Box The Bank's Adjustments to Selective Credit Control Measures and Its Request for Internal Management by Domestic Banks over Real Estate Loans

To implement the directive of "efficient allocation and proper use of credit resources" under the government's Healthy Real Estate Market Plan and to prevent excessive bank credit resources from gushing into the real estate market, the Bank continued to carry out selective credit control measures. In June and September 2024, the Bank made the sixth and seventh amendments to the relevant regulations. In addition, in August 2024, through moral suasion, the Bank requested banks to enhance internal control of the aggregate amount of real estate lending from the fourth quarter of 2024 to the fourth quarter of 2025. These actions helped enhance the effectiveness of the Bank's selective credit control measures.

I. The Bank made the sixth and seventh adjustments to selective credit control measures in 2024

1. In June and September 2024, the Bank made the sixth and seventh adjustments to the selective credit control measures through relevant regulatory amendments. Moreover, in August 2024, the Bank, through moral suasion, asked banks to enhance internal control of the aggregate amount of real estate lending from the fourth quarter of 2024 to the fourth quarter of 2025. These measures include three primary aims: (1) cooling public expectations of a housing price uptrend; (2) freeing up loanable funds otherwise tapped by speculators and channeling such funds towards priority use for home loans to non-homeowners; and (3) rectifying the over-concentration of credit resources on real estate lending.

2. Key changes for the aforesaid adjustments to selective credit control measures are as follows.

(1) **June 2024:**

Lowering the cap on the LTV ratio to 60% for a natural person's second home loan for housing in specific areas.

(2) **September 2024:**

A. Granting no grace period to a natural person's first outstanding home loan when the borrower already owns building(s) to his/her name.
B. Lowering the cap on the LTV ratio, from 60% to 50%, for natural persons' second outstanding home loans and widening the applicable scope to housing nationwide.
C. Lowering the LTV ratio caps on corporate entities' housing loans, natural persons' high-value housing loans, natural persons' third (or more) outstanding home loans, and unsold housing unit loans from 40% to 30%.

3. To fulfill the objectives of the Bank's selective credit controls while also accommodating the public's need for financial planning related to owner-occupied housing, the Bank announced relevant support measures on October 9, 2024. Under these measures, housing loans (excluding high-value housing loans) applied for by natural persons may be exempted from the Bank's selective credit controls if the applicant falls into any of the following categories:

   (1) those who have acquired the property through inheritance; (2) those with a genuine need for home replacement; or (3) those who, at the time of applying for a home loan, have already signed a home purchase agreement (including for completed or pre-sale homes) with the case qualifying as inheritance or genuine home replacement.

II. The Bank requested domestic banks to implement internal management of the outstanding balance of real estate loans

1. From the second half of 2023 onwards, housing market transactions increased and housing prices surged, driving up the annual growth rate of banks' housing loans. As of the end of June 2024, the ratio of real estate lending to total lending of all banks (a measure of concentration of real estate lending) rose to 37.61%, indicating that the concentration of bank credit resources in real estate loans remained in need of further improvement.

2. In August 2024, the Bank successively met with the general managers of 34 domestic banks and the National Federation of Credit Co-operatives, urging these institutions to fulfill their social responsibilities and to avoid excessive credit flows into real estate lending. The Bank requested that, without adversely affecting the funding needs of non-homeowners applying for owner-occupied housing loans or of real estate sector entities looking to finance their projects of urban renewal and reconstruction of old and unsafe buildings, banks should, in light of their respective business conditions, gradually adjust the aggregate amount of real estate lending from the fourth quarter of 2024 to the fourth quarter of 2025 so as to improve the over-concentration of credit resources in real estate lending.

III. Results and effectiveness of the Bank's selective credit control measures

Following the above-mentioned efforts, housing market transactions declined and public expectations of housing price rises eased in the second half of 2024. Meanwhile, domestic banks recorded a rising share of housing loans taken out by non-homeowners as a percentage of total home loans, and the concentration of real estate lending decreased. These developments indicated that the Bank's selective credit control measures in 2024 had gradually shown results.

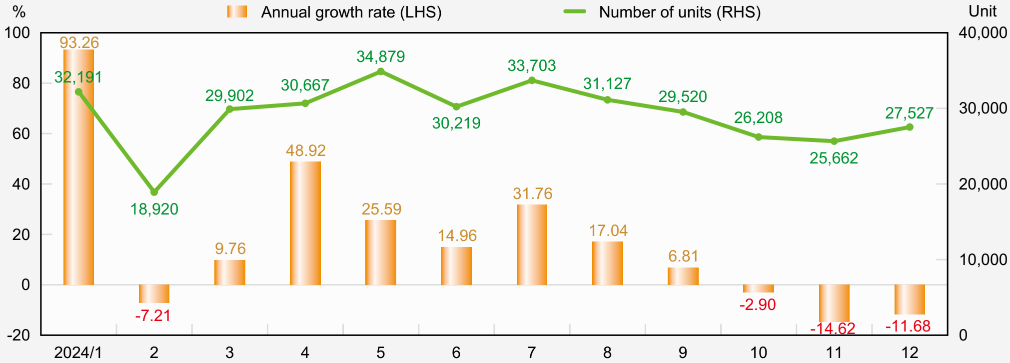
1. Reduction in housing market transactions

In October 2024, the annual growth rate of the total number of building ownership transfers nationwide turned negative, registering -2.90%, followed by -14.62% in November and -11.68% in December.

2. Easing of public expectations of housing price increases

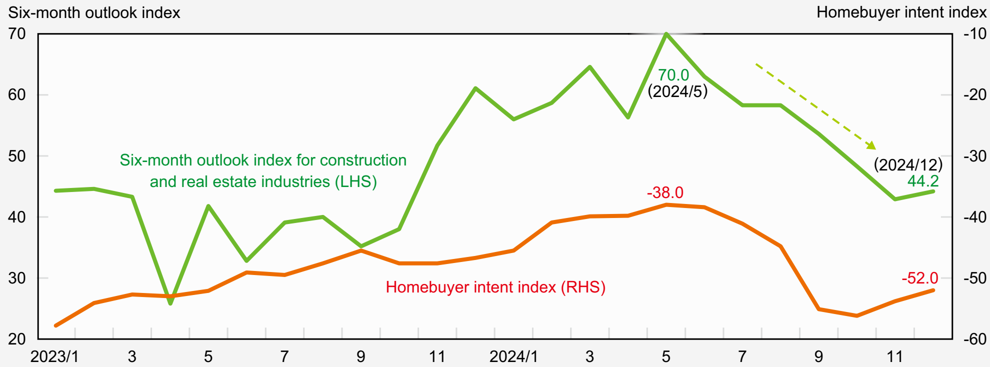
As public expectations of housing price rises eased, the homebuyer intent index, compiled by the Cathay Financial Holdings based on its "national economic confidence survey," declined from -38 in May 2024 to -52 in December 2024. Meanwhile, the six-month outlook index for the construction and real estate industries, published by the Chung-Hua Institution for Economic Research (CIER), also fell from 70% in May 2024 to 44.2% in December 2024.

Number and Annual Growth Rate of Building Ownership Transfers



Source: Ministry of the Interior, R.O.C. (Taiwan).

Homebuyer Intent Index & Six-Month Outlook Index for Construction and Real Estate Industries



Notes: 1. The homebuyer intent index by the Cathay Financial Holdings is calculated based on survey respondents' views regarding the timing of buying or selling a house (= Yes - No).
2. The six-month outlook index for the construction and real estate industries by the CIER: A reading below 50 indicates contraction.

Sources: 1. Cathay Financial Holdings.
2. Press releases on Purchasing Managers' Index, National Development Council.

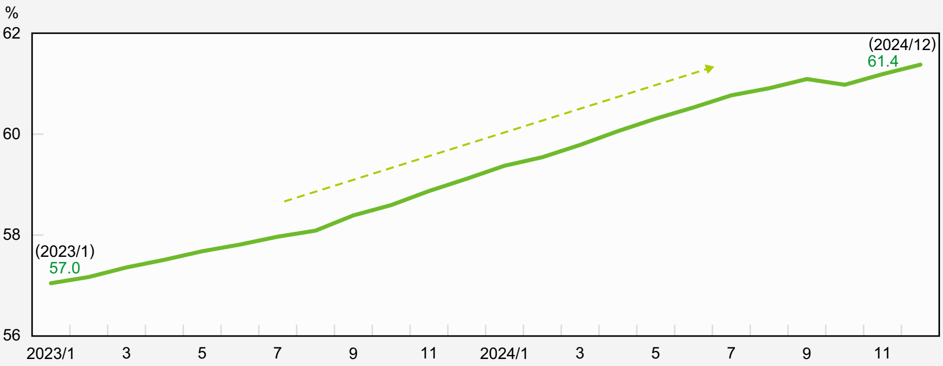
3. Rise in the share of housing loans extended to non-homeowners by domestic banks as a percentage of total home loans

   The share of housing loans extended to non-homeowners as a percentage of total home loans rose from 57.0% at the end of January 2023 to 61.4% at the end of December 2024, indicating that non-homeowners were prioritized to receive bank credit.

4. Decrease in the concentration of real estate lending

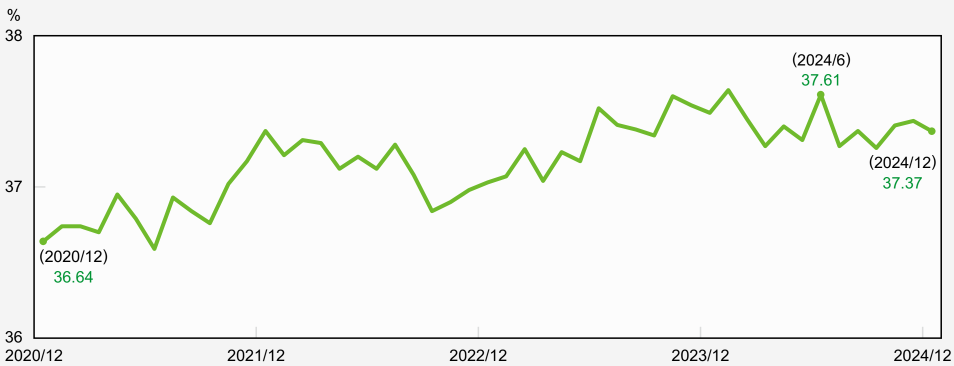
   The concentration of real estate lending in total bank lending declined from 37.61% at the end of June 2024 to 37.37% at the end of December 2024, indicating a gradual improvement in the over-concentration of credit resources in real estate lending.

Housing Loans to Non-Homeowner Borrowers as A Share of Total Home Loans in Domestic Banks



Source: FSC.

Concentration of Real Estate Lending by All Banks



Note: The concentration of real estate lending refers to the ratio of real estate lending (= house-purchasing loans + house-repairing loans + construction loans) to total lending of all banks.

Source: Department of Economic Research, CBC.

IV. Conclusion

To reduce the over-concentration of credit resources in loans to the real estate sector, the Bank continued to implement selective credit control measures and requested domestic banks to enhance internal control of the aggregate amount of real estate lending. Regarding moral suasion, the Bank will keep track, on a quarterly basis, of the progress of banks' internal improvement plans on real estate lending management and urge them to ensure robust implementation.

In the future, the Bank will continue reviewing the status of banks' real estate lending and the effectiveness of the Bank's credit control measures, closely monitor potential impacts of real estate sector-related policies on the housing market, and adjust the measures as needed in order to promote financial stability and sound banking operations.