



The Status of Real Estate Finance Development and the Housing Finance Policy for the Middle and Low-income Groups in China

Nie Meisheng
President, China Real Estate Chamber of Commerce
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Abstract

- Since the policy of reform and open to the outside being adopted, with the housing institutional reform and the continuous development of real estate market, the real estate finance in China also makes great progress.
- At present, the real estate financial market in China is mainly composed of primary market providing financing service, also making some beneficial attempts in the secondary market which shares in the primary market ventures, including the credit market of indirect financing, and the direct financing facilities like stocks and bonds.
- The current real estate financial system aiming at the low income families in China is policy-oriented financial system, i.e. the housing provident fund system.



- **Part I:**

The growth of real estate finance primary market in China

- The developed real estate finance market should be composed of both the real estate finance primary market and the real estate finance secondary market, taking securitization as the major means. For these years, the real estate finance market in China has made certain progress, but mainly upon the primary market. The secondary market remains in the exploration stage.



The bank credit and loan dominates indirect finance

Since 1998, People's Bank of China unveils a series of credit policies

encouraging residential construction and consumption

- Transferring the potential residential purchase demands of consumers into factual demands;
- The development loans obtained from the banks effectively facilitating the construction of new projects by the real estate enterprises

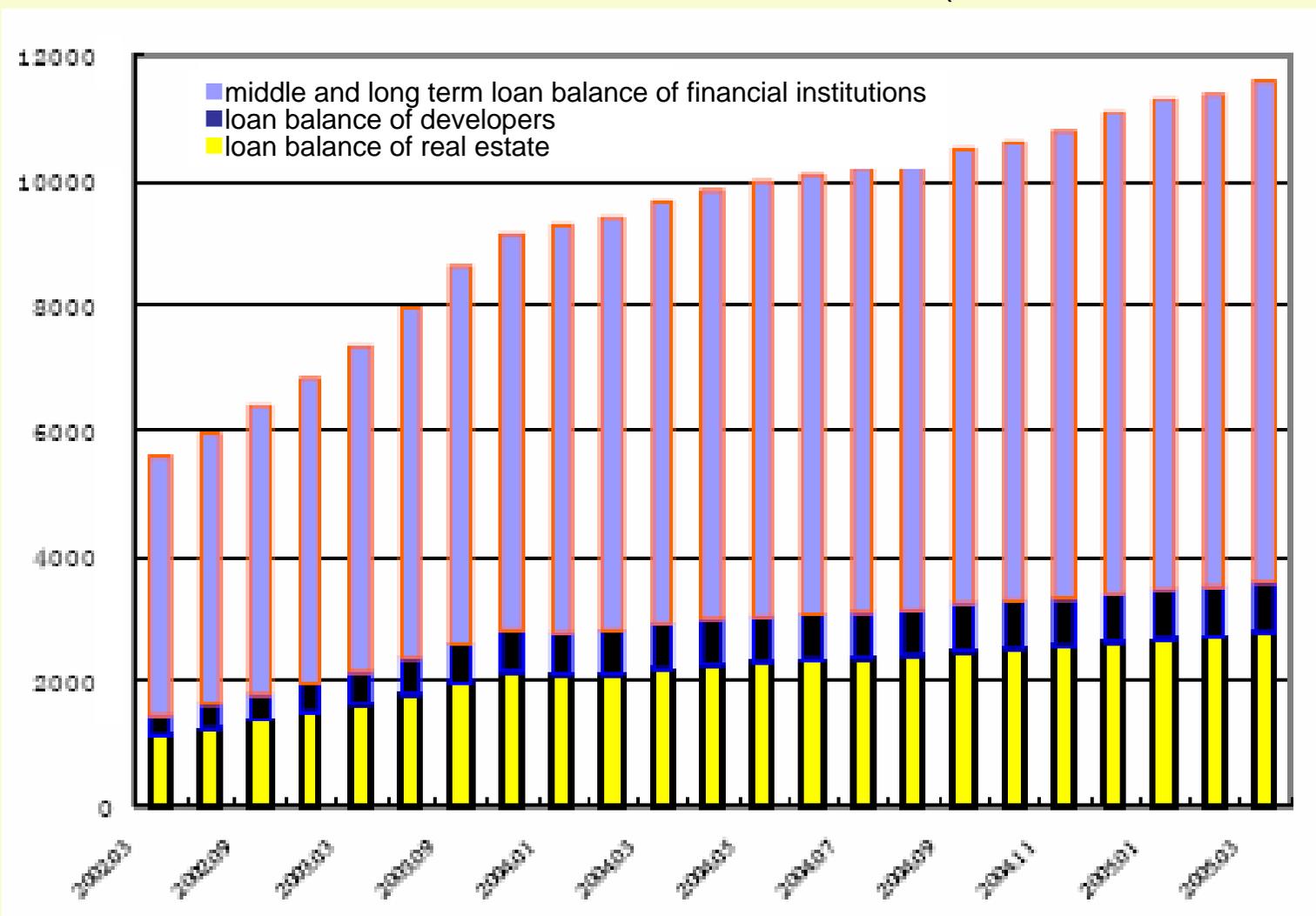
The policies support the growth of real estate industry, relieving the residential demands in China to a certain degree.

The rapid growth of real estate industry in return, has promoted the development of real estate finance.



The ratio of real estate loan balance in the whole RMB loans of financial institutions during 2002-2005

(Balance, Billion Yuan)



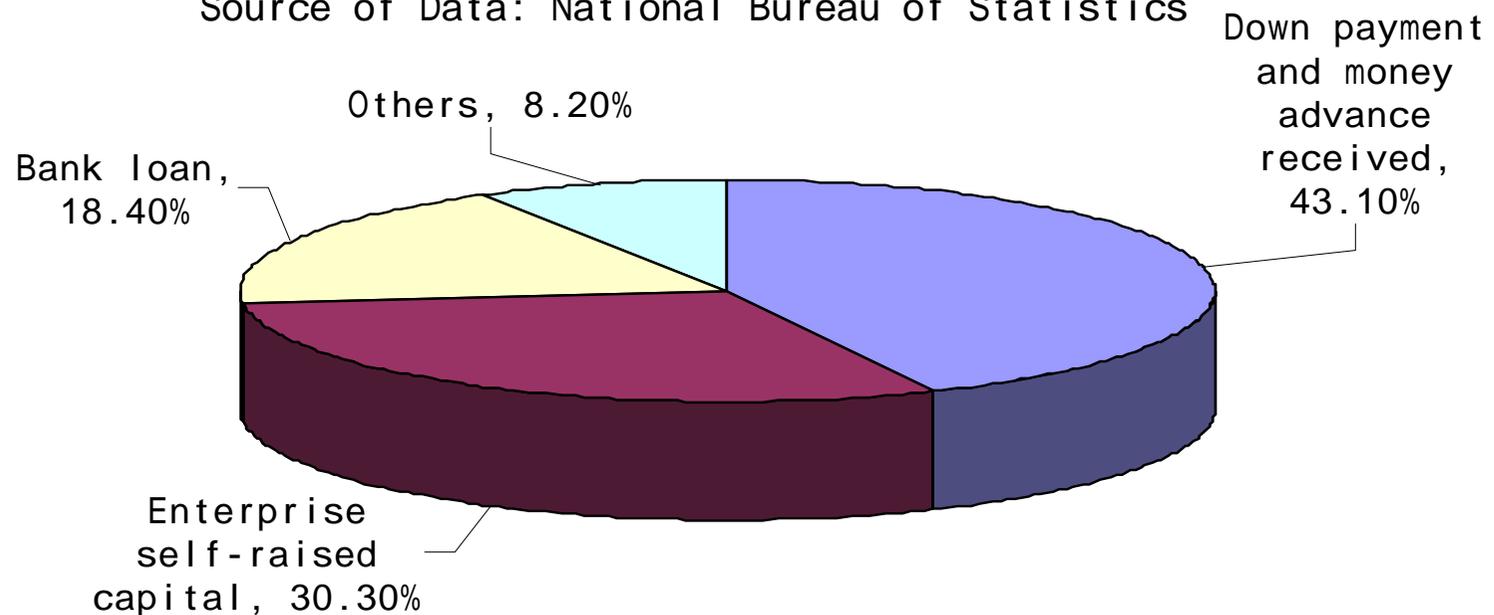


Bank credit and loan is the major source of real estate development capital

- The major source of real estate development capital is down payment and money advance received, enterprise self-raised capital and domestic loans.

Statistics of capital sources of real estate development in year 2004

Source of Data: National Bureau of Statistics

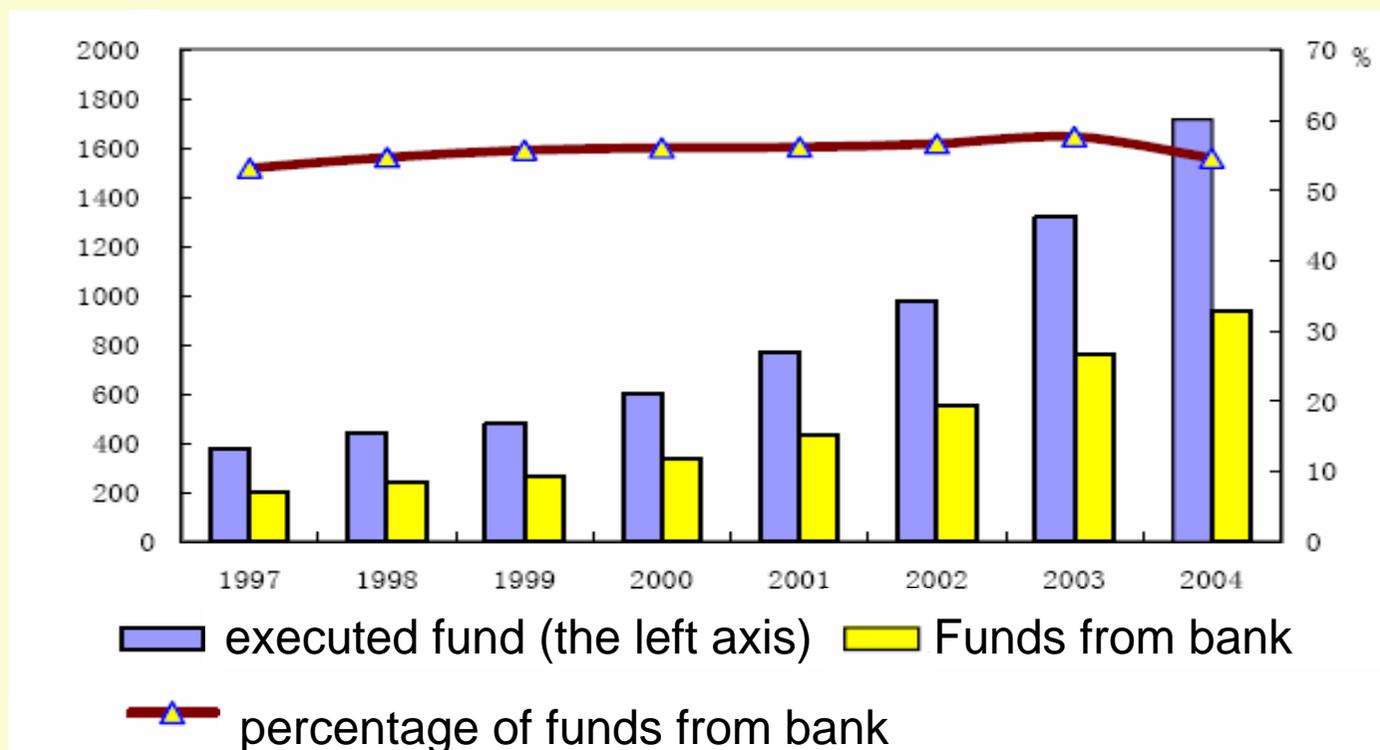




The constitution of capital sources in the real estate development enterprises

- Among the real estate development capital sources, self-raised capital comes mostly from the purchasers' mortgage loans; thirty percent of the “down payment and money advance received” also comes from the bank loans. Thereby the ratio of bank loans in the real estate development is beyond 55%.

Figure : The constitution of capital sources in the real estate development enterprises since 1997 (Billion Yuan, %)





Foreign capitals making entrance into the real estate markets

- Under the impact of rapid increase of housing prices and the anticipation of RMB appreciation, the foreign capitals make entrance into the real estate markets of some hot areas like Shanghai and Beijing through various channels.
- In 2004 the foreign capitals employed in the real estate development amount to 22.82 billion, increasing by 34.2%, which is 1.3% of the development capital.



The growth of direct financing

In the practice of real estate credit policy, the real estate direct financing facilities like stocks and bonds also make some progress. But the financing pattern which gives priority to the indirect financing is still hard to change in a short period of time.

- Equity financing increases, yet with small ratio
- Bond financing continues to decrease
- The real estate investment fund is in the womb of time



- **Part II:**

The growth of secondary market in real estate financing in China

- The secondary market in real estate financing is the market for stock exchange and circulation again. Based on the primary mortgage market, the growth of secondary market can diversify the risk of primary market to a certain degree, and settle the problems of home loans' capital maturity mismatching and liquidity.



The experimental unit of individual housing mortgage-backed securities makes its start

- With the rapid expanding of the real estate credit scale, commercial banks have pressing needs to enhance the fluidity of real estate mortgage loans.
- In February 2005, People's Construction Bank of China became the first ratified bank to provide the individual housing mortgage-backed securities.
- This securitization of the Banks' credit assets which takes Construction Bank as the first experimental unit, is a creative finance project of housing mortgage loans in China.



“Jian Yuan” pushing forward the secondary market of real estate finance

- On December 15, 2005, 3017 million “Jian Yuan”, the individual housing mortgage-backed securities, was successfully issued by the Construction Bank.
- As a fresh new facility for investment and trade exchange, “Jian Yuan” plays positive role in improving the stability of finance system, pushing forward the finance market in China, enhancing the efficiency of finance market, and satisfying the increasing residential demands of people.



•Part III:

Housing policy for middle and low income families

- In order to meet the housing needs of middle and low income family, countries adopted varies policies in house financing. Main countries in Europe and America provide different institutions supplement with policy-oriented house financing, according to respective middle and low income family's house acquiring ability.
- China provides related housing subsidies and financially supportive policies according to family's income status.



Using financial subsidies to meet housing needs of lowest income group

- The government issued The Administrative Regulation on Low Rent Houses for Lowest Income Household in Cities and Town.
- After several years of exploration, Shanghai, Beijing and Chengdu has formulated a primary principle for low rent housing regulations, i.e., Rent subsidies as the key method while houses with low rent as supplement.
- Capital for the low rent houses are channeled mainly through government finance while with other various channels.

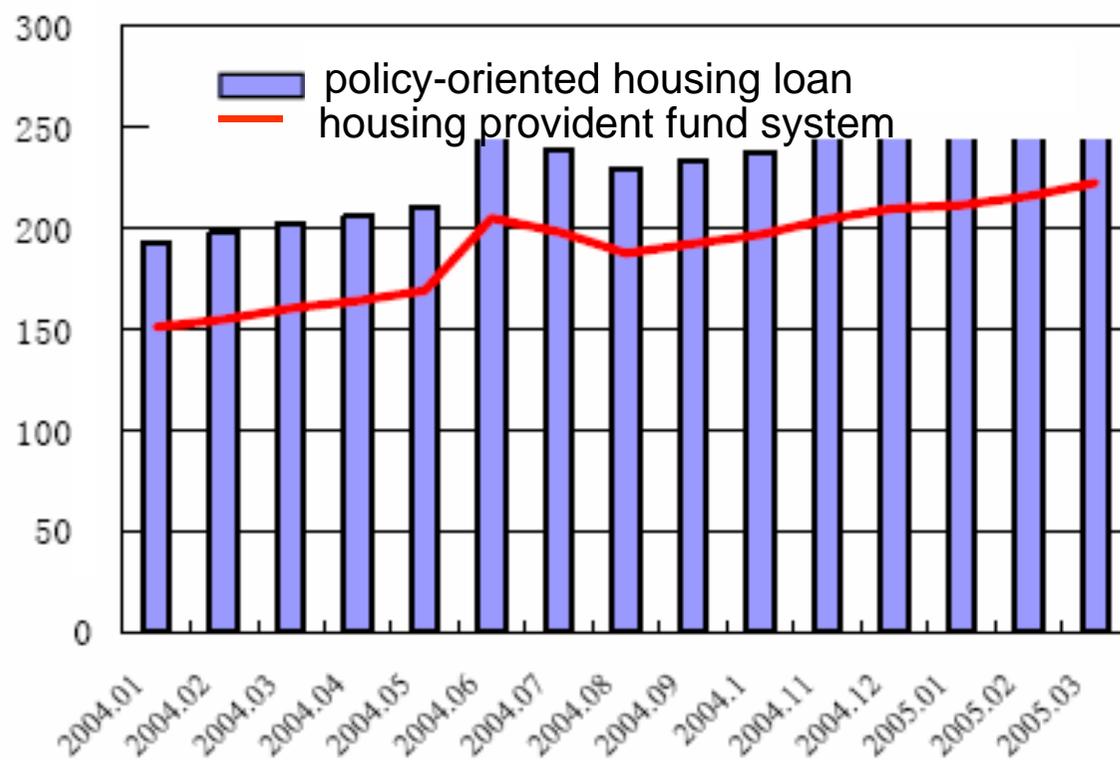


The Housing Provident Fund System

- Financial policy for middle and low income family is mainly policy-oriented housing loan, which is on loans of provident fund for individuals.
- The housing provident fund system is a long-term account set up by employers' working unit whereby a percentage of his/her salary is paid in. Employers can only withdraw or borrow money from the account for purchasing, constructing, rebuilding or redecorating one's own house.
- The provident fund system plays a positive role in pushing forward housing reform, accelerating housing construction, improving people's living environment in cities and towns and enhancing their living standard.



Changes of loans for policy-oriented houses (Billion Yuan)



- Sources: People's Bank of China, The Real Estate Finance Report of China 2004



The differences between Commercial loan and Provident fund loan

On 28th ,April and 8th,May of 2006, People's Bank of China raised rates for both commercial mortgage loans and individual provident housing loans at different levels. Changes in individual rates are smaller than that in commercial mortgage loans, and it is more than 1% lower than that in individual mortgage loan for the same paying period.

| | Commercial loan | Provident fund loan |
|-------------------------------|---|---|
| Rate adjustment | the benchmark lending rate for one-year loans raised by 0.27 basis points | Rates of provident fund loan at different levels raised by 0.18 basis points |
| Rate before adjustment | 5.58% | 1-5 years (including 5 years) , 3.96% 5-30 years (including 30years) , 4.41% |
| Rate after adjustment | 5.85% | 1-5 years (including 5 years) , 4.14% 5-30 years (in cluding 30 years) , 4.59% |



Housing Savings Bank

- Currently, China only have one type of professional real estate financial institutions: housing savings bank. On 15th, Feb, 2004, Sino-German Bausparkasse was established as a joint venture in Tianjin as the only housing savings bank in China.
- Sino-German Bausparkasse provides items for individual house saving. It characterized as saving first, loan later, small savings low loan, fixed rate, flexible buy and rewarded consumption.
- It's most favorable rate of annual loan is 3.3%, which is the lowest rate for individual house loan in China.



Conclusion

- Chinese government has been devoted to building a multi-level and multi-faceted real estate finance market.
- The whole system and its creative service are under continuous improvements, new house finance items targeting groups like low-income family, new job-holding young people are more carefully identified and examined.
- A better real estate finance system will further promote a healthy development of China's real estate market and provide sound conditions to meet housing requirements from middle and low income families.



Thank you.