

# Analysis on the Current Situation of Channel Business of Real Estate Asset Securitization

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**Abstract:** Since the restart of asset securitization in 2012, under a series of policy incentives and market promotion, the scale of China's asset securitization market has been expanding. However, real estate companies obtain financing through asset securitization channel business to avoid supervision, which will increase the financial risk of the capital market to a certain extent. Looking forward to the future, relevant departments need to continuously strengthen supervision and management, improve relevant laws and regulations, deepen the reform of the financial system and enhance the training of financial professionals, so that real estate asset securitization products can really play a role in promoting the sustainable development of the real estate market.

**Keywords:** Asset Securitization; Channel Business; Real Estate

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## 1. Introduction

Asset securitization refers to the process of transforming illiquid assets with future cash income into securities that can be sold and circulated in the financial market through structural restructuring, so as to finance funds. The real estate asset securitization refers to the asset-backed securities established by restructuring and optimizing the assets of real estate companies that lack liquidity but have stable cash flow, such as house purchase balance and accounts receivable, through structured credit enhancement. Real estate asset securitization business can not only improve the asset portfolio of real estate companies, but also promote real estate companies to obtain diversified financing channels.

However, with the rapid rise of China's real estate prices, the regulatory authorities have restricted the financing channels of real estate companies in order to control market risks, including restricting real estate companies from using asset securitization business for financing. Therefore, in order to evade supervision and obtain financing, real estate companies sell their own accounts receivable and other assets to factoring companies in the "legal sense", while factoring companies assume the role of issuers of asset securitization products and sell the accounts receivable of real estate companies to SPV (Special Purpose Vehicle) to establish a special asset management plan and issue it in the exchange. The setting of the transaction structure is conducive to the review of the real estate company to avoid supervision. In the "legal sense", it does not reflect the financing of the real estate company. In fact, the real estate company and the factoring company will sign a non-public "bottom covering agreement" to ensure that the real estate company will ultimately bear all the risks of asset securitization products. This is the essence of the channel business, that is, the real estate company sells the underlying assets unreal to the factoring company that has no legal relationship with it, so as to achieve the purpose of financing. The issuer of asset securitization products (i.e. factoring company) does not bear the actual legal responsibility, and the real estate company is the ultimate actual risk bearer of the products. There are also deep-seated reasons behind the prevalence of channel business. On the one hand, China's regulatory authorities cannot catch up with the pace of financial innovation in formulating policies, and there are problems of inconsistent rules, systems and standards for similar asset management business, resulting in regulatory arbitrage; On the other hand, in order to avoid regulation and obtain excess profits, enterprises tend to carry out channel and other businesses in financial business in violation of regulations<sup>[1]</sup>. These phenomena not only increase the pressure and cost of risk management of asset securitization business, but also easily step on the red line of systemic financial risk, which needs to be highly concerned by the regulatory authorities.

Therefore, combing the current situation of real estate asset securitization channel business will help us better grasp and understand the financing status of real estate companies and ultimately maintain the healthy and stable development of the real estate market.

## **2.Current Situation of Asset Securitization Business in China**

China began to pilot asset securitization business in 2005<sup>[2]</sup>, but it was interrupted after the subprime mortgage crisis broke out in the United States in 2008. Subsequently, in may2012, the people's Bank of China, the CBRC and the Ministry of Finance jointly issued the notice on matters related to further expanding the pilot of credit asset securitization, which means that the asset securitization business that has been suspended for many years is restarted. By May of 2022, China has issued 8960 asset securitization products since the restart, with a scale of 14.58 trillion. Both the issuance scale and quantity have shown a sustained growth trend.

From a macro point of view, China's financial market is different from the U.S. financial regulatory system. The U.S. financial market implements a relatively unified regulatory model, while China is a separate regulatory system. The banking and insurance industries are supervised by the China Banking and Insurance Regulatory Commission, while the securities and fund industries are supervised by the China Securities Regulatory Commission. As the initiators of the underlying assets include both financial institutions such as banks and non bank institutions such as enterprises, the asset securitization business can correspond to different regulators according to the nature of the initiators. Enterprises and other non bank institutions as initiators of asset securitization products can be divided into two categories. One category is that the issuance and trading of products in the exchange are supervised by the CSRC, which we call enterprise asset securitization (hereinafter referred to as "enterprise ABS"); The other is that the products issued and traded in the inter-bank bond market are supervised by the dealers' Association, which we call asset-backed notes (abbreviated as "ABN").

As the asset securitization products of real estate companies are basically issued and traded in the exchange market, real estate asset securitization is also known as enterprise ABS; Enterprise ABS adopts the filing system audit mode, with the CSRC as the competent department. The issuance mode also adopts public offering and private placement. The issuance and trading venues include stock exchanges, inter agency quotation and service systems of securities associations, and the counter market of securities companies. The public offering mode requires credit rating. The channel business of real estate asset securitization products basically focuses on the mode that real estate companies "sell" supply chain accounts to factoring companies and issue products, so the data collection and research are also limited to this mode.

## **3.Current situation of channel business of real estate asset securitization**

By sorting out, the issuance scale of real estate asset securitization channel products by February 25, 2022 was 880.969 billion yuan, while the total amount of real estate financing issued by the exchange was 2.03 trillion yuan, accounting for 43.50%. However, the channel business scale of factoring companies is not evenly distributed, and different factoring companies show great differences. The top ten channel business scale factoring companies are shown in the figure:

Table 1 Factoring companies with top ten channel businesses.

Name of factoring company	Channel business scale (Billion yuan)	Proportion (%)
Shenzhen Qianhai Yifang commercial factoring Co., Ltd	1729.16	19.63
Shenzhen Qianhai Yifang Hengrong commercial factoring Co., Ltd	1365.57	15.50
Shenzhen Qianhai Lianjie commercial factoring Co., Ltd	1322.77	15.01
Shenzhen bailinhui commercial factoring Co., Ltd	1214.81	13.79
Shenzhen qianhailian Yirong commercial factoring Co., Ltd	394.35	4.48
Shenzhen Qianhai Pingyu commercial factoring Co., Ltd	369.15	4.19
Shenzhen United factoring Co., Ltd	330.51	3.75
Beijing Yifang commercial factoring Co., Ltd	323.85	3.68
Shangjun commercial factoring (Shanghai) Co., Ltd	268.89	3.05
Yikun commercial factoring (Tianjin) Co., Ltd	110.81	1.26
Total	7429.87	84.34

From Table 1, we can see that the channel business of the top ten factoring companies has accounted for 84.34%, while the channel business of the top four factoring companies has accounted for 63.93%. It can be seen that the concentration of channel business is very high, and the risk is also correspondingly increased.

Table 2 Real estate companies with top ten channel businesses.

Name of real estate company	Channel business scale (Billion yuan)	Proportion (%)
Vanke Enterprise Co., Ltd	2645.17	30.03
Country Garden Real Estate Group Co., Ltd	898.49	10.20
Chongqing Longhu Enterprise Development Co., Ltd	669.89	7.60
Jindi (Group) Co., Ltd	478.14	5.43
Shanghai Shimao Construction Co., Ltd	422.64	4.80
Green City Real Estate Group Co., Ltd	332.08	3.77
Xincheng Holding Group Co., Ltd	308.84	3.51
Evergrande Real Estate Group Co., Ltd	237.97	2.70
Shenzhen Longguang Holding Co., Ltd	236.06	2.68
Sino ocean holding group (China) Co., Ltd	197.76	2.24
Total	6427.04	72.95

Table 2 shows the top ten real estate companies that issue asset securitization products for financing through channel business. It can be found that the product scale of the top ten real estate companies is 642.704 billion yuan, accounting for 72.95%, while the product scale of the top five real estate companies' channel business accounts for 58.05%, and the concentration is relatively high.

#### 4. Conclusion

The real estate asset securitization business plays an important role in stabilizing China's financial market and promoting the steady development of the real estate market. The essence of the channel business of real estate asset securitization is a financial innovation tool generated to avoid regulatory policies. If the channel business is allowed to develop, it will increase the financial risk of the capital market to a certain extent. Therefore, relevant departments need to continuously strengthen

supervision and management and improve relevant laws and regulations, deepen the reform of the financial system and enhance the training of financial professionals, so that real estate asset securitization products can really play a role in promoting the sustainable development of the real estate market.

### **Acknowledgements**

Supported by the high level talents start-up fund project of Shanghai Publishing and Printing College.

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