

# Collateral Disposition of Rural Mortgage Loan: Review of the Recent Literature

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**Abstract:** The difficulty of collateral disposition is the main bottleneck that restricts banks to provide mortgage loans to farmers. To clarify the development status of the agricultural collateral management in China, this paper selects three types of loans: forest right mortgage, rural housing mortgage, and rural land management right mortgage. Then based on various research literatures, this article sorts out and analyzes the mechanisms of collateral disposition and some problems in various regions. I hope this article can provide some references for future research.

## 1. Introduction

The implementation of rural revitalization strategy and the development of rural economy are inseparable from the services of rural finance. However, in general, the supply of funds by rural financial institutions in China is less than the funds needed by farmers for production. The shortage of funds or the difficulty in getting loans has become the major problem restricting the development of rural economy. The main cause of this problem are the lack of effective collateral (Liu, 2009) and the difficulty of collateral disposition.

At present, the methods of mortgage loans for farmers in China mainly include forest right mortgage, rural housing mortgage, and rural land management right mortgage. Forest property mortgage loan is the behavior of forest right holders to use the forest, trees and other forest resources as the collateral to obtain loans from banks (Yang et al., 2019). But due to the particularity of forest right, there are also many risks in forest right mortgage loan, and it is difficult to dispose of collateral (Li and Zhou, 2016). Rural housing mortgage is the loan behavior that takes farmer housing property right as collateral. Rural housing mortgage loan is an important way to alleviate the difficulty of financing. However, due to the limited scope of farm houses transfer and the imperfect assessment mechanism, the collateral disposition is difficult (Zhang, 2019). Rural land management right mortgage is the loan behavior that takes farmland management right as collateral, which can effectively solve the farmers' financing dilemma and improve land use efficiency (Gao, 2019). But there are also difficulties in collateral disposition (Zeng and Du, 2019), such as the excessive cost of collateral assessment (Lu et al., 2019).

Based on this, this article will sort out the disposal methods and problems of three types of collaterals: forest right, rural housing property right, and farmland management right.

## 2. Forest Right Mortgage Disposal

### 2.1 Dispose of Forest Right

As a new financial product, forest right mortgage loans have been gradually developed in various regions of China. However, it is still difficult to use forest rights for mortgage loans (Leng and Wang, 2019). And there are problems such as difficulty in evaluation, identification, and disposition (Kong

et al., 2018; He, 2014; Qiao et al., 2013). Zhang and Xu (2016) believe that although forest right as collateral have certain limitations, they can be circumvented by forest collection. As a national key forest area, Fujian Province was also the first place to develop the forest right mortgage loans (Lin et al., 2017). Forest collection and storage centers were established early in Fujian, and a part of forestry departments adopted "one confirmation, two commitments" mechanism (Chen et al., 2009). The forest collection and storage mechanism developed in Fujian can directly obtain pending collaterals through non-competitive acquisitions when processing collaterals. The cost of this disposal mechanism is low, and it can better reduce the risk of collateral disposition (Liu, 2019). By establishing the forest rights collection and storage mechanism, not only has it effectively eased the difficulty of lending, it has also effectively eased the cost of loans. (Dong et al., 2017). In addition to the mechanism, Sanming City in Fujian has launched the "Fulin Loan", which saves evaluation costs and greatly reduces the cost of collateral disposition (Hong and Fu, 2018). In Fuling County, Hunan, a professional cooperative has been established. Members take their own forest right as counter-guarantee for the cooperatives. The cooperatives also take their own forest right assets as guarantee for rural commercial banks. If there is a non-performing loan, the farmer's forest right will be directly disposed of by the cooperatives (Yang et al., 2019). Similarly, the Huaqiao Village, Zhejiang, through the establishment of a village-level guarantee organization, developed a forest right mortgage for farmers in the form of "forest rights + village-level guarantees." (Jin et al., 2018). In order to regulate forest tenure mortgages, Chongyi County made clear provisions on the supervision and forest right disposition. And established five forest property loan service centers, which effectively broke through the improper evaluation of mortgages. These measures make forest right mortgage a business brand in the county's financial sector (Luo et al., 2016).

## **2.2 Problems**

Xie et al. (2014) conducted a study on the forest right mortgage loans in Zhejiang Province and found that although forest service collection and storage centers have been established in some areas, but in most areas there are still many problems, such as unsmooth forest land circulation, lack of talents for mortgage evaluation, and irregular operation of guarantee institutions. Zou et al. (2016) studied and analyzed the forest property mortgage in Xinjiang Province. Because Xinjiang's forest land is scattered and its area is small, most counties and cities can not establish forest property management service centers, which has led many farmers to contract forest land to others privately. This contracting often underestimate the value of forest right, and it is not good for farmers to increase their incomes. Long and Leng (2017) did a survey about the reform of the collective forest right system and the financial services in Yichun. The results show that the circulation of forest land in Yichun is not standardized, and the non-performing loan ratio of forest right mortgage loans remains high. Similarly, Yu et al. (2012) found that the circulation of forest rights was not smooth and the financial claims were difficult to realize through the case analysis of Fushun City, Liaoning Province.

## **3. Disposal of Rural Housing Mortgages**

### **3.1 Measures**

Sun et al. (2019) analyzed the impact mechanism of the rural house mortgage loans through a dynamic game model. The results show that whether a financial institution provide loans depends on whether it can successfully dispose of the collateral. The greater the probability of successfully disposing of the collateral, the more enthusiastic it is in lending. The current disposal methods of mortgaged farm houses are mainly the establishment of professional collection and storage companies, direct judicial disposal (Du, 2018), appropriately broaden the transfer range of farm houses (Du, 2019), build a trading platform for disposal of farm houses (Zhang, 2014), improve the construction of rural property rights trading platform, do a good job of evaluating the value of farm houses (Liao, 2017), broadening the disposal methods of mortgage farm houses (Li, 2016) and more. Wang et al. (2018) proposed that mechanisms of collateral disposition that are different from urban

commercial housing can be established, and actively try innovative approaches such as collective repurchase, government collection and storage, purchase by guarantee companies, and conversion to affordable housing, so as to improve the success rate of collateral disposition.

There are also many differences in the conditions of rural house mortgage loans and specific disposal measures between various pilot areas in China. A total of 12 banking institutions in Jinjiang City have launched mortgages for homesteads and farm houses, and the cumulative amount of mortgage loans issued 3.5 billion yuan, benefiting more than 31,000 farmers (Wang, 2019). In addition to the basic direct mortgage model, Jinjiang City has also explored an anti-guarantee model and a combined guarantee model. A combination of multiple mortgage models has effectively solved the problem of insufficient collateral assessment. In terms of establishing a sound mortgage logistics relocation mechanism, Jinjiang has mainly adopted two measures. The one is to build the rural property rights trading center and property rights trading system. The other is to develop a pilot mechanism for rural house collection and storage based on policies related to the reform of the rural housing site system. Revitalize the rural assets and realize the circulation of collateral within the village collective through the village collective acquisition or long-term leasing, and the efficiency of the use of farm house resources will be improved (Wang and Hu, 2019). Not only that, Jinjiang Rural Commercial Bank also developed a rural housing mortgage loan called "Farm House Fun", and required that farmers who apply for "farm house" loans must have more than two dwellings or have another house to live after the disposal of mortgaged rural house(Zhang, 2017), which solves the disputes faced by farmers when they are homeless after disposed of the farm houses (Meng, 2019). Huangyuan County has set up a real estate registration bureau to assist banks in recalling loans (Wei and Ji, 2017). Chengdu has adopted a measure called "Yi Bao Yi Tong" to prevent the risk of creditors when disposing of collateral, similar to the "farm house fun" in Jinjiang City, which required the mortgagor to ensure another house to live after disposed of the mortgaged house and the agreement of the village collective economic organization (Shi, 2018; Meng, 2019). Wuhan introduced professional appraisal agencies and experts to evaluate the value of collateral, which has increased the authority of evaluation (Chen, 2019).

### **3.2 Problems**

Xu (2017) analyzed the "Yueqing Model" and found that although Yueqing has formed a relatively complete system for disposing of mortgaged farm houses, there are still obstacles in the process of disposal and realization. Xue et al. (2019) found that the rural house mortgage loans still lacked policies and measures for collateral disposition in Ruian, and the financial reforms had more problems than results.

## **4. Disposal of Rural Management Right Mortgage**

### **4.1 Measures**

Although there are large differences in the mode of agricultural land disposal in each pilot area (Wang and Guo, 2016), in summary, there are three forms of collateral disposition: transfer, alteration and realization (Ma and Li, 2016; Wang et al., 2019). Disposal strategies include "pre-disposal" of collateral before lending (Li et al., 2016), establishing a new type of agricultural business entity association as the mortgaged land management agency (Tong and Jiang, 2016), using companies for collateral disposition or entrust professional intermediaries to circulate (Yang, 2016), disposing through professional rural property rights collection and storage company (Niu, 2017; Ji, 2018), using third-party organizations to achieve effective disposal of mortgaged farmland based on acquaintance social governance mechanisms (Chen and Gao, 2018) and multilateral cooperation and joint disposal (Zhao et al., 2015; Wu et al., 2018; Yan, 2018) and so on. Among the pilot regions in China, Tongxin County has launched the mortgage of farmland management rights earlier, and has successfully operated for more than ten years (Wang and Guo, 2016). The "concentric model", that is, using land cooperatives as mortgagors of farmland mortgages and guarantors of farmers' loans, can reduce transaction costs and promote the contracting of farmland mortgage loans(Gao and Chen,

2018). Anyi County adheres to the market-oriented operation as the driving force to solve the problem of collateral disposition (Luo and Lei, 2016). Family farms in Jiangsu have higher demand for rural land management right mortgages (Lin and Yu, 2016). In order to smoothly dispose of collateral, on the one hand, it is necessary to establish a collection and storage mechanism of agricultural land to be disposed of, On the other hand a higher-level farmland transfer centers and online transfer platforms can be established (Dai et al., 2015), a market transfer mechanism for agricultural land management rights can be improved, and the specialized and market-oriented land value evaluation agencies can be established (Chen and Wu, 2019). Heilongjiang Province has formed a model of direct mortgage registration of land management rights with the government as the guarantor, and a counter-guarantee model with social capital as the guarantor, and a counter-guarantee model with a new type of business guarantor (Gu, 2019). These make the collateral disposal more effective, and also guarantee the security of credit funds(An, 2019).

## **4.2 Problems**

Lin (2015) found through the case analysis of Zaozhuang City that none of the collateral disposition was successful after the mortgage loan default. Chen (2019) found that the operating efficiency of the agricultural land transfer system in Nanping was not great, the ratio of mortgage registration was low, the platform transactions were not active, and lack of authority in collateral assessment. The collateral disposition mechanism needs to be further improved. Gao (2019) took Taigu County as an example, and found that even if a rural property exchange has been set up, it still takes a lot of manpower and material resources in the process of realization, so the disposal of collateral is difficult. Wu (2017) analyzed the typical cases of Peixian agricultural land company and found that in practice, whether it is the innovative mode or the ordinary mode, the mortgage value of agricultural land management right cannot be reasonably evaluated, and some risk-share mechanisms are difficult to implement. Zhu et al. (2019) found that Deqing County has set up some third-party evaluation units, but several of them are not local enterprises in Deqing County. Therefore, the current valuation mechanism for the transfer of agricultural land management right is still not in place, and the assessment results have low levels of credibility. In the process of collateral (rural land management right ) disposition, financial institutions such as farmers and rural credit cooperatives will generate livelihood risks and financial risks (Hui, 2018). It is difficult to dispose of collateral and the corresponding risks. And as the legal risk of the mortgage of farmland management right is lifted, the scale of loans will gradually increase, and the involvement of third-party resolution agencies will lead to more potential risks (Deng, 2018).

## **5. Conclusion**

This article reviews the disposal methods and some problems of mortgages in forest property mortgages, rural housing mortgage, and rural land management right mortgages, and finds that these three types of mortgages have many common points in the process of disposal. The three types of collateral disposition methods are summarized as the establishment of collateral collection and storage centers, the improvement of the transfer platform, the improvement of the collateral evaluation mechanism, and the entrustment of three-party companies for disposal. Various provinces and cities have also introduced different financial products and different financial measures to solve the problem of collateral disposition. However, after analyzing the cases in different regions, scholars found that there are still some obstacles and problems in the actual circulation and disposal of collateral. Therefore, this article also sorts out some problems in some cases in order to provide some references for future research.

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