

Box 2

Effectiveness of the CBC's measures to strengthen risk management on real estate-related loans of banks

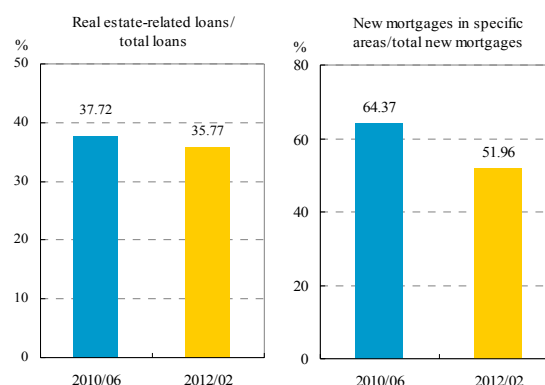
In response to surging house prices in specific areas in Taiwan and excessive concentration in real estate-related loans in the banking sector, the CBC has adopted a series of targeted prudential measures since October 2009. In addition to moral suasions and improvements in the data collection and analysis of real estate-related loans, the CBC promulgated the Regulations Governing the Extension of Housing Loans in Specific Areas by Financial Institutions in June 2010, which capped the loan-to-value (LTV) ratio on second (or more) housing loans for home purchases in Taipei City and ten districts within New Taipei City and removed the grace period for such loans. Furthermore, the CBC amended the above regulations in December 2010 to extend the coverage of specific areas and lower the maximum LTV ratio, as well as tighten underwriting standards for real estate loans collateralized by residential or commercial land plots located at urban planning districts.

Ever since the CBC launched the above-mentioned regulations to govern housing loans in specific areas and land collateralized loans, in conjunction with several measures adopted by the Financial Supervisory Commission (FSC) to supervise the real estate credit risks of banks and the Specifically Selected Goods and Services Tax promulgated by the Ministry of Finance (MOF) on 1 June 2011,¹ the policy measures to tighten risk management on the real estate-related loans of banks have shown promising results.

1. The concentration of real estate-related loans by financial institutions improved

- The concentration of real estate-related loans² by financial institutions decreased from 37.72% in June 2010, before the promulgation of the new regulations, to 35.77% in February 2012.
- The concentration of new real estate-related loans in specific areas (including Taipei City and thirteen districts within New Taipei City) by

Chart A2.1 Improvements in the concentration of real estate-related loans



Notes: 1. Real estate-related loans included residential mortgages, house repairs and improvements and loans for construction. Loans of OBUs and overseas branches were excluded.
2. Based on data from domestic banks and local branches of foreign banks.

Source: CBC.

financial institutions also decreased from 64.37% in June 2010, before the promulgation of the new regulations, to 51.96% in February 2012 (Chart A2.1).

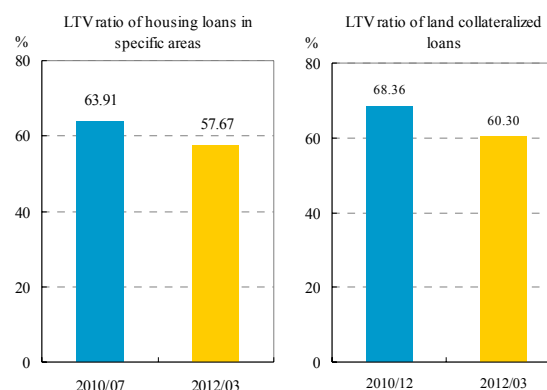
2. The LTV ratio of real estate-related loans slid significantly

- The average LTV ratio for housing loans in specific areas fell from 63.91% in July 2010, the early stage of the promulgation of the new regulations, to 57.67% in March 2012.
- The average LTV ratio for land collateralized loans slid to 60.30% in March 2012 from 68.36% in December 2010 after the promulgation of the amendments (Chart A2.2).

Notes: 1. For detailed regulations and measures taken by the CBC, the FSC and the MOF, please see page 57 and Box 4 of the Financial Stability Report No. 5.

2. Real estate-related loans included residential mortgages, loans for house repairs and improvements, and loans for construction granted by local branches of domestic banks and foreign banks.

Chart A2.2 Changes in the loan-to-value ratio of real estate-related loans



Note: Based on data from domestic banks and local branches of foreign banks.

Source: CBC.