Box 4
The CBC's targeted prudential measures to stablize the property market

In view of a surge in housing prices in specific areas and excessive concentration of the loan portfolios of banks, the CBC successively launched a range of targeted prudential measures to safeguard the financial system and the development of the property market from October 2009. The measures included: (1) moral suasion to financial institutions; (2) improvement in the collection and analysis of statistics; and (3) regulations to govern real-estate loans in specific areas granted by financial institutions. With the aforesaid measures, the CBC aimed at urging banks to strengthen their risk management of real estate loans and promoting sound development of the property market.

1. Moral suasion to financial institutions and improvement in the collection and analysis of housing loan data from October 2009

Initially, the CBC adopted the following measures:

- Urged banks to rein in risks related to mortgage loans (October 2009);
- Addressed asset market problems in the Board meeting and reached a decision under which the Board will take asset prices into account in its monetary policy setting (December 2009);
- Requested the Bankers Association of the Republic of China to remind borrowers of preferential loans regarding the risk of increasing repayment and rising effective interest rates as soon as grace periods expire (January 2010);
- Used moral suasion to encourage 15 domestic banks with regard their investment-oriented borrowers to: (1) lower the loan to value (LTV) ratio (ceiling of 70%); (2) raise the interest rate higher than that of general housing loans; and (3) remove the grace period (March 2010); and
- Required banks to submit call reports regarding the extension of newly approved mortgage loans to general borrowers and investment-oriented borrowers by region every 15 days. Target examinations will be undertaken where necessary, so as to ensure banks' compliance with the aforementioned policies (April 2010).

2. Regulations to govern the extension of housing loans in specific areas by financial institutions in June 2010

Most banks adjusted their mortgage loan policies in the face of a range of moral suasions by the CBC. Nevertheless, concerns about the excessive concentration on real estate loans of banks lingered, and the house-purchase burden faced by homebuyers grew heavier on the back of the notable rise in housing prices in specific areas. Meanwhile, there was an increasing need for a uniform lending standard for housing loans among financial institutions. Against this backdrop, the CBC Board approved the promulgation of the Regulations Governing the Extension of Housing Loans in Specific Areas in June 2010. The key points of the Regulations included: (1) capping the LTV ratio on second (or more) housing loans for home purchases in specific areas at 70%; and (2) removing the grace period for such loans (Table B4.1).

Table B4.1 Regulations Governing the Extension of Housing Loans in Specific Areas by Financial Institutions

Scope	1. Financial Institutions referred to in the Regulations include domestic banks, local branches of foreign banks, credit cooperatives, Agricultural Bank of Taiwan, credit departments of farmers’ and fishermen’s associations, Chunghwa Post Co., and insurance companies. 2. The scope of “Specific Areas” prescribed in the Regulations includes Taipei City and ten districts in New Taipei City. 3. The “new housing loans” granted by financial institutions in the aforementioned areas.
New housing loans	Financial institutions shall, before extending new housing loans to individual borrowers against collateral located in specific areas, verify the borrowers’ credit history related to housing loans with the Joint Credit Information Center. With regard to housing loans newly extended to borrowers who have other outstanding housing loans, financial institutions shall: 1. Limit new housing loans to no more than 70% of the appraisal value of the collateral; 2. Remove grace periods; and 3. Grant no additional loans against the same collateral for home refurbishments, as working capital, or for other purposes.
Effective date	The Regulations shall enter into force on 25 June 2010. Loans already approved by financial institutions on or before the cutoff date, may be disbursed in accordance with the original terms and conditions granted when the loans were approved.

Source: CBC.

3. Ongoing moral suasion and improvement in the collection of information regarding land collateralized loans in the second half of 2010

In addition to ongoing moral suasion, the CBC further enhanced the collection and analysis of land collateralized loans following the promulgation of the aforementioned regulations governing housing loans in specific areas. These measures included:

- Reminding financial institutions to be alert to activities stemming from massive purchases of existing houses by speculators who may take advantage of fake applicants to apply for housing loans, while urging financial institutions to curb such new loans in the hope of promoting effective risk management (July 2010);

- Using moral suasion to encourage banks to draw up appropriate criteria for land collateralized loans aimed at reinforcing risk management associated with land acquisition financing, whereby banks shall: (1) require borrowers to offer elaborate and concrete plans of construction projects; (2) set up reasonable LTV ratios and interest rates; and (3) adopt a package of measures (for example, withdrawal of loans or raising interest rates) to discipline borrowers who fail to commence construction on schedule (September 2010).
- Requiring banks to submit monthly call reports regarding the extension of newly approved land collateralized loans, so as to monitor the relevant credit extension of individual banks (October 2010).

4. The amendment of regulations to govern real estate loans granted by financial institutions (December 2010)

The CBC's policy measures to govern housing loans in specific areas showed promising results during the third quarter of 2010. Nonetheless, buoyant property transactions since October of that year have led to concerns about the increasing credit extension of banks' housing loans in other unregulated regions neighboring the specific areas. With regard to the enhancement of risk management for land collateralized loans granted by banks, there were mounting problems that mortgage risk management would be inconsistent between public banks and private banks in terms of various loan standards. As a result, the CBC Board approved the amendment of the Regulations Governing the Extension of Land Collateralized Loans and Housing Loans in Specific Areas in December 2010 (Table B4.2). This measure aimed primarily at dampening speculative activities in the property market fueled by bank credit, while urging financial institutions to reinforce their credit risk management so as to protect the interests of depositors and promote financial stability. The key points of the amendment are shown as follows:

- For housing loans in specific areas, the efforts included: (1) extending the coverage of specific areas; (2) lowering the maximum LTV ratio for second (or more) housing loans by individuals to 60%; and (3) encompassing housing loans by companies in specific areas to be subject to the applicable regulations.
- As for land collateralized loans, it tightened underwriting standards for real estate loans collateralized by residential or commercial land plots located in urban planning

districts. Financial institutions shall: (1) require borrowers to present concrete plans of construction projects; and (2) cap the LTV ratio at 65%, where 10% of the approved loan amount shall not be disbursed until the construction commences.

Moreover, in order to help financial institutions and the public understand more details about the foregoing regulations, further explanations and Q & A were provided on the CBC's website in January 2011.

Table B4.2 Regulations Governing the Extension of Land Collateralized Loans and Housing Loans in Specific Areas by Financial Institutions

Scope	1. Financial Institutions referred to in the Regulations include domestic banks, local branches of foreign banks, credit cooperatives, Agricultural Bank of Taiwan, credit departments of farmers' and fishermen's associations, Chunghwa Post Co., and insurance companies. 2. In addition to Taipei City and ten districts in New Taipei City, the scope of "Specific Areas" prescribed in the Regulations is amended to also include three other New Taipei City districts. 3. Pursuant to these amendments, land collateralized loans shall be governed by the Regulations.
Housing loans in Specific Areas	1. The loan-to-value ratio will be capped at 60%, down from 70%, for home purchases in specific areas by individuals who have taken out other outstanding real estate loans. Financial institutions shall, before extending new housing loans to individual borrowers against collateral located in specific areas, verify the borrowers' credit history related to housing loans with the Joint Credit Information Center. With regard to housing loans newly extended to borrowers who have other outstanding loans for real estate purchases, financial institutions shall: (1) Limit new housing loans to no more than 60% of the appraisal value of the collateral; (2) Remove grace periods; and (3) Grant no additional loans against the same collateral for home refurbishments, as working capital, or for other purposes. 2. Housing loans extended to companies shall be governed by the Regulations and shall conform to relevant rules in the sub-paragraphs (1) to (3) prescribed above.
Land collateralized loans	When extending collateralized loans against collateral of residential or commercial land plots located in urban planning districts (including but not limited to aforementioned specific areas), financial institutions shall: 1. Require borrowers to present concrete plans of construction projects; 2. Apply a maximum LTV ratio of 65% of the acquisition cost or the valuation price of the collateral, whichever is lower, where 10% of the approved loan amount shall not be disbursed until the construction commences; extend no additional credit for working capital or other purposes; and 3.Bills finance companies shall comply with the rules in the above two paragraphs when providing guarantees to bill issuance against collateralized residential or commercial land plots located in urban planning districts.
Effective date	The Regulations shall enter into force on 31 December 2010. Loans already approved by financial institutions before the cutoff date may be disbursed in accordance with the original terms and conditions granted when the loans were approved.

Source: CBC.

5. Ongoing target examinations to ensure the compliance of policies by financial institutions

To carry out the targeted macroprudential measures and contain the concentration of credit risks in financial institutions, the CBC will continuously analyze financial institutions' regular call reports and conduct target examinations for certain financial institutions where necessary.