

On Analysis of the Influence of Interest Rate Changes on the Risk of Real Estate Loans

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Abstract

In recent years, the rapid development of resistance to international financial crisis and achieve economic, state-owned commercial bank credit growth, credit resources are being concentrated in some big customers or monopoly industries, particularly in the real estate industry, which seriously affected the safety and liquidity of bank credit funds, and thus caused to the bank release of the imbalance, structural imbalance, credit risk concentration etc.. With the liberalization of interest rate of our country, but the loan interest rates and deposit interest rate upper limit is limited, the interest rate market is not completely free of. At present, China's real estate market is the scale of investment growth too fast, and the real estate prices, the real estate bubble has been the birth of the trend. Changes in interest rates as one of the important means to control the real estate market, plays an important role in China's current real estate situation, the article studies the relationship between interest rate and real estate credit risk, it is of practical significance for China's current economic situation.

Keywords

Interest rates, Real estate, Credit risk, Influence.

1. Introduction

Real estate industry is an independent industry, it's on the rise and development of industrialization, urbanization and modernization, it is a basic condition for the entire social activities provide an industry. it has brought the important influence on economic, financial, social, and many other aspects. The real estate industry development in China started late, which is called the emerging industry. However, in a short span of 30 years of development, it has gradually occupied very important position in national economy. The rapid development of real estate industry is promoting the growth of real estate financing system. A real estate financing system given priority to with commercial bank credit, capital market, trust and relies on folk lending financing of is forming. Real estate credit provides powerful financial support on the development of the real estate industry, and it's proportion of the entire financial system is rising, the influence is also growing.

2. The influence of interest rate adjustment on the real estate market

Real estate is a capital-intensive industry, it highly dependent to the banking sector. The level of national financial support determines the degree of the development of the real estate market. In 2008, for example, the central bank deposit reserve rate rise to 15.5%, cancel the housing loan preferential interest rate, increasing the minimum down payment for housing loans to control the credit risk of real estate, etc. This has caused us thinking.

2.1 The influence of interest rate adjustment on real estate developers

At present, the financing channel of real estate development enterprises in China mainly depend on the loans of commercial Banks. Interest rates are a reflection of capital use cost rate of determines the financing cost of real estate developers to increase or decrease. The central bank has repeatedly raised the legal deposit reserve rate, this will affect bank's mortgage scale, thus has indirect effects on the source of funds for real estate enterprises.

Loan interest rates rise, for the development enterprise means that the increase of cost, profit margins become smaller, so the enterprise can only develop higher project, the profit margin for those with

low profit margin projects will be eliminated. Visible, a tight monetary policy, can have the effect of reduced investment, so as to inhibit the excessive investment of real estate market. Bank credit, especially real estate credit will affect the price of real estate for a long period of time. Since such narrow if credit scale and business loans difficult, for the single financing channel, poor operating performance of enterprise, increase their management difficulty, and even loss, exit the market. Visible, the adjustment of the interest rate fluctuation is beneficial to promote the development of real estate market evolution, to promote the integration of the resources of the real estate industry.

2.2 The influence of interest rate adjustment on the buyer

Our country real estate market demand is rigid, a rise in interest rates has little effect on the demand for shoppers. However, a rise in interest rates will be in a certain extent, increase the mortgage buyers burden, the current real estate buyers on the market basically has two kinds: one kind is to improve the living conditions of the self living housing; Another kind is to buy real estate investing.

For self living home buyers, improve the living conditions is the main purpose of their purchases, after a rise in interest rates, this kind of buyers repayment amount will increase. While for those who need to buy family house or will buy loans still has to be made, but the original want to buy a house of 100 square meters, now may consider to buy the house of 80 square meters, originally prepared 300000 loan, loan only about 150000 now. For those who have homeowners, the interest rate adjustment will no doubt increase their repayment pressure, led some buyers payment in advance. As consumers expectations of the mortgage costs increased dramatically, so play a inhibitory effect of real estate consumption.

For buyers who buy real estate investment, rising interest rates, increase the cost of financing, which makes a house on investors' expectations of real estate price changes, they can only increase prices, to ensure its recoup their investment principal.

2.3 The use of interest rate policy when regulating the real estate market problems

Because the interest rate policy lag, thus regulating effect needs further investigation. Apply interest rate adjustment of monetary policy, such as the implementation of the macro adjustment, will inevitably exist certain hysteresis. Interest rate policy itself are the main reasons why there is a certain time lag. Adjust the money supply and the interest rate changes through mediation variables in the real estate market, real estate has a certain change. The ministry of construction and the ministry of land and resources as a real estate regulatory authority should be the same as the authority of the central bank monetary policy, not establish data information sharing mechanism, their respective channel data collected by the error is bigger, thus appeared the regulation lag problem.

Due to the large population in our country, and in the process of urbanization, real estate demand, small interest rate changes the demand for real estate, it is affecting the timeliness of interest rate policy. Loan interest rate adjustment will be applied to the real estate market supply and demand both sides at the same time, through the impact of supply and demand both sides to achieve the purpose of the real estate prices. Because the Chinese concept of "people who have their house", [7] reached a certain age, you need to consider to own a house, real estate demand, so for a small interest rate policy adjustment is not sensitive reaction.

For bank interest rates increase the cost of financing increase part, developers tend to raise prices to pass on this part of the interest cost, especially those large real estate companies, they play a leader role in price, they will increase financing costs to the real estate prices, resulting in the real estate prices continue to rise. So to a certain extent offset by the effect of interest rate policy. Therefore, monetary policy in the direction of the regulation on the real estate market there are some limitations.

3. The influence of interest rate changes on the real estate price

3.1 Interest rates on the real estate price impact analysis of the theory of financial market

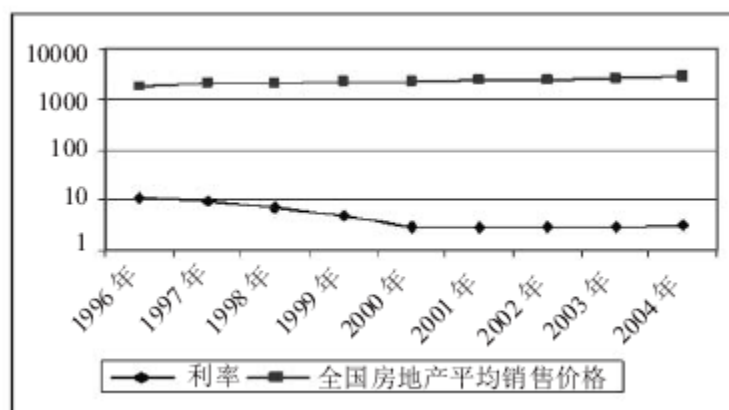
The use of interest rates as money price, it had a greater influence on the change of financial capital. In the mature and open financial market, interest rate changes will affect the flow of capital in foreign exchange market and stock market.

Interest rate changes through the foreign exchange market affect the prices. In the case of other conditions unchanged, rising interest rates in a country's currency will attract foreign financial capital, in the foreign exchange market to form a demand for the currency, pushing interest rates rising currencies. The appreciation of the renminbi makes a lot of international short-term speculative money into China, especially in the housing market. An influx of capital increased the demand for real estate is expected, prices will rise further. When foreign capital to achieve profits or is affected by some emergencies, suddenly pulls out, sell holdings of property, which may lead to a slump in housing prices, even cause the collapse to the real estate market bring great fluctuations.

Interest rate changes through the stock market affect the prices. Rising interest rates affect prices by the securities investment mainly embodied in two aspects: on the one hand, the price of securities, there is dependent relationship between interest rates and rising interest rates will make the stock prices fall, profit is reduced, the higher cost of direct financing of real estate developers, resulting in the real estate product supply to decrease. On the other hand, rising interest rates of securities investors profit decreases, idle fund will switch to other areas with appreciation potential. [8] in general, the value of real estate is relatively stable, the economic development situation, the better, for the greater is the value of the expected high, investors will put money into the real estate market, the increasing demand of real estate speculation, so as to promote real estate prices.

3.2 An empirical analysis of the impact on the real estate price rates

After collecting the relevant data since 1996 in our country, our country the interest rate changes and the real estate sales price trend chart for analysis. From 1996 to 2003, rates of change of real estate price effect is obvious. By below you can see, interest rates, prices rose steadily, both showed a negative correlation relationship.

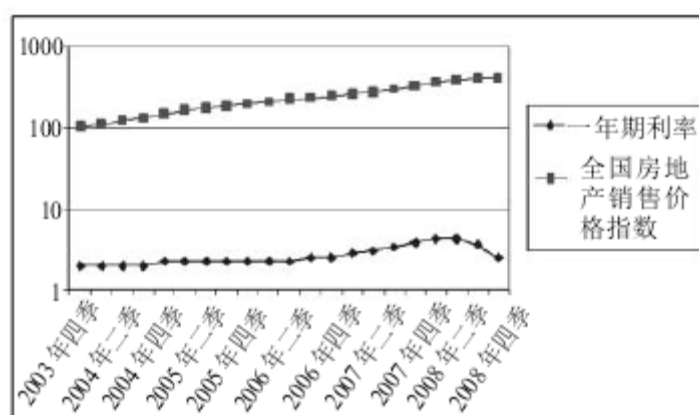


Graph 1: 1996-2003 annual interest rate and real estate prices diagram

In 1996 accounted for only completed half of the total area, sales area of the national commercial housing backlog. During this period, the housing system is in transition, and most people can't change the idea, the solution to the housing hopes on the housing welfare system; During this period, the residents of housing mortgage loan system is not perfect, inhibits some people purchase demand; Coupled with the influence of the 1997 Asian financial crisis to our country economy, people's expectations for the future is uncertain, most people choose to put their money in a bank. Bank savings rate in 1996 more than twice the GDP growth rate, saving rates high. During this period, stimulating domestic demand, stimulating demand is the focus of the national macroeconomic regulation and control. Countries in view of the real estate market demand also issued a series of encouraging policies, promoting commercial housing consumption, for example is put forward to build system of

housing accumulation fund on the basis of the new housing policy. Countries adopt macroeconomic regulation and control policy, adjust the interest rate has become the most appropriate means. Interest rates can not only reduce the developers investment into wood, also can stimulate the demand for real estate. From the perspective of the cycle of real estate development in our country, interest rate showed a negative correlation with the real estate economic fluctuations. Lower interest rates, people by way of deposit interest rate of return will be lower. This will enhance people's consumption demand, so as to make the part of the deposit will tap into the real estate market. At the same time, the loan interest rate is reduced, make consumers of real estate mortgage cost reduction, and also can make part of the loans to the real estate market, this will further increase the purchasing power of the real estate market demand. Practice has proved that our country since 1996, it was by cutting interest rates to stimulate demand and affect the price of real estate.

In the third quarter of 2003-2008, countries have adopted interest rates policy impact on real estate prices is not obvious. As shown in the figure below, interest rates, and real estate as the rising in price, did not achieve good control effect.



Graph 2: 2003-2008 in the third quarter of interest rate and real estate prices diagram

With the deepening of the housing reform and national interest rate monetary policy support, the national real estate market is on the rise. In 2003 through the national real estate development investment is 1 trillion yuan RMB, a 29.7% growth in the; Real estate investment growth 37.6%; The national commercial housing average selling prices have jumped by 4.8%, signs of overheating investment property market began to highlight. Since 2003, the state introduced in view of the real estate market in order to "curb overheated investment, to tame prices," as the core of macro-control policies. Meanwhile, although many frequent raising interest rates but still has not obtained remarkable effect.

4. Conclusion

Interest rate changes have a huge impact on our country's real estate credit, but the impact of the current interest rate policy structure effect is weaker. The main reason is the interest rate transmission mechanism is not smooth, the degree of marketization of interest rate is not enough. The future of the economy is market economy, the perfect degree of the market development has a huge impact on the economy. Combined with the current shortcomings and problems of the interest rate market in our country, we should speed up the marketization of interest rate reform, improve the transmission mechanism of interest rate policy, gradually develop interest rates in a leading role in regulating the real estate price.

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