

# Analysis of Real Estate Asset Securitization and Liquidity from the Perspective of Financial Crisis

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**Abstract:** Asset securitization refers to the behavior of converting illiquid assets into securities that can be bought and sold freely in the financial market to make them liquid. It is a direct financing method through the issuance of securities in the capital market and the money market. It includes four categories: physical asset securitization, credit asset securitization, securities asset securitization, and cash asset securitization. Asset securitization in a narrow sense refers to the securitization of credit assets. According to the different types of assets to be securitized, credit asset securitization can be divided into mortgage-backed securitization and asset-backed securitization. Once a crisis occurs, it will inevitably lead to pessimistic expectations of the subprime mortgage market, which will impact the capital chain of the loan market, and then affect the entire mortgage market. At the same time, the price of the real estate market will continue to fall because of the psychology of house owners to stop losses. The superposition of the two factors forms the Matthew effect, a vicious circle appears, which makes the crisis intensified.

**Keywords:** Financial crisis; Real estate; Securitization; Funds; Flow

## 1. Research background

Through an in-depth study of the financial crisis, it is found that a prosperous real estate market is a common feature before most financial crises. With the in-depth consideration of the occurrence and development mechanism of the financial crisis, the real estate market has an important impact on the importance of finance and macroeconomics. Reinhart and Rogoff (2009) pointed out through an in-depth study of the history of the financial crisis that a prosperous real estate market is a common feature before most financial crises. Before the crisis, from 1995 to 2006, most countries except Germany and Japan had real house prices rising between 50% and 120%. Kuttner's (2012) research shows that changes in interest rates caused by the financial crisis have little effect on housing prices, which is insufficient to explain the sharp rise in housing prices in reality. Shiller (2005) in his book "Irrational Prosperity" successfully predicted the bursting of the "bubble" of US housing prices and the fact that global housing prices have risen for more than a decade. Xu Jianguo (2011) The low interest rate policy in the United States before the outbreak of the crisis has created a low interest rate environment around the world, which has reduced the cost of home purchases by families, prompting families to borrow to buy a house, which has pushed up housing prices.

Through research, it is found that the increase in financing liquidity leads to more intense competition between housing demanders, and the increase in market liquidity increases the level of utility of owning houses, both of which can drive up housing prices. Combined with real estate industry panel data for the past 10 years, real estate liquidity has steadily increased the level of housing prices in various countries. Increased liquidity can push up housing prices, but if a large amount of liquidity risk is accumulated at the same time, the collapse of housing prices in the financial crisis may be related to real estate liquidity risks.

## 2. Analysis and discussion

### 2.1 The stronger the real estate liquidity, the higher the house prices.

The liquidity of real estate financing is closely related to market liquidity. On the one hand, if the liquidity of financing is low, the number of applicants who can enter the real estate market to form effective demand becomes smaller, and they can only sell houses at a lower price, that is, it is more difficult to exchange houses for money (lower market liquidity). On the other hand, if the market liquidity is low, commercial banks will have stricter risk control over the issuance of home mortgage loans, because once the mortgage lender defaults, the bank will recover more losses from the house auction. As banks strengthened their review of applicants' debt-servicing capabilities, it has become more difficult for applicants to borrow money to buy a house, and financing liquidity has declined.

There are three reasons for the rise in house prices: First, the changes in house prices are the same as the money supply, total credit, and interest rate levels. The second is to emphasize the impact of "real factors" such as population structure and income level on housing prices. Third, from the perspective of behavioral finance, it is believed that the irrational behavior and speculative factors of real estate market participants are an important reason for housing price changes.

### 2.2 Real estate securitization and liquidity correlation analysis

The basic idea of liquidity capital asset pricing theory is: asset price contains liquidity premium, as compensation for investors can not be realized in time and low cost, the lower the liquidity, the higher the expected return of securities. There is no doubt that houses are also a special kind of asset. If this theory is applied to the real estate market, it can be obtained that "the liquidity of the real estate

market rises, the price of houses rises.”

Real estate liquidity is defined as the “convenience of housing transactions, which refers to the difficulty of market participants to quickly conduct a large number of transactions without causing large fluctuations in asset prices. Corresponding to the “market liquidity” of the real estate market, it reflects the already owned houses Of households’ convenience to obtain funds through the sale or mortgage of houses, or the size of the houses without loss of liquidity.

The difference between housing and securities assets is quite large. Traditionally, the indicators used to measure the liquidity of the securities market are not suitable for describing the liquidity of real estate. Asset securitization can transfer bank risks by moving housing mortgage loans off the balance sheet. Loose lending conditions mean that the liquidity of real estate financing will increase. Under the premise of a two-way influence mechanism of real estate financing liquidity and market liquidity, the development of asset securitization will eventually improve the country’s real estate liquidity in an all-round way.

Mortgage-backed securitization activities have been in the history of most Western developed countries for more than 20 years, and showed rapid development before the outbreak of the financial crisis, with the possibility of having a considerable impact on real estate liquidity.

For a long time, house price studies have ignored the status and role of real estate liquidity in house price decisions. Liquidity capital asset pricing theory is applied to the real estate market, examining the role of real estate liquidity in promoting housing prices. Real estate liquidity has two interrelated and mutually reinforcing dimensions: financing liquidity and market liquidity. Based on theoretical analysis, based on panel data of the past 10 years, the degree of asset securitization development in various countries is used as a proxy variable for real estate liquidity. Empirical research shows that in controlling monetary factors (base currency, private credit and interest rate levels) and structure Under the premise of sexual factors (population dependency ratio, income level and urbanization rate), real estate mobility still has a significant positive effect on housing prices.

### **3. Risk assessment of real estate securitization and liquidity**

(1)Policy risk: The market is subject to changes due to the adjustment of relevant financial policies, industrial policies, fiscal policies, and related laws and regulations of the implementation, revision, and repeal of the policy. The borrower’s business performance is affected by the policy, its repayment ability is reduced, and the guarantor is also the same Affected by this, the guarantee capacity is reduced. (2) Market risk: Real estate is a highly capital-intensive and relatively high-risk industry. The real estate sector today is highly sensitive to the macro environment and is susceptible to its impact. (3)Credit risk: Affected by the environment of the real estate market, real estate sales did not meet expectations, affecting the borrower and guarantor’s ability to pay, and having an impact on the loan’s scheduled payment. (4)Risk disposal risk: If the borrower cannot perform the payment of the principal and interest of the loan according to the contract, and there is a risk that the borrower cannot be disposed of on schedule or at a predetermined price during the disposal of the collateral. (5)Management risk: During management, there is a phenomenon of loss of funds caused by the management party due to incomplete information collection and acquisition. After passing the risk assessment, the property of real estate enterprises will be more transparent and the financial structure will be diversified.

### **4. ConclusionThis article uses the development degree of asset securitization to reflect the liquidity of real estate.**

Therefore, the conclusion actually made a judgment on the impact of asset securitization on house prices, namely: (1)Asset securitization will increase housing prices by increasing real estate liquidity, and the risks will be more controlled after real estate securitization; if the risks of securitization cannot be handled properly, securitization will become a non-performing asset of the enterprise. (2)Increased financing liquidity means more intense competition for housing demand groups. With a certain supply, house prices will rise; increased market liquidity means that housing holdings can be more easily exchanged for currency. Increasing the end-use effect of the representative’s ownership of the house and raising the price level at equilibrium. (3)Asset securitization will increase housing prices by increasing real estate liquidity. One is that rising liquidity can push up housing prices and also accumulate a lot of liquidity risk; second, the collapse of housing prices in the financial crisis is related to real estate liquidity risk.

### **5. Conclusion**

Reflecting on the financial crisis, we should rationally use asset securitization. To improve the awareness of the risks of asset securitization products, banks should deal with all risks caused by asset securitization in their internal capital adequacy assessment procedures, especially those risks that are not fully captured under the first pillar. . To re-examine the risk weight of re-securitization, banks should use the internal rating method to measure the regulatory capital requirements of asset securitization, and should give higher risk weight to re-securitization risk exposure. Set additional restrictions on external rating measurement securitization capital requirements. Strengthen the supervision of liquidity convenience.

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