflects the idea of value appreciation of non-performing assets of "root carving theory". Under the guidance of this theory, the disposal of non-performing assets should give priority to the way to enhance the value, by increasing the input factor to improve the status of assets, and then select the appropriate disposal time to realize the non-performing assets to maximize cash recovery.

(3) Short-term consensus has achieved on the theoretical and practical aspects of the rate of return on non-performing assets and the rate of disposal.

Through the above analysis, we found that both the expanded popsicles theory and the root carving theory which applies to a small part of the assets, support that the rate of return on non-performing assets is rising after the banks holds and operates the non-performing assets in the short-term: After a period of investigation and disposal (popsicles theory) or investment management (root carving theory), commercial banks can grasp more debtor's property and get higher return on non-performing assets. The main differences between the two theories lie in the long-term payoffs.

From a practical point of view, we found that commercial banks need to take about 2-3 years (including investigation and disposal time), in order to achieve better non-performing assets return rate after the formation of nonperforming loans.

2. The relationship between the rate of return of non-performing assets and the rate of realization of non-performing assets after joining a method of NPL disposal ——external transaction of NPL

As mentioned above, if the commercial banks choose to recover the debt-related assets of the main nonperforming assets to achieve their own disposal targets, on the basis of comprehensive due diligence, it should be able to achieve a higher rate of return on non-performing assets at the beginning of the formation of non-performing assets after choosing the best disposal time.

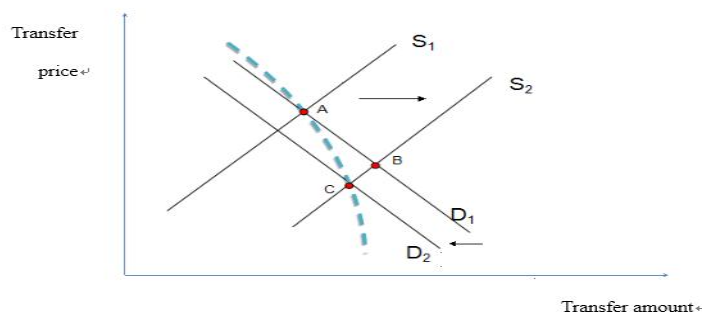


Figure 3: the diagram on the relationship of transfer price and the transfer amount of non-performing assets

If the commercial bank chooses the external transfer as the main means of non-performing asset disposal, the final asset package includes any subject of the recipient (such as the asset management company or the social investor after the asset management company transfers). To those recipients, the final means of realization of NPL is still to recourse debtor. Taking into account the transferee's reasonable profit margins and the risk of holding non-performing assets package, the compensation of commercial banks to transfer the NPL must not exceed the compensation of recourse debtor itself. Therefore, compared with the external transfer, the commercial banks have more advantages in the return of non-performing assets when recourse debtor itself, while the external transfer is more flexible in terms of disposal time.

We have now come to the conclusion that the rate of return on non-performing assets of self-clearing strategy is high and the timing of disposal is not flexible; the rate of return of external transfer is relatively low and the timing of disposal is more flexible. But in fact for commercial banks, the disposal of non-performing assets does not need to take "either this or that" path. On the other hand, because different strategies have their own advantages, commercial banks can adjust the proportion of non-performing assets to self-clearing and external transfer at different times. When the demand for non-performing assets realization speed is high, commercial banks can improve the proportion of external transfer of non-performing assets.

This paper argues that when the proportion of external transfer increases, it will lower the rate of return on non-performing assets, not only because we mentioned the transferor must let the transferee to give up reasonable profit margins, as well as changes in market supply and demand. When the commercial banks are generally faced with the reduction on proportion of self-clearing and increase on ratio of external transfer, the relationship between supply and demand of transfer market of non-performing assets will change accordingly. As shown in Fig. 3, the supply curve S1 moves to the right side S2 and the supply and demand equilibrium points from point A to point B, which shows that the transfer amount increases and the transfer price decreases as the supply of the nonperforming asset transfer increases. Further, due to the limitations of the domestic transfer market, the qualified transferee is limited, and the transferee's funds are also limited. After receiving the non-performing asset package that exceeds the original demand, the transferee's capital decrease will reduce its transfer demand, that is, the demand curve from D1 to the left to move to D2, supply and demand equilibrium points from B to C. It can be seen from point A to point C, the total amount of non-performing assets transfer rise slightly, but the transfer price accelerated decline.

3. The relationship between the realization rate of non-performing assets and the rate of return on non-performing assets

The above analysis shows that when the demand for realization speed of non-performing assets is high, commercial banks are forced to increase the proportion of transfer to achieve rapid liquidation, which will lower the proportion of their self-clearing to make the return on nonperforming assets correspondingly lower, and will affect the transfer price of non-performing assets to the market, a lower transfer price will further reduce the rate of return on non-performing assets. The realization rate of non-performing assets and its rate of return should show a negative correlation. In order to verify this relationship, we find by making the scatterplot using the annual disposals of non-performing assets from 2009 to 2015, and the ratio of cash recovery (annualized growth in the first three quarters of 2015 before the data are used) of the four major state-owned banks (Industrial and Commercial Bank, Agricultural Bank of China, Bank of China, China Construction Bank) (Figure 4), the cash recovery level of nonperforming asset disposal is negatively correlated with the total disposal amount of the year, and it can be fitted by the lower curve of the form of power function, which shows that there are some objective laws for the disposal of non-performing assets. With increasing pressure on nonperforming asset management, the rapid increase in disposal volume (disposal rate * fixed range) will lead to a marginal decrease in the proportion of cash recovery.

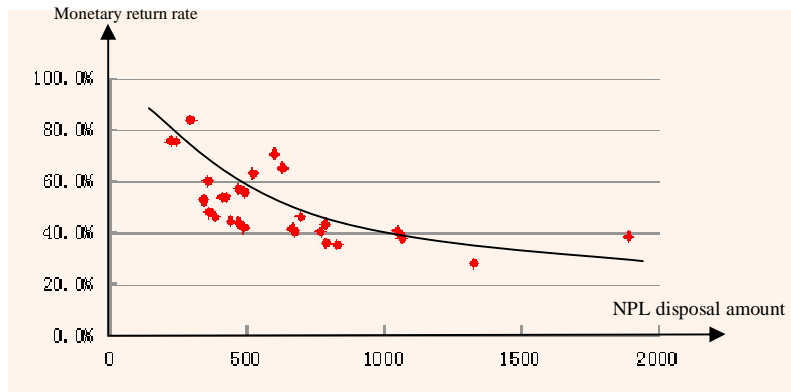


Figure 4: Fitting graph of the relationship between the total amount of cash disposed and the rate of cash recovery of top-four Chinese commercial banks in 2009-2015

Source: Interbank exchange data

(II) The relationship between the compliance on policies and the liquidity of non-performing assets. Domestic commercial banks, especially state-owned banks, have a strong policy-binding nature in their disposal of non-performing assets. If the regulatory prohibition introduced is regarded as a policy red line, then within the red line, the banks on the specific implementation of the policy scale, also determines the policy of security on the non-performing assets - the more strict the control, the more secure will be; The closer to the red line, the more likely the violation.

The realization rate of the non-performing assets of commercial banks is also very dependent on the introduction and implementation scale of the policy. In general, the disposal of debts at the core of a debtor requires a certain amount of time (litigation, enforcement or consultation), so the rapid realization of cash is often dependent on external transfer. At present, non-performing asset securitization, trust stratification and quasi-asset securitization, which are commonly used in the world, have not been released to the state-owned commercial banks in China, and the transfer of single-family non-performing loans is also at the blurred boundaries of the policy, only the bulk transfer has a clear policy space after 2012. Even if it is allowed to use the bulk transfer, because the different understanding and implementation scale of policy terms, there will be huge differences on the using extent and frequency. When the implementation scale of policy terms is more liberal, the assent in line with rapid liquidity means should be increased corresponding, as for the whole of the Bank's non-performing assets, the speed can be correspondingly faster.

As shown in the figure below, if the policy security is understood as the distance between the policy scale and the red line of the regulatory policy, then when the policy control is relatively loose (from the near), the realization rate of non-performing assets can reach a higher level, when the policy control is more stringent, the possibility of rapid realization will be lower. In this sense, the higher the policy security, the lower the rate of realization of non-performing assets, the two have a negative relationship. While outside the policy red line is beyond the scope of commercial banks, when the degree of regulators of the rapid realization of non-performing assets means to be improved, the regulatory authorities promote the policy red line to the right, at the same realization rate of non-performing assets, the policy security is improved.

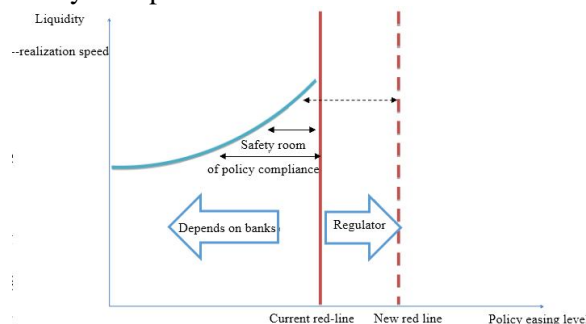


Figure 5: The relationship between policy security and the realization rate of non-performing assets

Therefore, the analysis of this paper argues that within the policy red line, there is a positive correlation with the speed of realizing NPL and the compliance of policies issued by regulators. When the policy safety room is tightened, the rate of realization of non-performing assets can reach a higher level.

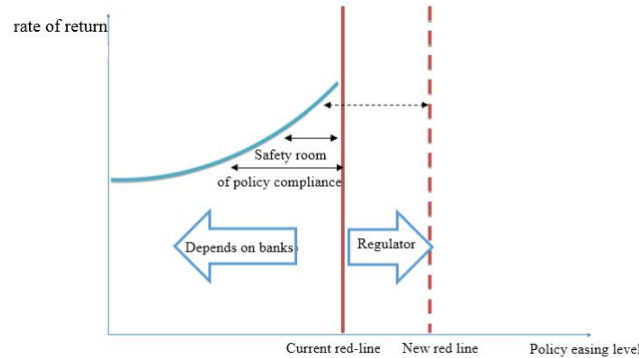


Figure 6: The relationship between policy security and the rate of return on non-performing assets diagram

(III) The relationship between the security of policy and the rate of return on disposal of non-performing assets. The disposal means of nonperforming assets is diversified. In theory, if there is only one or several potential means, then the disposal will be subject to greater constraints and may be difficult to achieve the optimal value of non-performing assets; The more potential means, it will bring higher disposal gains. In general, the degree of diversification of disposal measures is positively related to the rate of return on nonperforming assets.

Whether a certain means can be used for non-performing assets disposal (potentially), it should break through the "two hurdles", first, whether the regulatory policy opens the disposal means, second, with the allowance of regulatory policy, whether the commercial banks within think that assets comply with the specific provisions of regulatory introduction. In other words, similar to the realization rate of non-performing assets, the diversity of disposal approaches is also related to the degree of regulatory openness and the scale of bank implementation policies. The more open the policy, the more diversified means of disposal.

From the intermediate variable of disposal, it can be deduced that the opening degree of the policy is positively related to the return rate of nonperforming assets.

As shown in Figure 6, within the policy red line, the stricter the scale of bank control, the higher the policy security, the lower the diversity of disposal methods, the lower the rate of return on non-performing assets disposal; In addition to the policy red line, when regulators are more open to non-performing assets disposal policy, the regulatory authorities promote the policy red line to the right, at the same rate of return on non-performing assets, policy security is improved.

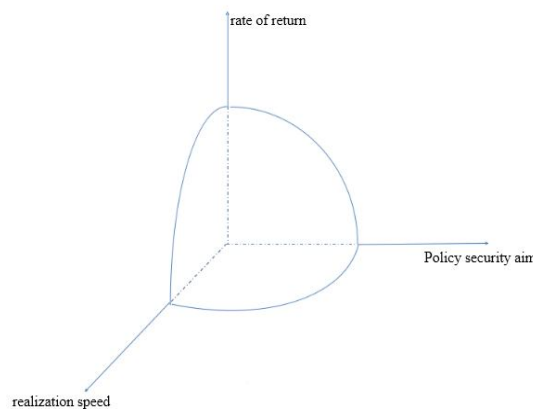


Figure 7: The relationship between Policy security, the rate of return on non-performing assets and realization rate

(III) The trade-off between the return rate of non - performing assets, the rate of realization, and disposal policy security.

Since the disposal preference discussed in this paper is the internal management behavior of commercial banks, it does not involve whether the supervision can release the policy of further liberalization. Therefore, the above analysis shows that, in the range of permitted disposal policy (within the policy red line), for commercial banks, the rate of return on non-performing assets, the rate of realization of non-performing assets and policy security are two negative correlation. As shown in Figure 7, when circumstances of the existing staffing and organizational settings and other external conditions of commercial banks are certain, the rate of return on non-performing assets, the rate of realization and policy security in the figure 1/8 sphere surface reached optimal solution. This optimal solution is similar to "Pareto optimality" -that under the premise that not make at least one person better off without deteriorating the condition of any individual (indicators).

IV. Set the disposal preferences

(I) Disposal preference is the three-dimensional objective of the disposal of non-performing assets of commercial banks.

As mentioned above, commercial banks are subject to external conditions such as staffing and institutional setting, and they need to simultaneously pursue the rate of non-performing assets disposal, the rate of realization of non-performing assets and the security of policies. However, after reaching a Pareto optimal solution, the three objectives will need to be weighed against each other. A higher level of pursuit of one or two goals must be at the expense of the remaining goals.

This is not to say that commercial banks can't simultaneously improve the three objectives in the current situation. This is because the commercial banks can't achieve the optimal solution of three objectives in the 1/8 sphere surface, due to the mechanism set up, lack of channels or the use of disposal and other reasons, but within a certain point in the sphere. In this case, the banks may do something in completing the mechanism adjustment, innovating channels, or strengthening the use of disposal, etc. at the same time, will also enhance the overall recovery rate of non-performing assets, the speed and policy security, or without sacrificing one of them to improve the completion of other goals. Disposal preference, however, refers to the optimal taste of the disposition of the commercial bank (similar to the risk appetite), so the disposal preference must be an optimal solution on the surface of the sphere. And similar to the definition of risk appetite, "the number of total exposures the bank is willing to bear or retain based on a risk-reward equilibrium point", in this paper, the disposal preference is defined as the rate of realization at which the bank is willing to bear or achieve the non-performing assets based on the security of a policy and the rate of return on non-performing assets. In this paper, the realization rate of non-performing assets is the main coordinate of the definition of disposal preferences, to correspond to the end result of "total risk exposure" of risk preferences: The higher the realization rate of non-performing assets, the better to apply to the banks' preferred "total risk exposure".

(II) Set the disposal preferences

In such a three-dimensional trade-off relationship, the commercial bank should find the primary and definable goal, and reduce the 3D dimension to simplify the problem. Since the rate of realization of nonperforming assets is closely related to the total risk exposure in risk appetite, the gap between the risk preference and the actual risk exposure can be more convenient to set a reasonable range of the rate of non-performing assets realization, so the rate of realization of non-performing assets can be used as the first indicator to be identified.

$$\text{The requirement for the realization rate of NPL} \\ = \frac{\text{Existing exposure} + \text{Expected exposure to be added} - \text{Risk appetite}}{\text{Disposal time}}$$

As shown in the above formula, when the existing risk exposure is much greater than the risk appetite, or to continue to increase the new exposure expected, the banks need to quickly reduce the actual risk exposure by disposal, and the demand of realization rate of non-performing assets is higher, in the disposal of preference selection, it should select optimal solution near the surface of the ball; When the existing risk exposures are within the controllable range of the risk appetite, the demand for the rate of realization of the non-performing assets is general.

In the disposal preference selection, the optimal solution near the intermediate surface of the sphere should be selected. When the existing risk exposure is much lower than the bank's risk appetite, the demand for non-performing assets is low, and the optimal solution near the sphere's backside should be chosen more in the disposal of preference.

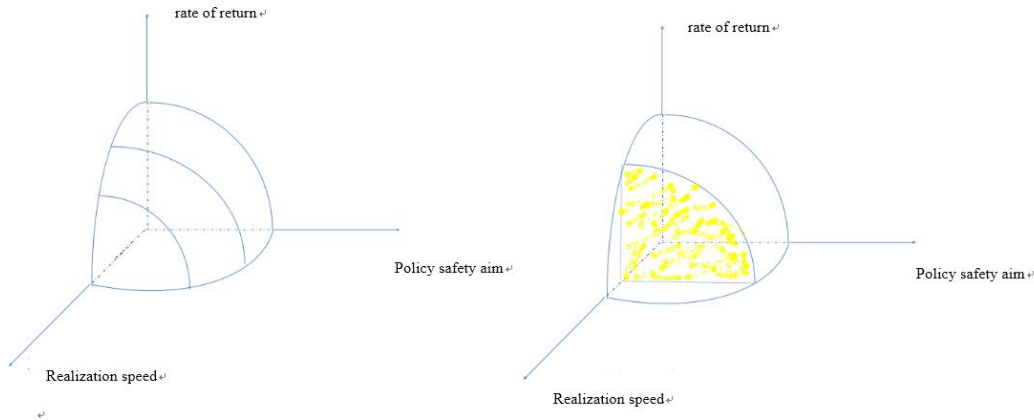


Figure 8: How to choose a disposal preference for different disposal speed requirements

As shown in Figure 8, after determining the rate of non-performing assets to achieve speed requirements (Yellow cross section), the disposal preference setting is a trade-off between the measurement of policy security and the rate of return on non-performing assets.

(II) Regularly updated disposal preferences.

The setting of rate of realization of top dimension in disposal preference is determined based on the current exposure of a particular commercial bank, the expected increase in risk exposure, and the comparison of risk appetite, whether it is the existing risk exposure, the expected increase in exposure or changes in the risk appetite of commercial banks, will affect the bank's selection for disposal preference; In addition to the primary dimension, the trade-offs between policy security and the rate of return on non-performing loans are often adjusted by external pressures such as bank profit pressures, market competition, and regulatory efforts. Therefore, commercial banks should regularly update their disposal preferences, and publish within the bank or within the line, in order to unify the work positioning and objectives to help banks adjust the disposal strategy and working methods as soon as possible to close to or reach its set disposal preferences.

V. The use of disposal preferences

(I) In different situations, the disposal of non-performing assets of commercial banks should set different disposal strategies.

As mentioned above, in different periods, the realization rate requirement of the disposal of non-performing assets of commercial banks is different. When the commercial bank's asset quality is good and the total amount and proportion of non-performing loans are relatively low, commercial banks have lower requirements on the rate of realization of nonperforming assets, which corresponds to the disposal preference in the back Figure 8 Sphere. From the perspective of the projection plane (Fig. 9), the constraint of non-performing assets return and policy security becomes smaller, and the optimal solution of these two objectives is extended outwards.

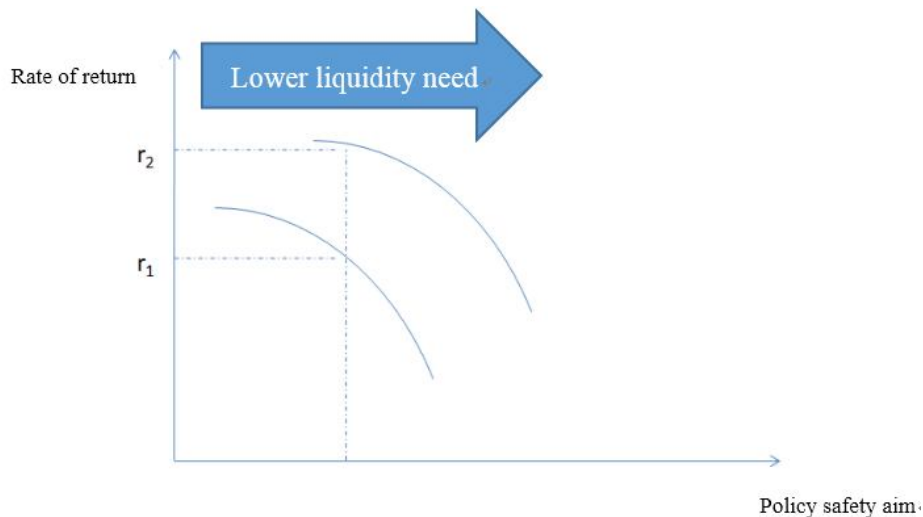


Figure 9: How to choose the disposal preference for different disposal speed requirements

If commercial banks maintain the same policy security considerations, then the bank should pursue a higher rate of return on nonperforming assets ($r_2 > r_1$). At this time, the primary objective of disposal of non-performing assets is to realize the appreciation value through operation, to mitigate risk, thicken profits and save capital. From the practical point of view, along with the decrease of the total amount of nonperforming assets, the time constraint of disposal of non-performing assets is relatively relieved, and commercial banks have the necessary conditions to improve the level of fine management. Through effective management, commercial banks can reduce the expected loss of non-performing assets, repair or even enhance the original value. During this period, the positioning of non-performing assets is to effectively increase operating profit and release capital occupancy, optimize financial resources and enhance shareholder value.

If the situation is the opposite, when the quality of commercial banks deteriorates, the total amount of non-performing loans and the proportion of non-performing loans are relatively high, the primary goal of disposal of non-performing assets tend to achieve value changes through faster disposal compliance with regulatory targets, to improve Bank liquidity level, reduce the risk of occupation and so on. In practice, when the total amount of non-performing assets is at a high level, the time constraint for dealing with non-performing assets is relatively tight. The time and labor required for fine management to enhance the value are difficult to safeguard, and the rate of return on non-performing assets is relatively low. But also by the means of rapid disposal in the short term to achieve regulatory and the inside and outside requirements of listed bank shareholders may also affect the security of disposal policies of commercial banks.

(III) In the new situation, the disposal of non-performing assets of commercial banks should identify the work position.

Since 2013, the non-performing assets of Chinese commercial banks has shown a new trend, such as the increase of the total amount, the spread of the region, the spread of the industry and the decentralization of the non-performing assets. It is generally believed that in the short and medium term, the domestic economy is expected to continue to operate under the "new normal", and the nonperforming assets of commercial banks may face the pressure of continuous deterioration. In this situation, the disposal of non-performing assets has been upgraded from the "conventional business situation" with the core on value management enhancing into "wartime critical situation" with the corn on value realization and value management under the high pressure of realization rate requirements of nonperforming assets. Commercial banks should adapt to the situation and need new recognition of the new position of disposal of non-performing assets before they can win in the campaign of asset quality management.

In the long run, commercial banks should lay a solid foundation for credit management, improve the level of credit risk management, prevent and control in the "entry end" of non-performing loans: In the pre-loan access stage, it fully identifies customer risks and excludes low-quality customers. In the post-loan management segment, it closely tracks customer operations, finds hidden troubles in time and takes advantage of the opportunity to eliminate risks.

In the short term, the more direct control measures are to expand the "exit end" of non-performing loans - to improve the disposal of non-performing loans, to recover the nonperforming assets as soon as possible, to restore the form or "out of the table."

From this analysis, we can see that the main role of disposal of non-performing assets is to control the asset quality of short-term emergency "exit", in the battle of asset quality defense, the team of commercial banks that specializes in disposal play a vanguard and crucial role. Any war in the crucial, the Pioneer forces are unable to complete the task independently for a long time, with the need for supporting and conventional forces. So do the commercial banks, at special times, the need the multiple lines of the team to work together with the full-time disposal team to complete the work related to non-performing assets.

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