Box

Updated Review of the Bank's Selective Credit Control Measures

Beginning in December 2020, the Bank introduced a round of selective credit controls (see Appendix) through amendments to the relevant regulations five times – in December 2020, March, September, and December 2021, and then in June 2023. Judged to be in line with two of the Bank's operational objectives, namely promoting financial stability and sound banking operations, these actions were taken to help curb excessive credit allocation to the real estate market as per the directive of "efficient allocation and proper use of credit resources" under the government's Healthy Real Estate Market Plan. Moreover, the Bank implemented five policy rate hikes and two increases in the required reserve ratios between March 2022 and March 2023. These tightening moves could also strengthen the effectiveness of selective credit control measures.

1. Implementation of the selective credit control measures

The Bank made five adjustments to its selective credit control measures through relevant regulatory amendments since December 2020. The primary considerations and key changes are as follows.

(1) **December 2020:** Strengthening regulation on high-risk real estate borrowers

The Bank noticed several anomalies: Housing loans and construction loans in banks had recorded faster growth; there had been increasing cases of a single natural person taking out multiple housing loans and a rising number of housing loans taken out by corporate entities; bank credit had become a profiting-making tool as some borrowers took out land-collateralized loans to hoard idle land or non-owner occupied housing; banks had been applying overly loose lending standards to loans for unsold housing units of construction firms. In this view, the Bank decided to introduce new selective credit controls, imposing restrictions on housing loans taken out by corporate entities, the third (or more) outstanding housing loan by a natural person, land-collateralized loans and loans for unsold housing units, such as capping the loan-to-value (LTV) ratios and removing grace periods.

(2) **March 2021:** Enhancing regulation on housing loans of corporate entities, third (and more) outstanding housing loans by natural persons, and high-value housing loans; Stipulating new regulations on loans collateralized against idle land in industrial districts

Seeing that banks' real estate lending still posted strong growth and there arose sizable increases in property hoarding and flipping by corporate entities, while also aiming to encourage development of idle land in industrial districts, the Bank implemented the following measures: Lowering the LTV ratio caps on housing loans taken out by corporate entities, adjusting the LTV ratios on natural persons' housing loans according to the number of outstanding ones, lowering the LTV ratio caps on high-value housing loans, and imposing a new LTV ratio cap on loans collateralized against idle land in industrial districts.

(3) **September 2021:** Imposing new restrictions on the second outstanding housing loan(s) taken out by a natural person for homes in the designated "specific areas;"[1] reinforcing restrictions on land loans and loans collateralized against idle land in industrial districts

Against the backdrop of still strong growth in banks' real estate lending, the Bank sought to prevent excessive credit flow from moving into the real estate sector and to encourage borrowers to expedite land development. Therefore, the Bank imposed new restrictions by removing grace periods from the second outstanding housing loans taken out by a natural person for homes in the designated "specific areas," and lowering the LTV ratio caps on land loans and on loans collateralized against idle land in industrial districts.

(4) **December 2021:** Tightening regulation on high-value housing loans, the third (or more) outstanding housing loan(s) of a natural person, land loans, loans collateralized against idle land in industrial districts, and unsold housing units loans

In view of the still large share of real estate lending in banks' total lending, the Bank decided to lower the LTV ratio ceilings for all the abovementioned loan types and to introduce a new regulation that requires borrowers of land loans to commit in writing to commencing construction within a specific time frame (which would be 18 months in maximum according to a later rule stipulated in January 2022).

(5) **June 2023:** Enhancing regulation on the second outstanding housing loan of a natural person for homes in the "specific areas"

In addition to the persistently high concentration of real estate lending in banks' total lending, the number of newly-extended natural persons' second outstanding housing loans increased in the first quarter of 2023 from the previous quarter, while also taking up a larger share. Meanwhile, the average LTV ratio of natural persons' second outstanding housing loans for homes in the "specific areas" remained high and even continued rising. In response, the Bank imposed a new LTV cap on that loan bracket, stipulating that lenders could only grant loans worth no more than 70% of the value of "specific area" homes to natural persons taking out a second outstanding housing loan.

2. These credit controls are non-retrospective, do not affect loan applications by same-household members, and are equipped with separate support measures for homeowners in transition

(1) With no retroactivity, the selective credit controls do not have effect on loan applications

[1] The "specific areas" prescribed herein refer to Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

submitted to and registered by financial institutions prior to the relevant statutory amendments, with their loan conditions still following the applicable rules at the time of loan case registration.

(2) The selective credit controls are applicable to the individual borrower, not the entire household, so they would not hinder the rights of other members in the same household to take out housing loans.

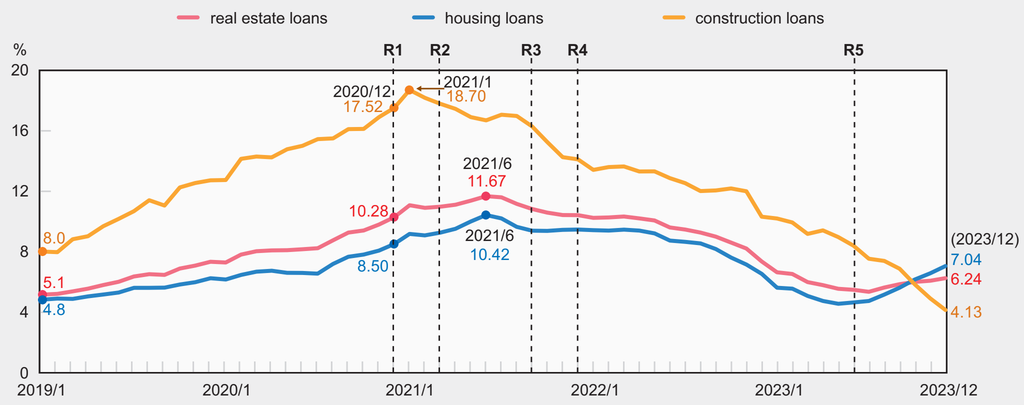
(3) For homeowners in transition between current and new housing, the Bank has provided relevant support measures[2] to help them take out housing loans as needed.

3. Results and effectiveness

(1) Remarkable decline in real estate lending growth rate, slowing the bank credit flow to the real estate market

As of December 2023, the annual growth rates of banks' real estate loans, housing loans, and construction loans were 6.24%, 7.04%, and 4.13%, all lower than the levels prior to December 2020 when the Bank began implementing selective credit controls, with these measures continuing to work and more results expected to show.

Annual Real Estate Loan Growth Rates of All Banks



Notes: 1. Real estate loans = housing loans (house-purchasing loans) + house-repairing loans + construction loans.
2. R1-R5 represent the five amendments to the selective credit controls with R1 referring to the Dec. 2020 amendment.

Source: Department of Economic Research, CBC.

(2) LTV ratios came down, related loans posted low non-performing loan (NPL) ratios, and banks exhibited good real estate credit risk management

A. The LTV ratios of the loans under restriction all came lower.

[2] According to the Q&As compiled by the Bank in July 2023 on natural persons' second housing loans for "specific area" homes, if borrowers do have actual needs in the home-transition period to take out a new loan before full repayment of the outstanding one, they need to, through Affidavit of Undertaking, promise to sell and complete ownership transfer of the collateralized property of the existing loan (along with debt and lien cancellation) within one year, with the result that the borrowers may be exempt from the relevant 70% LTV ratio cap.

LTV Ratios of Real Estate Loans Before and After Rule Tightening (Domestic Banks)

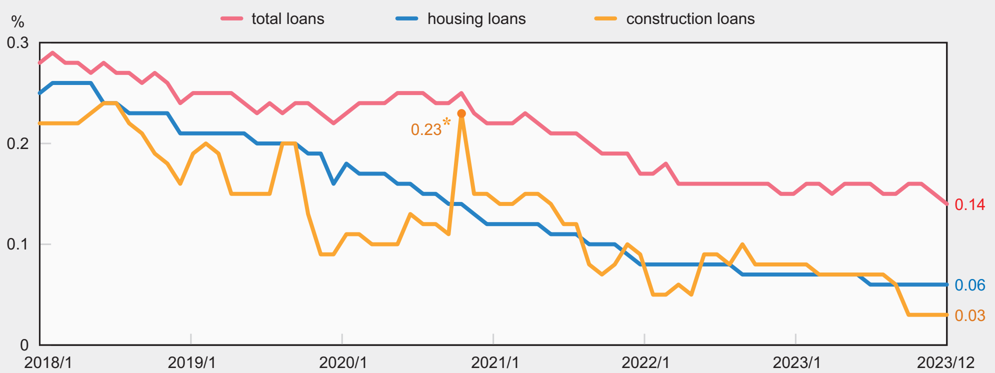
(unit: %)

Type of loans			Before (average; mainly Jan.-Sept. 2020)	After (average; Dec. 2023)	Current cap (Jun. 16, 2023 onwards)
Housing loans	Corporate entity (regardless of the number of outstanding housing loans)		63.97	39.28	40
	Natural person	2nd outstanding housing loan, specific areas	77.16	68.05	70
		3rd (and more) outstanding housing loan	63.97	39.46	40
		High-value housing	71.00	39.09	40
Land loans			69.19	48.79	50
Loans for unsold housing units			51.03	38.67	40
Loans collateralized against idle industrial district land			n.a.	49.78 (Oct. 2021)	40

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; the "before" data on high-value housing loans taken out by natural persons are based on data reported by banks before the Bank first imposed credit controls on this type of loan in June 2012; the "before" data on the second housing loans of "specific area" homes of natural persons are based on data reported during Jan.-May 2023.
2. The "after" data are compiled by the Bank based on the reports submitted by 37 domestic banks. For data on loans collateralized against idle industrial district land, the latest available data was October 2021 (when the LTV ratio cap was still 50%).
3. "n.a." there was no statistical compilation.
Source: Department of Banking, CBC.

B. The NPL ratios of domestic banks' real estate-related loans all remained low, and below the NPL ratio of total loans, indicating good credit quality that is conducive to the management of banks' real estate credit risk.

Non-performing Loan Ratios of Domestic Banks



Note: The NPL ratio of construction loans reached 0.23% in October 2020; this was caused by a surge in one bank's single month non-performing construction loan ratio, attributable to one corporate borrower.
Source: Department of Financial Inspection, CBC.

4. Promoting awareness of the control measures and their effectiveness

The Bank has continued to enhance policy promotion and public communication through various channels, in order to encourage understanding of the execution and results of the abovementioned selective credit control measures.

(1) Whenever the selective credit control measures were adjusted, they were accompanied by a press release and presentation materials for the press conference post the Bank's quarterly Board Meeting, explaining the considerations behind the policy adjustment, changes made, and future outlook. Supplementary materials for the post-meeting press conference were also provided to give more details on the status and results of the previously-enforced credit controls.

(2) On several occasions the Bank issued press releases to urge banks to comply with the control measures and the principle of credit risk-based interest rate pricing, to formulate internal rules, to actively require borrowers to fulfill the promise on construction work commencement, to provide homeowners in the midst of home transition with the Bank's relevant support measures, etc.

(3) The Bank has since made several reports to the Parliament[3] on the implementation and related issues of the selective credit control measures.

(4) Governor Yang, at the invitation of a seminar, gave an account of the related issues of the housing market and the Bank's selective credit control measures undertaken in accordance with the government's Healthy Real Estate Market Plan.

(5) On multiple occasions the Bank responded to the suggestions of private sector groups (such as the real estate development associations of various municipalities) and released related information on social media platforms (such as the Bank's Facebook page) to strengthen policy communication.

(6) The Bank set up a dedicated page on its official website about the Bank's efforts under the government's Healthy Real Estate Market Plan, providing details on the regulations, frequently asked questions and answers, and related press releases, as well as a regular update on data regarding domestic banks underwriting the regulated types of real estate loans.

[3] Including the Apr. 19, 2021 report on the implementation status of the Bank's selective credit control measures; the Nov. 22, 2021 report on how to prevent bank and non-bank credit from being used to fuel property speculation; the May 12, 2022 report on a review of whether to tighten further amid major central banks' tightening moves and to adjust the selective credit control measures; the Mar. 30, 2023 report related to the government's social housing projects and relevant measures under the government's newly-amended tax measures to rein in high housing prices.

5. Conclusion

To foster financial stability and sound banking operations, and to attain the goal of "efficient allocation and proper use of credit resources" as per the government's Healthy Real Estate Market Plan, the Bank launched a series of efforts with five amendments to the selective credit controls beginning December 2020. With these measures, the real estate loan growth rates have declined and their NPL ratios have stayed low, pointing to good credit quality. The data have demonstrated how the Bank's housing credit policy measures have helped reinforce banks' credit risk management associated with the real estate sector and kept bank credit resources from flowing unreasonably to the real estate market.

In implementing the selective credit controls, the Bank paid attention not to affect existing loan applicants or other homebuying household members of the borrowers whose housing loans come under restriction. The Bank also made a point of ensuring the rights of housing loan borrowers in transition between current and future owner-occupied homes.

In the process, the Bank continued to strengthen communication through various channels to promote public understanding of how these measures were conducted and how much they had achieved. Going forward, the Bank will continue with a rolling review across financial institutions regarding the underwriting of real estate loans and the execution of the selective credit controls and will adjust the measures as needed to promote sound banking operations and foster financial stability.

Appendix: Key Points of the Adjustments to Selective Credit Control Measures

<table>
<tr><th colspan="2" rowspan="2">Type of loans</th><th colspan="5">LTV ratio caps and others (date: mm/dd/yyyy)</th></tr>
<tr><th>12/08/2020 -
03/18/2021</th><th>03/19/2021 -
09/23/2021</th><th>09/24/2021 -
12/16/2021</th><th>12/17/2021 -
06/15/2023</th><th>06/16/2023 -</th></tr>
<tr><td rowspan="2">Corporate entity</td><td>First housing loan</td><td>LTV cap: 60%;
No grace period</td><td rowspan="2">LTV cap: 40%;
No grace period</td><td rowspan="2">(unchanged)</td><td rowspan="2">(unchanged)</td><td rowspan="2">(unchanged)</td></tr>
<tr><td>Second (or more) housing loan(s)</td><td>LTV cap: 50%;
No grace period</td></tr>
<tr><td rowspan="5">Natural person</td><td>High-value housing loan in addition to two (or less) housing loans</td><td rowspan="2">LTV cap: 60%;
No grace period</td><td>LTV cap: 55%;
No grace period</td><td>(unchanged)</td><td>LTV cap: 40%;
No grace period</td><td>(unchanged)</td></tr>
<tr><td>High-value housing loan in addition to three (or more) housing loans</td><td>LTV cap: 40%;
No grace period</td><td>(unchanged)</td><td>(unchanged)</td><td>(unchanged)</td></tr>
<tr><td>Second housing loans for a home in one of the "specific areas"</td><td>(nil)</td><td>(nil)</td><td>No grace period</td><td>(unchanged)</td><td>LTV cap: 70%;
No grace period</td></tr>
<tr><td>Third housing loan</td><td rowspan="2">LTV cap: 60%;
No grace period</td><td>LTV cap: 55%;
No grace period</td><td>(unchanged)</td><td rowspan="2">LTV cap: 40%;
No grace period</td><td>(unchanged)</td></tr>
<tr><td>Fourth (or more) housing loans(s)</td><td>LTV cap: 50%;
No grace period</td><td>(unchanged)</td><td>(unchanged)</td></tr>
<tr><td colspan="2">Land loans</td><td>LTV cap:
65%, with 10% withheld for disbursement until construction commences;

Borrower required to submit a substantive development plan for the land purchased</td><td>(unchanged)</td><td>LTV cap: 60%, with 10% withheld for disbursement until construction commences;

Borrower required to submit a substantive development plan for the land purchased</td><td>LTV cap:
50%, with 10% withheld for disbursement until construction commences;

Borrower required to submit a substantive development plan and undertake that construction would begin within a specific time frame</td><td>(unchanged)</td></tr>
<tr><td colspan="2">Loans for unsold housing units</td><td>LTV cap: 50%</td><td>(unchanged)</td><td>(unchanged)</td><td>LTV cap: 40%</td><td>(unchanged)</td></tr>
<tr><td colspan="2">Idle industrial district land mortgage loans</td><td>Internal rules of banks</td><td>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</td><td>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</td><td>LTV cap: 40%;
Exemption conditions unchanged</td><td>(unchanged)</td></tr>
</table>

Note: This is a translated, simplified table. In the event of any inconsistency or ambiguity, the official Chinese version of relevant regulations shall prevail.
Source: Department of Banking, CBC.