

Establishment of the e-Government System for Real Estate

Mortgage Registration

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SUMMARY

Since the 1980s, with the development of real estate market in China, the commercial banks have provided powerful fund support for property developer and individual housing demand. Up to 2005, the accumulation of urban individual Housing Mortgage Loans (*HML*) which were delivered by commercial banks amounts to 1.84 trillion RMB. According to the provisions of the Act in China, Real Estate Administration Department (*READ*) is charged with managing the real estate mortgage registration being essential procedure for mortgagor to gain mortgage loans. Viewing from present flaws in e-government functions and the public demand for effective e-governance, this paper focuses on establishing e-Government System for Real Estate Mortgage Registration (*e-GSREMR*) with characters of openness, convenience, advance alarm control and service-oriented. The system facilitates incorporating different information resources in all relevant departments constructively so as to achieve on-line registration, advance info-notification, rule-breaking operation alarm and so on. It will enable government to serve the public more effectively and to monitor real estate market more successfully.

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1. ANALYSIS ON CURRENT SITUATION OF INDIVIDUAL REAL ESTATE MORTGAGE REGISTRATION IN CHINA

1.1 Current Situation of Individual *HML* in China

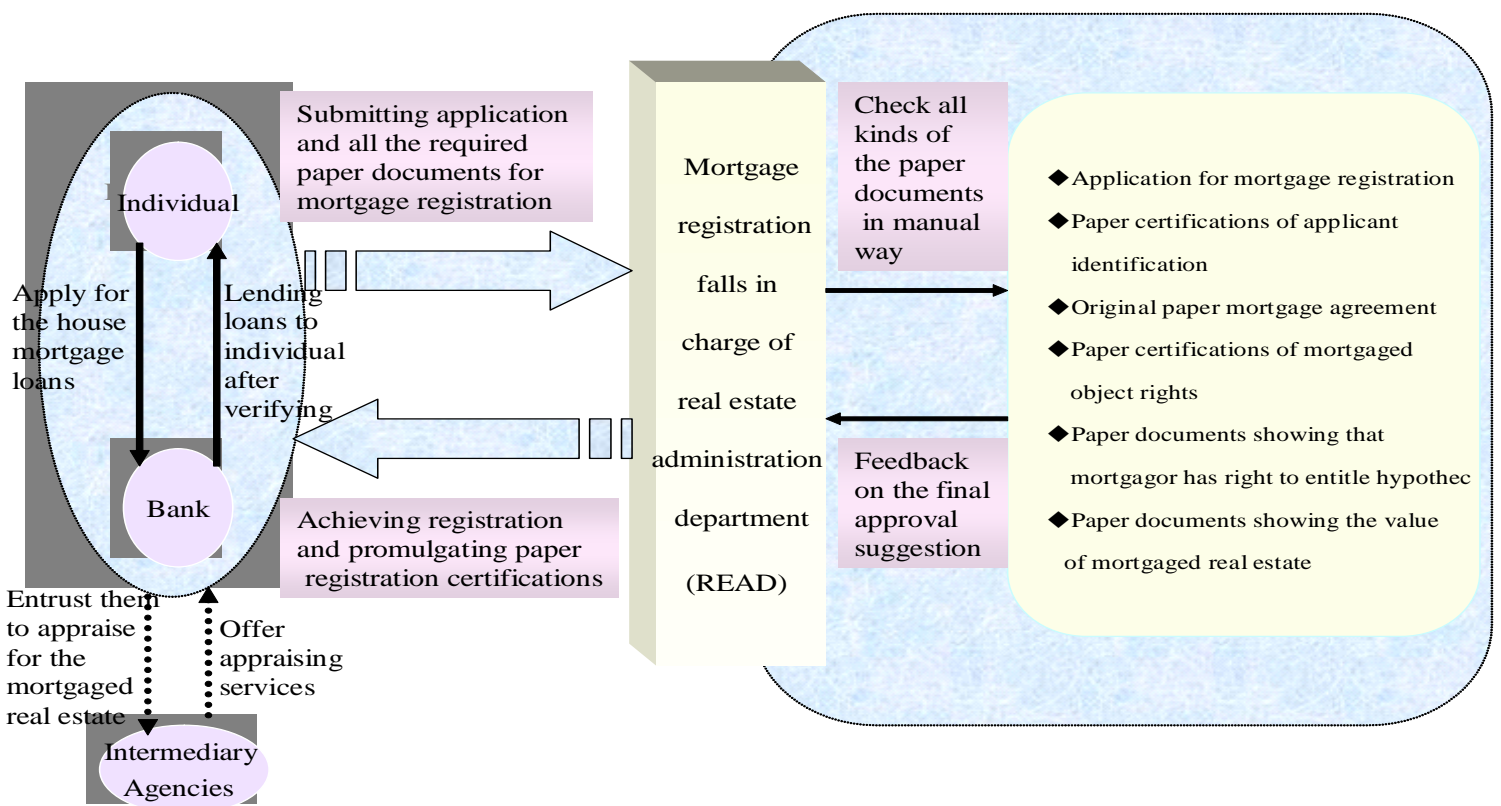
According to the statistics of Bank for International Settlements (BIS), up to the end of 2005, apart from the scale of Chinese housing loans market ranking first in Asia, the accumulation of urban individual *HML* which were delivered by commercial banks amounts to 1.84 trillion RMB roughly accounting for 10% of Chinese GDP.

The rapid development of individual *HML* market causes the quantities of real estate mortgage registration to rocket up. That means more registration services from government will be needed by the public. Taking Beijing for example, the *Beijing Real estate Mortgage Administration Law* was promulgated by the Beijing people's government in 1994, stipulating that *READ* takes charge of real estate mortgage and real estate mortgage registration system comes into execution. From 2002 to 2005, the annual quantities of mortgage registration in Beijing real estate Registry were averagely 50,000 to 60,000, while the figures rose to several ten thousand in 2006. Undoubtedly, the real estate mortgage registration has become an important public service provided by government.

1.2 The Major Steps of Achieving Individual Real Estate Mortgage Registration

Gaining individual *HML* is a financing activity involving banks, developers, house-buyers and other relevant intermediary agencies. China practices the real estate mortgage registration system to protect legitimate rights and interests of mortgage parties concerned. There are at least two kinds of basic law effect with mortgage registration: 1) enables mortgage agreement to take effect and provides a priority claim for the registered mortgage agreement according to the sequence of registration time; 2) gives the public notice concerning registered hypothec to reveal the change of mortgaged object rights. The previous entitled hypothec could be taken into consideration when transaction on such mortgaged object occurs, in other dealers' favor to make reasonable anticipation.

According to the provisions of the Act on Urban Real estate Mortgage Administration Promulgated by Ministry of Construction in 1997, READ implements virtual-examination system on real estate mortgage registration. That requires following documents to be verified by the Registry when mortgage parties apply for mortgage registration: identification certifications of the mortgage parties, mortgage agreement, property rights certifications (such as State-Owned Land Use Rights Certificate, House Ownership Certificate or Real Estate Property Certificate), evidences showing the mortgagor has right to entitle hypothec and documents concerning value of the mortgaged property. All above paper documents should be examined and checked one by one in the Registry before achieving registration. (Illustrated by Graph I)



Graph I: the process of registering individual real estate mortgage at present

1.3 The Primary Problems of Registering Individual Real Estate Mortgage at Present

1.3.1 Poor Efficiency of Achieving Real Estate Mortgage Registration

After receiving application of mortgage parties, the registrar has to examine all the submitted paper certifications and documents one by one to avoid omissions or errors. However, apart from the limited government staff and heavy tasks of examining all the paper certifications, it is also time-consuming and difficult jobs to reach verification of registration. Therefore, the accuracy of registration is easy to be affected in some degree.

With the matters of fund and technology, Chinese *READ* has not set up universal property rights oriented database. When applying for registration, thus, the mortgagors have to submit all kinds of original paper certifications promulgated by *READ*. Needless to say, this redundant procedure brings about unnecessary troubles to the applicants.

Some webs in *READ* have achieved submitting some materials on line (e.g. *Requisition of House Mortgage Registration* and *Attached List on House Condition*). This has been changed past trivial procedure requiring mortgage parties not only to go to office drawing and filling in related tables but also to make delivering returning. Some convenience may be given to mortgage parties in this way, but essential on-line registration services have never been present. In fact, mortgage parties still need to arrive in government department to get through related procedures many times resulting in a waste of time and traffic cost.

1.3.2 Information Delivered from Mortgage Registration is too Simple

Currently, the websites of *READ* can provide mortgage parties with some useful static information, including official bulletin, policy and regulation on mortgage registration, offices and branches arrangement, guidelines and instructions for affairs handling and so on. But *READ* has not set up the information system to transfer series of changeable and fresh information belonging to handling mortgage registration, for instance processing status, results of examining, reasons for failing in verifying. Obviously, the info-demand of mortgage parties is far from being fulfilled.

1.3.3 The Function of Rule-breaking Operation Alarm in Mortgage Registration is still in absence

Mortgagors intend to borrow HML from mortgagees while mortgagees expect to lend HML to mortgagors. Therefore, the private interests or some certain intentions of mortgage parties often cause rule-breaking operation or wrong operation in Registry even some legal dispute. The key point lies not only in that the submitted paper documents can't reveal all the required

registration information completely but also in that some paper certifications are counterfeit. In addition to the Registry being faced with more difficult tasks of assuring registration result correct, the effect of risk alarm from mortgage registration will be impaired.

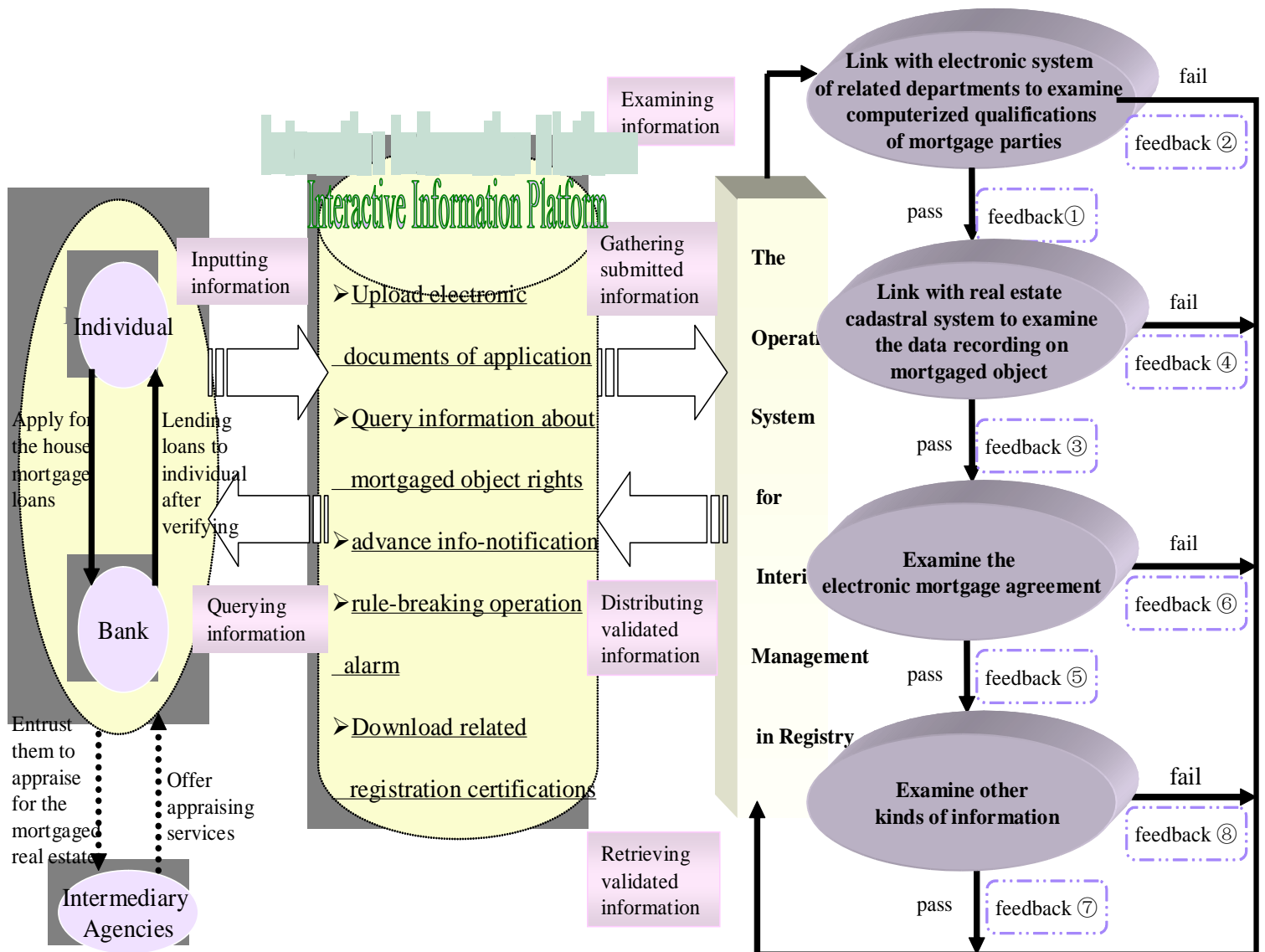
The causes of rule-breaking and wrong operation in Registry fall into several aspects as following:

- Qualification of mortgagor: the mortgagor provides the Registry with forged I.D
- Rights of mortgaged object: the mortgagor provides the Registry with forged property certifications or mortgages the same real estate to different commercial banks many times leading to the amount of mortgage loans exceeding the true value of mortgaged object greatly.
- Price of mortgaged object: being bribed by the mortgagor, the assessors intentionally distort the true value of mortgaged object by raising or reducing the appraisal price in illegitimate way.

2. ESTABLISHMENT OF THE E-GOVERNMENT SYSTEM FOR REAL ESTATE MORTGAGE REGISTRATION (E-GSREMR)

Part 1 above has paid attention to the current situation of real estate mortgage registration in Chinese *READ*. The next part will focus on establishing *e-GSREMR* which is based on the characteristics of mortgage registration, the public demand for mortgage registration and some beneficial experience of land e-government in other countries and areas.

E-GSREMR consists of tow parts: one is the public-oriented interactive information platform (*IIP*); the other is the operation system for interior management in Registry. *IIP* enables mortgage parties to submit all the related documents and to query information on line. On the other hand, interior operation system gives registrars access to achieve mortgage registration on line. All the verified information will be distributed to *IIP*. (Illustrated by Graph II)



Graph II: The processing of *e-GSREMR*

Detailed feedback information in advance info-notification is displayed as follows:

- Indicating “pass identification examination of mortgagor” and other information such as mortgagor’s name, type and number of certifications, mortgagor’s characters (e.g. the mortgagor is local citizen) and so on;
- Indicating “fail in identification examination of mortgagor” and the related reasons (e.g. forged I.D);
- Indicating “pass mortgaged object examination” and other information such as occupied area of mortgaged object, property status, and mortgage value and so on;
- Indicating “fail in mortgaged object examination” and the related reasons (e.g. the

property of mortgaged object has been attached with some restrictions such as titling hypothec is not permitted);

- Indicating “pass mortgage agreement examination”, and other information such as number of mortgage agreement, occupied area of mortgaged building and mortgaged part, loans amount and so on;
- Indicating “fail in mortgage agreement examination” and the related reasons (e.g. the precious sum of mortgage loans has exceeded the largest permitted amount);
- Indicating “pass other kinds of information examination” and final verified suggestion;
- Indicating “fail in other kinds of information examination” and the related reasons.

2.1 Characteristics of *e-GSREMR*

2.1.1 Open

All kinds of computerized qualifications will be examined in *e-GSREMR*, such as identifications of mortgage parties or juridical corporate capacity and electronic mortgage agreement. Therefore, basic on data resources in this system, the Registry can share interactive information of registration with all interior branches, other government departments, or the public.

2.1.2 Convenient

All registration documents can be processed in the form of electronic date in *e-GSREMR*. With the aid of the system, applicants are able to submit related documents on line while the Registry gathers property rights information of mortgaged object in interior property rights file database and receives validated information from other government departments, achieving online mortgage registration. In addition, mortgage parties can download related registration certificates according to individual needs. The *e-GSREMR* does a favor for *READ* to link with required digital recording documents rapidly and accurately, contributing to decreasing the possibility of wrong registration and improving the efficiency of registration examination.

2.1.3 Services-oriented

The *e-GSREMR* makes it available to connect HML-hunters, banks, government Registry and other mortgage registration information supplier to provide information serves for the public. Employing this system to query contents, standards and procedures in each step of examination, mortgage parties can not only grasp the fresh and latest information about status of registration, but also enjoys 24 hours online registration services. The public can also search for related information about rights of mortgaged object in this system in order to

make reasonable anticipation on transaction consequence.

2.1.4 Advance Alarm Control

Holding the function of rule-breaking operation alarm, the e-GSREMR enables READ to catch alarm information in time, thus the registration result will be more accurate and more impartial. At the same time, mortgage parties will receive the feedback on alarm information from READ so that they can make full understanding about status of mortgaged object to avoid mortgage risk.

2.2 The Main Steps of Processing Mortgage Registration in e-GSREMR

Mortgage parties submit mortgage registration application and related information to e-GSREMR where READ will provide registration services on line.

- Qualification examination of mortgage parties: *READ* links with other government departments by *e-GSREMR* to examine the digital certifications of either individual ID or juridical corporate capacity of mortgage parties. Then *READ* distributes validated information to *IIP*;
- Mortgaged object examination: Using interior property rights and cadastral information system, *READ* checks related data recordation about mortgaged real estate, including location, name, condition, use, building area and boundary, occupied land area, value, other rights status and so on. Registry need to check whether the contents in submitted documents are in full conformity with the records in system and whether there are some restrictions on mortgaged real estate rights. Then *READ* distributes validated information to *IIP*;
- Mortgage agreement examination: Registry checks information in electronic mortgage agreement submitted by commercial banks, involving mortgaged part and building area, mortgaged object value, mortgage rate, mortgage limitation, loans amount and limitation. The Registry also needs to verify whether mortgaged real estate has been entitled hypothec many times. Because such real estate should be given further examination on whether the mortgage loans amount involving current mortgage loan will exceed the whole value of mortgaged object. Then *READ* distributes validated information to *IIP*;
- Other information examination: *READ* checks other kinds of information on mortgaged object and then distributes validated information to *IIP*;
- Advance info-notification: Making use of *e-GSREMR*, *READ* sends advance info-notification of registration to applicants while mortgage parties query status of

registration on line.

2.3 Primary Functions of e-GSREMR

2.3.1 On-line registration

Mortgage parties will enjoy on-line registration services from *e-GSREMR*, so they can complete mortgage registration on Internet without restriction of time and location. To thank for great development of Chinese computer network technology nowadays, e-government system has been built gradually. As a component of e-government system, *e-GSREMR* facilitates a wide variety of users ranging from government to banks, property developers, mortgagors and the public to link with each other on such open platform. Mortgage parties submit all the mortgage documents on Internet. On the other hand, according to real estate cadastral file database and e-government system on the *e-GSREMR* platform, *READ* checks information of mortgagor, mortgaged object, mortgage agreement and other conditions and then sends feedback of examination in each step to mortgage parties, achieving on-line real estate mortgage registration. This has much to do with both improving efficiency of registration and saving social cost.

2.3.2 Advance Info-notification

Advance info-notification function of e-GSREMR will put mortgage registration status into the open so that working efficiency of the Registry could be supervised by mortgage parties and the public. After receiving the on-line registration application from mortgage parties, *READ*, with the aid of the system, examines all the information concerning mortgaged object including qualification of mortgage parties, mortgaged real estate condition, mortgage agreement and other conditions. By advance info-notification, the feedback of examination in each part can be send to mortgage parties promptly if queried on line. When the examination in some part has been completed, advance info-notification will display the validated result; when some submitted information fails in examination in certain part, advance info-notification will display the related reason to help mortgage parties clearly know what's the matter occurring in examination and find solutions in time; when all submitted information passes examination, advance info-notification will display final approval suggestion to demonstrate accomplishment of registration.

2.3.3 Rule-breaking Operation Alarm

The Rule-breaking operation alarm function of *e-GSREMR* is designed for avoiding the influence of rule-breaking operation in the process of mortgage registration. Five alarm indicators are chosen in order to bring alarm function into work. They are as follows:

identification card of mortgagor, certifications of property rights on mortgaged real estate, frequency of entitling hypothec and mortgage rate, appraised price of mortgaged real estate, and past credit recording of mortgage parties. When some indicator goes beyond standard range in the course of examining, the system will send out alarm information promptly to draw registrar's attention and to give feedback to mortgage parties so as to help them defend risk from mortgage and economic losses.

The list of rule-breaking operation alarm Indicators

<i>Alarm Indicators</i>	<i>Results of Examining</i>	<i>Degree of Alarm</i>	<i>Disposal in the System</i>
Identification card of mortgagor	Genuine	No alarm	Normal
	Counterfeit	Serious alarm	Issue alarm information
Certifications of property rights on mortgaged real estate	Genuine	No alarm	Normal
	Counterfeit	Serious alarm	Issue alarm information
Frequency of entitling hypothec and mortgage rate	Entitling hypothec the first time and according with standard on mortgage rate	No alarm	Normal
	Having entitled hypothec many times but according with standard on largest permitted loans amount	Slight alarm	Display prompt
	Having entitled hypothec many times and going beyond standard on largest permitted loans amount	Serious alarm	Issue alarm information
Appraised price of mortgaged real estate	Fluctuating within normal range	No alarm	Normal
	Being higher or lower than the normal in some degree	Slight alarm	Display prompt
	Being too high or too low	Serious alarm	Issue alarm information
Past credit recording of mortgage parties	With no flaws	No alarm	Normal
	With flaws	Serious alarm	Issue alarm information

3. CONCLUSION

Due to the problems lie in the registration services provided by Chinese READ, such as the time-consuming period, poor efficiency, with too simple information to display and absence of rule-breaking operation alarm control function, the image of government has been shaded in certain degree. The public is crying for more directly and more convenient public services from government. The essence of establishing e-GSREMR concentrates on improving efficiency and quality of registration services for the public from technology perspective. The system will set up IIP where Registry communicates with exterior service-holders. Thanks for this platform, the public can catch all related mortgage registration information, intercommunicate with the government departments and obtain the on-line services. The functions of on-line registration, advance info-notification, rule-breaking operation alarm in this system will solve problems concerning poor efficiency and existing risk in current mortgage registration. Therefore, it will be beneficial for enhancing management of mortgage registration in government department, safeguarding the legitimate rights and interests of mortgage parties, defending financial risks and improving the ability of government to serve the public.

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