

Analysis of Real Estate Credit Risks of Commercial Banks in China

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Keywords: Real estate industry, Commercial bank, The credit risk

Abstract: With the rapid economic take-off, the real estate industry has been soaring, the real estate credit has become the main credit of commercial banks, this paper explains the current situation of China's real estate industry and commercial banks real estate credit, pointed out the problems of the real estate industry and its impact on China's economy; Analyze the types of real estate credit and put forward problems and suggestions; Finally, a brief point on the prevention of the crisis. I hope this paper can give some enlightenment to commercial banks.

1. Introduction

The real estate industry is of great significance to economic development. With the reform of the economic system, the real estate industry shows a trend of rapid development and becomes the main industry in the economy. It is an important way to promote China's economic growth, stimulate domestic demand and improve people's lives. However, behind this vigorous development, because the real estate industry investment scale is big, the development cycle is long, and the financing channel is unitary, it relies heavily on the commercial bank's indirect financing channel. It causes the commercial bank real estate loan to have huge risks [1].

In the early stage, real estate was supported by policies, which did bring greater benefits to commercial banks. But real estate credit is not a short-term loan, funds cannot quickly drain, once appear, credit risk, too much focus on the real estate credit of commercial bank liquidity risk will appear, and even the whole capital chain rupture, so this article from the perspective of Banks how to guard against real estate credit risk, combining with the actual situation of real estate development at the present stage, This paper discusses the risks existing in the real estate business and the bank's own operation business, and hopes to put forward suggestions for commercial banks in the real estate credit risk prevention.

2. Real Estate Industry and Banking Credit Analysis

2.1 The Position of the Real Estate Industry in China

The State Council clearly pointed out in the document No. 18 in August 2008 that "the real estate industry has become a pillar industry of the national economy with high correlation and strong driving force" [2], and the real estate industry has been officially certified as a pillar industry in the national economy. This is mainly reflected in the following aspects:

First, China's real estate industry in GDP accounted for a large proportion. During the Tenth Five-year Plan period, the total tax revenue of China's real estate industry was 519.098 billion yuan, with an average annual increase of 41.4%, ranking first among all industries in China [3]. Secondly, China's population density is very high, especially in cities. The real estate industry has a very good development prospect and many potential customers. Third, the real estate industry has an obvious driving effect on other related industries. In the process of its development, it has driven the coordinated development of many industrial sectors, making the development level of the national economy reach a historical high.

2.2 Real Estate and Bank Credit

The real estate industry is a capital-intensive industry, which makes the development of the real estate industry inseparable from the strong support of the banking industry [4]. This is mainly from two aspects: The first is on the supply side, where property developers borrow property development loans directly from banks; the second is on the demand side, where most consumers apply to banks for home mortgages. Banks have poured vast sums of money into real estate, both in terms of supply and demand. Developers use bank loans to build houses, and consumers use bank loans to buy houses. Banks also tend to put money into real estate. Because the income of housing mortgage loans is higher and more stable. As a result, banks have made real estate lending their main business. It makes the income of real estate credit account for a large proportion of the total income of the bank. Besides, the rising real estate prices, so that the scale of bank credit continues to expand. The strong support of banks makes the real estate industry develop extremely fast and the price keeps rising. The continuous rise of real estate prices stimulated bank credit, which in turn promoted the rise of real estate prices, and the cycle continued, pushing the real estate prices to a new record high, and the price was greater than the value. When the real estate bubble burst, it would not only suffer a heavy blow but also drag the banks into the mire.

2.3 Housing Prices Deviate from Their Actual Value

Housing price is an important indicator of the development of the real estate industry and is influenced by macroeconomic development, population, politics, social culture, legal system, and other factors [5]. As can be seen from Table 1, the price of commercial housing began to rise slowly, and then began to rise rapidly from 2004. The annual growth rate jumped from 4.8% in 2003 to 17.8% in 2004. Clothing, food, housing, and transportation are the basis of life and are included in the consumer Price Index (CPI). However, as shown in FIG. 1 and FIG. 2, the rise of commodity house price is not coordinated with the rising trend of CPI, so the price of commodity house has deviated from the actual value, resulting in bubbles [9].

Table 1 Commodity Housing Price, Cpi, and Per Capita Growth Rate of Urban Residents

Year	Commodity Price (Yuan, square meters)	Housing square	Commercial housing Price growth rate	Per capita income of Urban residents (yuan)	Per capita urban resident Income growth rate	CPI	The CPI growth rate
1997	1997			5160		102.8	
1998	2063		3.3%	5425	5.1%	99.2	-3.5%
1999	2053		-0.5%	5854	7.9%	98.6	-0.6%
2000	2112		2.9%	6280	7.3%	100.4	1.8%
2001	2170		2.7%	6859.6	9.2%	100.7	0.3%
2002	2250		3.7%	7702.8	12.3%	99.2	-1.5%
2003	2359		4.8%	8472.2	10.0%	101.2	2.0%
2004	2778		17.8%	9421.6	11.2%	103.9	2.7%
2005	3167.66		14.0%	10493	11.4%	101.8	-2.0%
2006	3366.79		6.3%	11759.5	12.1%	101.5	-0.3%
2007	3863.9		14.8%	13785.8	17.2%	104.8	3.3%
2008	3800		-1.7%	15780.8	14.5%	105.9	1.0%
2009	4681		23.2%	17174.7	8.8%	99.3	-6.2%
2010	5032		7.5%	19109.4	11.3%	103.3	4.0%
2011	5357.1		6.5%	21809.8	14.1%	105.4	2.0%
2012	5790.99		8.1%	24564.7	12.6%	102.6	-2.7%
2013	6237		7.7%			102.6	0.0%
2014	6324		1.4%			102	-0.6%
2015	6793		7.4%			101.4	-0.6%

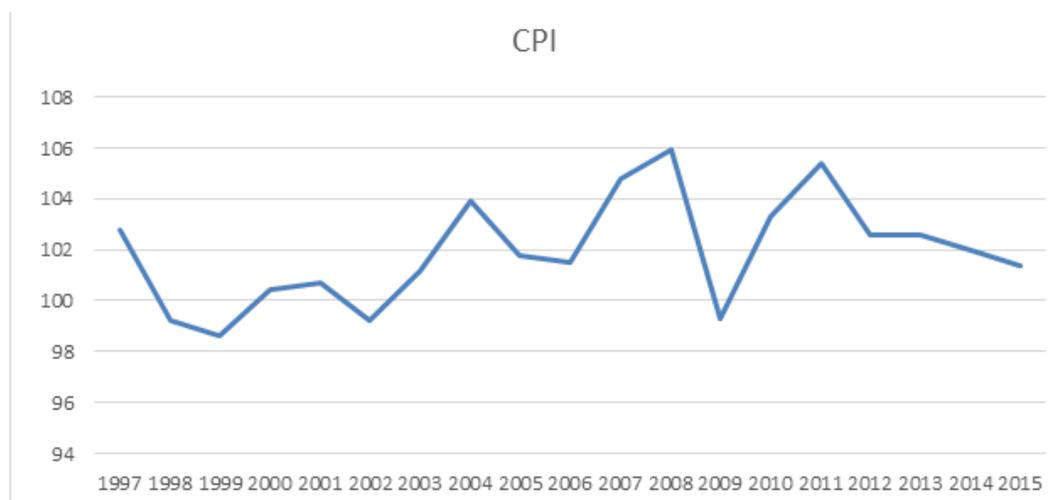


Fig.1 Cpi Line Chart

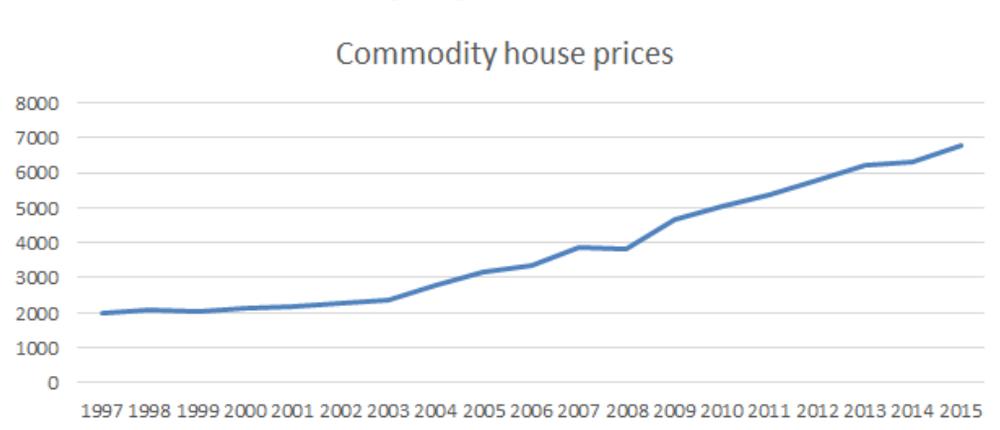


Fig.2 Line Chart of Commodity Housing Price

Source: China Statistical Yearbook.

2.4 Abnormal Structure and Imbalance between Supply and Demand

Relative balance of supply and demand are important condition of the sustained and steady development of an industry. However, in recent years, the supply and demand of the real estate market in China have had serious problems. The supply and demand are seriously deformed, and the vacancy rate is high, but the supply is insufficient.

As can be seen from Table 2-2, the proportion of residential investment gradually increases. By 2006, the proportion of China's residential industry has accounted for more than 70% of the whole real estate market, but the proportion of affordable housing and high-end housing in the housing industry is unbalanced, and only a few can afford high-end housing.

Real estate demand can be divided into consumer demand and investment demand [7]. Consumer demand is people's housing demand, that is, the house is bought to live in. Investment demand, on the contrary, to buy a house is to real estate, the housing prices are too high, although because prices are too high, investors are still made with self-owned assets, borrowed loans, but bought the house without inhabitant, financial flexibility is limited if prices downward fluctuations, this part of the human capital will evaporate like the U.S. subprime mortgage crisis. Structural malformation and limited development. Therefore, China's top government began to seek solutions, many cities issued purchase restrictions, real estate tax began in some areas of the trial operation, to curb the overheated real estate investment.

Table 2 Structure of Real Estate Investment in China from 1997 to 2015

Year	Real estate investment completed (100 million)	Residential	Villas and luxury apartments	Office building	Commercial premises	Other
1997						
1998						
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2000						
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	Yuan)					
1997	3178	48.4%	4.9%	12.2%	13.4%	26.0%
1998	3614	57.6%	5.0%	12.0%	13.2%	17.2%
1999	4103	64.3%	4.4%	8.3%	11.8%	15.6%
2000	4984	66.5%	5.4%	6.0%	11.2%	16.3%
2001	6344	66.4%	5.8%	4.9%	11.9%	16.8%
2002	7791	67.1%	6.6%	4.9%	12.0%	16.0%
2003	10154	66.7%	6.2%	5.0%	12.8%	15.5%
2004	13158	67.2%	8.2%	5.0%	13.0%	14.8%
2005	15909	68.3%	6.6%	4.8%	12.8%	14.1%
2006	19423	70.2%	7.4%	4.8%	12.1%	12.9%
2007	25289	71.2%	7.1%	4.1%	11.0%	13.7%
2008	31203	71.9%	6.5%	3.7%	10.8%	13.6%
2009	36242	70.7%	5.7%	3.8%	11.5%	14.0%
2010	48259	70.6%	5.9%	3.7%	11.7%	14.0%
2011	61797	71.8%	5.6%	4.1%	12.0%	12.1%
2012	71804	68.7%	4.8%	4.7%	13.0%	13.6%
2013	86013	68.5%	4.2%	5.4%	13.9%	12.2%
2014	95036	67.7%	4.0%	5.9%	15.1%	11.3%
2015	95979	67.3%	3.6%	6.5%	15.2%	11.0%

Source: China Statistical Yearbook.

3. Risk Analysis of Commercial Bank Mortgage Real Estate Credit Loan

Real estate credit refers to the commercial banks to real estate development enterprises and real estate commodity consumers as a service object. It is also for the real estate market production activities and the purchase of commercial housing activities and lending operations [8]. Risk types can be divided into the following four categories:

3.1 Market Risks

As far as the current situation is concerned, the price rise of real estate comes from the strong support of finance. With the continuous expansion of commercial banks' credit scale for real estate, real estate prices have been rising in recent years. The fast-rising speed makes the market price of real estate easily deviate from its real value. When macro-control fails to work, the real estate price bubble will burst, just like the subprime crisis in the United States. Commercial banks will suffer huge losses.

3.2 Credit Risk

When real estate developers or individuals are unable or unwilling to repay the loans, commercial banks will not be able to recover the interest of the mortgage on time, resulting in bad debts and bad debts. Namely, "repayment ability risk" and "repayment willingness risk".

3.3 Policy Risks

Policy risk refers to the consequence of increasing liabilities or decreasing assets due to the change of national real estate credit policies and laws and some incorrect and imperfect legal documents and opinions [9].

3.4 Systemic Risks

Commercial banks have mutual liabilities or assets through inter-bank lending or inter-bank bond market transactions. When a bank with large liabilities has a crisis, it will affect the payment ability of its creditor banks, and in serious cases, systemic risks will occur.

4. Defects in Real Estate Credit Risk Management of Commercial Banks

4.1 Weak Risk Awareness

First, most credit personnel in commercial banks, except professionals in risk management departments, have weak risk awareness and even fail to carry out risk identification and evaluation procedures seriously in the process of credit processing to improve performance. Second, the management pays more attention to the short-term profits of the short bank than to the long-term credit risks. Thirdly, the staff outside the credit department only pay attention to the loan collateral, without considering the sustainable development ability of the lender. The excessively long loan term will increase the probability of loan loss, and for the sake of performance, the staff may subjectively shield this risk.

4.2 The Credit Management Ability of Commercial Banks is Not High

First, the over-centralization of the right to make decisions and approve loans will easily lead to the over centralization of the system even if there is a sound real estate credit management system. Second, the independence of the credit-granting department is not strong enough, and the binding force on the blind lending behavior of the credit department in the bank is low. Third, the formation of non-performing loans cannot be quantified by analysis, resulting in difficult or insufficient accountability.

4.3 The Management of Operational Risk is Not Perfect

It is difficult for credit management to reach the expected goal because credit operation risk is not paid enough attention to. For example, the credit standards of the head office are not strictly implemented, and the entry threshold is lowered; The use of loans is not strictly tracked, resulting in loans for real estate development in the name of working capital; Disguised to reduce the down payment ratio, the real estate false increase in the appraisal price of the behavior to take a default attitude. The above behavior will virtually increase the risk of commercial banks.

4.4 The Comprehensive Skills of the Real Estate Credit Staff of Commercial Banks Need to Be Improved

There is a lack of knowledge of risk prevention and control among the staff and a lack of remedial measures such as follow-up education and training or self-study. It leads to a divergence of staff members' general skills from their posts.

4.5 Underestimation of the Credit Default Risk of Individual Housing Loans

The repayment term of an individual housing loan is a typical medium - and long-term credit. The risks will increase as they accumulate. Factors such as oversupply of real estate, slowing economic growth, and aging in China will gradually increase the probability of personal housing loans turning into non-performing loans [10].

5. Suggestions on Real Estate Credit Risk Prevention for Commercial Banks

5.1 Improve the Operating System

Commercial banks should avoid illegal operations in handling their business. Do the following:

First, strengthen the credit investigation and strictly examine the qualification of credit applicants. Second, commercial banks should strengthen the supervision of credit businesses. The bank personnel who violate the provisions shall be dealt with strictly. In addition, the commercial bank also must carry on the strict control to the power and responsibility. Banks are supposed to prevent employees from Abuse of authority for personal gain. Third, traditional risk management and international standard risk measurement tools should be combined to strengthen the risk monitoring of the use of funds after credit.

5.2 Establish a Personal Credit Evaluation Model

Through the history of the borrower's credit records and real assets income status and other information, the credit assessment, improve the assessment model, the establishment of personal credit information system. Moreover, sharing customer information in the same industry can avoid

the loss caused by information asymmetry.

5.3 Real Estate “Securitization”

The process of financing real estate market funds through securitization financial instruments such as stocks, investment funds, and bonds, including real estate mortgage debt securitization and real estate investment equity securitization [11]. This credit risk diversification mode, that is, to increase the capital source of the real estate industry, while expanding investment channels, change the form of real estate financing channels narrow.

6. Conclusion

When the banking and financial industry has a major crisis, the economy will also be severely impacted. Therefore, commercial banks should control real estate credit reasonably, establish sound risk management and risk coping ability, so that commercial banks can keep away from real estate credit risk as far as possible. Or, in the real estate market risk that may be encountered, can effectively and quickly take appropriate measures to minimize the impact.

Acknowledgment

Project name and number: 2020 Fuzhou University of Foreign Languages and Foreign Trade High-level Talent Research Startup Fund Project (No. FWKQJ202013) project research results.
2021 Fuzhou Social Science Planning General Project (Approval Number: 2021FZC46)

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