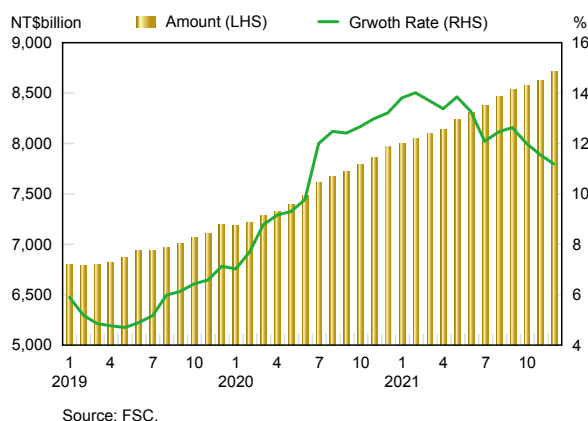
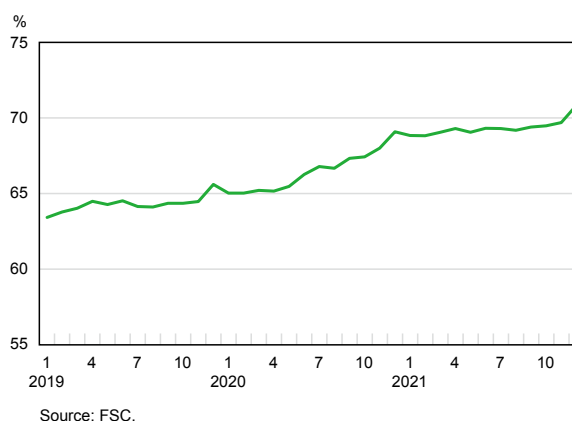


Outstanding Loans Extended to SMEs



Ratio of Outstanding Loans Extended to SMEs to Those Extended to Private Enterprises



Accepting Redeposits from Financial Institutions

Accepting redeposits from Chunghwa Post, the Agricultural Bank of Taiwan, and commercial banks is another instrument for the Bank to influence banks' reserve positions in order to promote financial stability. At the end of 2021, the outstanding redeposits of Chunghwa Post stayed broadly unchanged at NT\$1,624 billion, while the outstanding redeposits of the Agricultural Bank of Taiwan and of commercial banks were NT\$165 billion and NT\$354 billion, respectively.

Box

Selective Credit Control Measures: Implementation and Results

Pursuant to *The Central Bank of the Republic of China (Taiwan) Act*, the Bank is authorized by law to adopt selective credit control measures in order to foster financial stability. Since the second half of 2020, the domestic housing market had been gathering steam and a decline in mortgage lending standards had also begun to show in some banks.

To promote financial stability and sound banking operations, to urge banks to carefully consider mortgage loan purposes and borrower status as per the directive of "efficient allocation and proper use of credit resources" under the government's Healthy Real Estate Market Plan, and to curb bank credit resources from flooding the real estate market, the Bank implemented selective credit controls on four occasions (December 2020, and March, September, and December 2021) – by amending the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*. The actions were aimed at strengthening bank management of credit risks associated with real estate lending and preventing credit resources from being used for property hoarding. They have since produced good results, with the LTV ratios significantly brought down for the regulated loan types.

I. Implementation of the selective credit control measures

1. Introduction and amendments

(1) December 2020

The Bank noticed that there had been a disproportionate concentration on banks' real estate lending – which could draw investment away from productive economic activities and hamper sound allocation of credit resources – and an uptrend in housing loans and construction loans. In this view, the Bank sought to rein in housing loans extended to natural persons buying multiple homes and those to corporate entity homebuyers, to stop bank credit from being used for hoarding undeveloped land, and to strengthen loan standards for unsold housing units. To that end, the Bank introduced selective credit controls on housing loans to corporate entities, on new housing loans to natural persons already with two or more outstanding housing loans, on land loans, and on loans for unsold housing units, all four of which would also serve as uniform regulations to facilitate compliance among financial institutions.

(2) March 2021

While real estate lending continued to exhibit fast growth, corporate entities also showed a more pronounced tendency to buy multiple homes and to flip them for profit within a short time span. Accordingly, the Bank amended the selective credit control measures, including lowering the LTV ratio caps on housing loans taken out by corporate entities and on high-value housing loans, and adjusting LTV ratio caps for natural person homeowners according to the number of outstanding housing loans they already had. In addition, the Bank aimed to promote the development of industrial land lots by introducing new restrictions on loans collateralized against idle land in industrial districts.

(3) September 2021

To preempt an inordinate credit flow into the real estate sector for speculation and restrain related credit risk, the Bank took the precaution of adjusting credit controls, including imposing new restrictions on the second (or more) housing loans taken out by natural persons for homes in the designated "specific areas,"¹ to help contain overleverage and strengthen banks' credit risk management. The Bank also lowered the LTV ratio ceiling on land loans to curb them from an excessive surge. In addition, to urge land loan borrowers to begin construction promptly after land acquisition, the Bank thus stipulated that the "specific time frame" condition for idle industrial land mortgage loans to be exempt from the restrictions shall be one year.

(4) December 2021

In light of a still marked concentration of real estate lending in banks' loan positions, further amendments were made to ensure bank credit resources were under robust management and

¹ Including Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

Key Points of the Adjustments of Selective Credit Control Measures

Type of loans		LTV ratio caps and others (date: mm/dd/yyyy)			
		12/08/2020 - 03/18/2021	03/19/2021 - 09/23/2021	09/24/2021 - 12/16/2021	12/17/2021 -
Corporate entity	First housing loan	LTV cap: 60%; No grace period	LTV cap: 40%; No grace period	(unchanged)	(unchanged)
	Second (or more) housing loan(s)	LTV cap: 50%; No grace period			
Natural person	High-value housing loan in addition to two (or less) outstanding housing loans	LTV cap: 60%; No grace period	LTV cap: 55%; No grace period	(unchanged)	LTV cap: 40%; No grace period
	High-value housing loan in addition to three (or more) outstanding housing loans		LTV cap: 40%; No grace period	(unchanged)	(unchanged)
	Second housing loan for a home in one of the "specific areas"	(nil)	(nil)	No grace period	(unchanged)
	Third housing loan	LTV cap: 60%; No grace period	LTV cap: 55%; No grace period	(unchanged)	LTV cap: 40%; No grace period
	Fourth (or more) housing loan(s)		LTV cap: 50%; No grace period	(unchanged)	
Land loans		LTV cap: 65%, with 10% withheld until construction commences	(unchanged)	LTV cap: 60%, with 10% withheld until construction commences; Borrower required to submit a substantive development plan for the land purchased	LTV cap: 50%, with 10% withheld until construction commences; Borrower required to submit a substantive development plan and undertake that construction would begin within a specific time frame*
Loans for unsold housing units		LTV cap: 50%	(unchanged)	(unchanged)	LTV cap: 40%
Idle industrial district land mortgage loans		Internal rules of banks	LTV cap: 55%; Exemption condition: (1) commencement of construction, or (2) submission of a substantive development plan and an affidavit stating that construction would take place within a specific time frame	LTV cap: 50%; Exemption condition: (1) commencement of construction, or (2) submission of a substantive development plan and an affidavit stating that construction would take place within one year	TV cap: 40%; Exemption conditions unchanged

Note: * On January 13, 2022, the Bank met with banks on the subject of "reinforcing management of risks associated with land loans," urging them to set up internal rules to ensure that land loan borrowers begin construction on the collateralized land lots as per the loan terms. Particularly, regarding the condition of "specific time frame," banks were asked to exercise prudence in assessing and verifying the actual time needed (up to a maximum of 18 months) for borrowers before commencing construction. Banks should clearly state in the loan contracts that if borrowers fail to begin construction within the agreed time frame, banks shall reclaim the loan amount disbursed in a gradual manner by a reasonable percentage and raise the interest rates on the loans with annual increments.

Source: Department of Banking, CBC.

not used for speculative hoarding of homes and land lots. The key adjustments included lowering the LTV ratio caps on high-value housing loans and the third (or more) housing loans for natural persons, on land loans, on loans for unsold housing units, and on idle industrial district land. Meanwhile, lending standards for land loans were tightened by requiring borrowers to commit in writing to commencing construction within a specific time frame.

2. Related actions

To amplify the effects of the selective credit control measures, the Bank followed up with related actions as described below.

- (1) Compiling and disclosing relevant data: Statistical data on those types of real estate lending subject to the Bank's credit controls are published on the Bank's website on a regular basis.
- (2) On-site financial examinations: Beginning from January 2021, the Bank also ran targeted examinations to ensure the banking sector's compliance with the selective credit controls. Within the year of 2021, a total of 55 such examinations were conducted.
- (3) Meeting with financial institutions: The Bank held two meetings with financial institutions in May and October 2021 on the subject of "enhancing the effectiveness of the selective credit control measures," urging banks to ensure compliance, to offer reasonable pricing based on assessments of credit risk and other factors, and to refrain from price wars. The Bank also reminded borrowers to heed their own mortgage interest burdens and be financially prepared for any future changes.
- (4) Strengthening bank risk management in property guarantee business: Acting on the recommendation of the Bank, the FSC adopted several measures to prompt banks to enhance risk management related to real estate guarantee business. These measures included a cap on the ratio of the guarantee balance of bills finance companies for real estate firms and a requirement that banks shall incorporate real estate guarantee business into the scope of their internal control and audit rules in accordance with the relevant regulations stipulated by the Bank.

II. Implementation results of the Facility

1. LTV ratios brought down

Since the first rule tightening in December 2020, those types of loans under restriction have been made by domestic banks in accordance with the relevant rules, and the average LTV ratios have been significantly lower than before implementation.

LTV Ratios of Real Estate Loans Before and After Rule Tightening

(unit: %)

Type of loans				Before (average; mainly Jan.-Sept. 2020)	After (average; Dec. 2021)	Statutory cap (Dec. 2021)	Current cap (12/17/2021 onwards)
Housing loans	Corporate entity			63.97	39.84	40	40
	Natural person	Third housing loan		63.97	53.18	55	
		Fourth (and more) housing loan(s)		63.97	47.84	50	
		High-value housing	Two (or less) outstanding housing loans	71.00	50.68	55	
			Three (or more) outstanding housing loans	71.00	39.28	40	
Land loans		Loan application made during 12/08/2020-09/23/2021		69.19	63.60	65	50
		Loan application made during 09/24/2021-12/16/2021			58.05	60	
		Loan application made from 12/17/2021 onwards			37.52	50	
Loans for unsold housing units		Loan application made during 12/08/2020-12/16/2021		51.03	33.62	50	40
		Loan application made from 12/17/2021 onwards			28.59	40	
Idle industrial district land mortgage loans				n.a.	49.78 (Oct. 2021)	50	

Notes: 1. The "before" data are based on the information for the Jan.-Sept. 2020 period as reported by the 14 banks when they came to meet with the Bank in November 2020, except for the "before" data on high-value housing loans taken out by natural persons, which were based on data reported by banks before the Bank first imposed credit controls on this type of loan in June 2012.

2. The "after" data were compiled by the Bank based on the reports submitted by 39 domestic banks.

3. "n.a." means there was no statistical compilation.

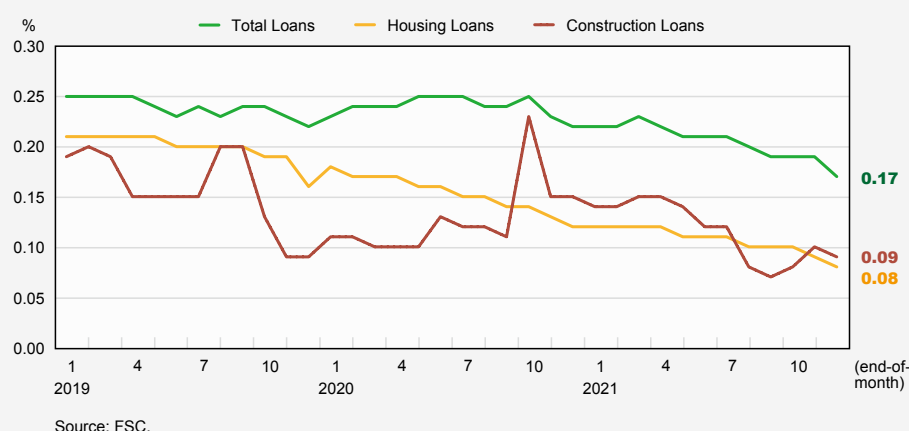
Source: Department of Banking, CBC.

2. Banks' real estate lending risk management considered satisfactory

(1) Non-performing loan ratios comparatively low

As of the end of December 2021, the non-performing loan ratios for housing loans and construction loans extended by domestic banks were 0.08% and 0.09%, respectively. With both ratios lower than the overall non-performing loan ratio, which was 0.17%, domestic banks continued to exhibit good asset quality.

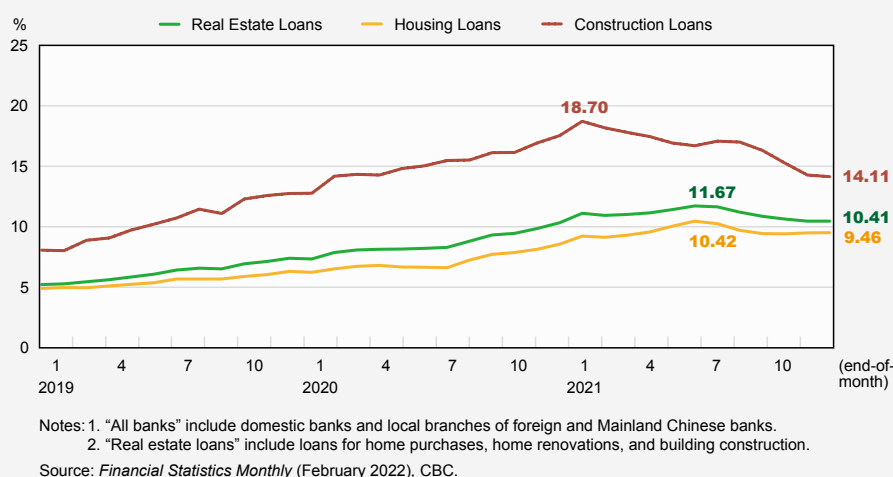
Non-performing Loan Ratios of Domestic Banks



(2) Growth in real estate lending broadly slowed

At the end of December 2021, the annual growth rate of real estate lending by all banks slowed to 10.41% from the 11.67% registered at the end of June 2021. Of the components, the annual growth rate of construction loans dropped markedly to 14.11% from the 18.70% of end-January 2021, while that of housing loans dropped to 9.46% from the 10.42% of end-June 2021.

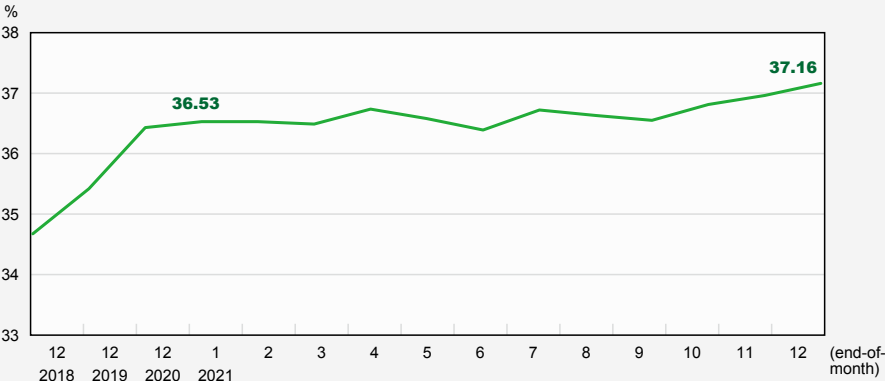
Annual Growth Rates of Real Estate Loans (All Banks)



(3) Real estate loan concentration largely steady

From the beginning of 2021, the share of real estate lending in total lending by all banks stayed largely steady. The share was 37.16% at the end of December 2021, still lower than the historical high of 37.90% recorded at the end of October 2009.

Real Estate Loan Concentration (All Banks)



Notes: 1. "All banks" include domestic banks and local branches of foreign and Mainland Chinese banks.
2. "Real estate loans" include loans for home purchases, home renovations, and building construction.
Source: *Financial Statistics Monthly* (February 2022), CBC.

III. Conclusion: The Bank will run a rolling review and act as needed to sustain financial stability

A healthy real estate market requires coordinated efforts from all relevant government agencies to address issues from the various aspects of demand, supply, and the system. Looking ahead, the Bank will stay attentive to the developments in banks' real estate lending and in the housing market, conduct a rolling review of the selective credit control measures, and act as needed to promote sound banking operations and foster financial stability.