

An Internet post recently disclosed that real estate developers and speculators buy and stock up on properties without paying money. Moreover, bank loans are contributing to soaring housing prices in China, according to the writer.

The posting has prompted quite a stir in online forums. Real estate speculators purchase houses through bank loans and then sell them at a high price to unwitting investors. Alternatively, they keep increasing the price of a house by refinancing the loan—in effect, paying off a bank loan with another bank loan. For each loan transaction, the loan officer receives a commission.

Corruption in the loan industry

Renowned Chinese economist Dr. Cheng Xiaonong said, “The corruption spreads everywhere: Bank staff members all want to get in on the extra cash by processing more mortgages. Eventually, they create teams with the intention of deceiving the bank. Since the bank is owned by the state, they are actually collaborating to deceive the whole country.”

Cheng also said that if a real estate company receives a bank loan of 100 million yuan (US\$14.64 million), the loan officer receives five million yuan (US\$732,000) as a cash commission. Consequently, banks are quite enthusiastic about getting involved and creating hype around the housing market.

“You buy a house to trade for more money, not to live in it. Houses are sold to banks instead of to ordinary people,” according to popular sayings on the Internet.

“The real estate business has become a tool for some businesses or departments to carve up our country’s financial resources,” the post also commented.

Economic concerns

In November 2008, the communist regime adopted a four trillion yuan (US\$586 billion) economic stimulus plan to encourage banks to increase lending. Chinese bank loans have subsequently been on the increase—many of them written for real estate properties.

Dr. Cheng said that an abnormal phenomenon currently exists in Chinese banks. To avoid risks, the banks will only lend to state-owned industries or real estate investors.

“Medium and small business owners, including investors from Taiwan, encounter much difficulty obtaining financing through Chinese banks. Yet these banks have invested huge amounts of money into real estate and mortgage loans, thus creating a real estate bubble. Some bloggers have commented that the real estate bubble in China is the result of a conspiracy between local

How To Buy Houses without Money

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governments, real estate companies, and banks,” Cheng said.

He said that in a democratic country, the failure of a commercial bank would not cause the fall of the government. But the situation in China is different. Because banks are state-owned, a financial crisis would have a domino effect, causing serious economic instability for the entire country.