

IV. Annex

Real Estate Loans and Targeted Prudential Measures

Since mid-2009, the strong economic recovery in most Asian countries has attracted massive capital inflows and caused housing prices to rise rapidly. In response, some governments, including those of China, Hong Kong and Singapore, have taken action to prevent negative impacts from potential housing bubbles.

Taiwan's housing market has also continued to recover and housing prices have kept rising since the second half of 2009. Real estate-related loans have also exhibited steady growth. In October 2009, the Bank began to adopt targeted prudential measures and urged financial institutions to better manage credit risk in order to promote financial stability. Meanwhile, the government's Plan to Enhance the Soundness of the Housing Market was announced in April 2010. The ongoing policy efforts from various government agencies and institutions would be conducive to the sound development of the real estate market.

The Annex looks at the development of Taiwan's housing market and real estate-related loans during this year. In addition, it outlines the targeted prudential measures taken by the Bank and offers a broad assessment on their effectiveness.

Booming Real Estate Market in Taipei Metropolitan Area

Since mid-2009, bolstered by the economic recovery, low interest rates, capital inflows and the ECFA effect, housing prices soared on growing demand. From the first quarter of 2009 to year-end 2010, existing-home prices rose 32 percent. The increase in housing prices has been more pronounced in the Taipei metropolitan area, adding to the burden of homebuyers. Moreover, this area has posted higher price-to-income (PTI) ratios and loan-to-income (LTI) ratios than elsewhere in Taiwan.

Continued Growth in Real Estate Lending

Amid the housing market recovery and rising housing prices, real estate loans (for house purchases, house repairs, and construction and building) extended by all banks in 2010 amounted to NT\$7,123 billion, or 37.98 percent of total lending. The annual growth rate was also higher than 2009 at 5.74 percent at year-end 2010. Among the three types of real estate lending, loans for construction and building showed the most significant growth of 23.20 percent from 2009 because construction companies' optimism toward the market outlook led to greater housing supply. In terms of loans for house purchases, as the Bank continued to urge banks to closely monitor mortgage-

Real Estate Loans Extended by Banks*

Unit: NT\$ Billion ; %

year /month end	Real Estate Loans		Loans for House Purchases		Loans for House Repairs		Loans for Construction and Building	
	Amount	Annual Change	Amount	Annual Change	Amount	Annual Change	Amount	Annual Change
2008/12	6,594	0.90	4,706	1.66	812	-4.35	1,076	1.81
2009/12	6,736	2.17	4,903	4.20	787	-3.03	1,046	-2.77
2010/12	7,123	5.74	5,166	5.35	668	-15.06	1,289	23.20
2010/ 1	6,745	2.72	4,921	5.22	781	-4.38	1,043	-2.77
2	6,755	3.22	4,924	5.77	775	-4.50	1,056	-1.94
3	6,795	4.10	4,945	6.13	768	-4.92	1,082	2.02
4	6,826	4.59	4,970	6.46	758	-5.96	1,098	4.36
5	6,857	4.97	4,999	6.52	752	-6.43	1,106	6.82
6	6,897	5.25	5,023	6.22	745	-7.21	1,129	10.57
7	6,934	5.59	5,052	5.95	734	-8.15	1,148	14.88
8	6,957	5.61	5,064	5.37	717	-9.77	1,176	19.17
9	6,993	5.69	5,075	5.13	705	-11.50	1,213	22.23
10	7,016	5.72	5,099	5.23	691	-13.01	1,226	23.04
11	7,051	5.68	5,127	5.27	681	-13.75	1,243	22.78
12	7,123	5.74	5,166	5.35	668	-15.06	1,289	23.20

Note: *Banks include domestic banks, medium business banks and foreign banks.

Source: Financial Statistics Monthly, CBC.

lending risks and, later, introduced targeted prudential measures on housing loans in metropolitan Taipei, the annual growth rate of housing loans dropped from 6.52 percent in May to 5.35 percent in December.

Targeted Prudential Measures on Real Estate Loans

In light of housing price hikes in Metropolitan Taipei and continued growth on real estate lending, the Bank decided to take targeted prudential measures to safeguard financial stability, including using moral suasion, enhancing collection and analysis of real estate-associated statistics, conducting target examinations and formulating/amending regulations related to land collateralized loans and housing loans in areas overheated with real estate-related transactions. These preventive policy tools are further explained below.

Moral Suasion

The Bank has urged banks to contain risks related to mortgage lending since October 2009. Actions taken include requesting banks to enhance risk control over home loans granted to real estate investors (for non-residential purposes) in metropolitan Taipei by lowering the loan-to-value (LTV) ratio ceiling, raising interest rates and canceling grace periods. Banks were also urged to formulate appropriate internal policies and rules for vacant land mortgage lending, to request concrete and detailed plans for construction projects from loan applicants, and to apply reasonable LTV ratios and interest rates when reviewing loan applications in this regard.

Enhanced Collection and Analysis of Real Estate Associated Statistics

In order to monitor mortgage lending risks effectively, the Bank began to require bi-weekly reporting from financial institutions in March 2010. In addition, the Bank held training sessions on mortgage-related statistics and reports in December 2010, asking banks to provide complete and accurate statistical information.

Target Examinations

Since April 2010, the Bank has conducted a round of target examinations on real estate lending to urge banks to closely monitor related risks.

Regulations on Land Collateralized Loans and Housing Loans in Specific Areas

The *Regulations Governing the Extension of Housing Loans in Specific Areas by Financial Institutions*, promulgated on June 25, 2010, focus on individuals (natural persons) who have taken out other outstanding real estate loans in Taipei City and 10 districts in New Taipei City.

The Bank's policy measures for housing loans in the Specific Areas have shown promising results during the third quarter of the year. Nonetheless, burgeoning property transactions since October have led to similar concerns of increased bank lending for home purchases in other regions neighboring the Specific Areas. Therefore, in December, Sanxia, Linkou and Damsui districts were added to the prescribed scope of the Specific Areas. In addition, corporate legal persons and land collateralized loans shall be governed by the amended *Regulations*. The amendments entered into force on December 31, 2010.

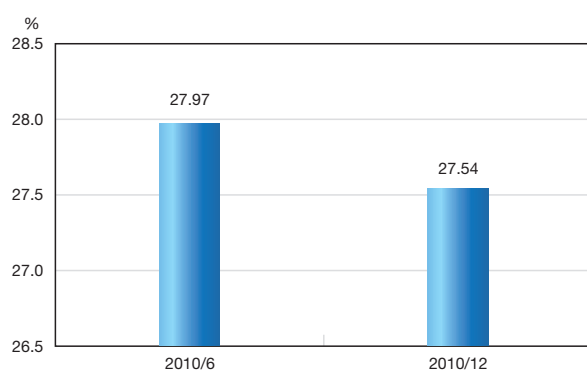
Items		Effective date	
		2010/6/25	2010/12/31
Housing loans	Applicable areas	Taipei City and 10 districts in New Taipei City	Taipei City and 13 districts in New Taipei City
	Maximum LTV ratio on individuals' second housing loans	70%	60%
	Maximum LTV ratio on corporate legal persons' second housing loans	Not specified	60%
Land collateralized loans	Restricted areas	Not specified	Residential or commercial land plots located in urban planning districts (including but not limited to Specific Areas)
	Keypoints	Not specified	1. Financial institutions shall require borrowers to present concrete plans of construction projects. 2. LTV ratio is capped at 65%, where 10% of the approved loan amount shall not be disbursed until the construction commences.

Conclusion: Positive Results of Targeted Prudential Measures

As mentioned in previous paragraphs, the targeted prudential measures were gradually introduced since October 2009 with the aim of enhancing risk control associated with real estate loans extended by financial institutions. They were also an integral part of the policy endeavors under the framework of the administration's Plan to Enhance the Soundness of the Housing Market.

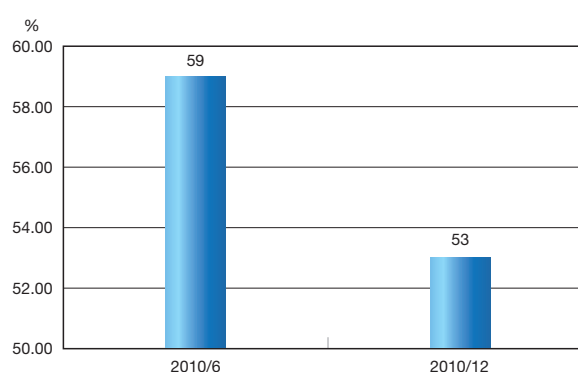
The Bank's measures have been implemented actively and effectively. For instance, the ratio of housing loans to all outstanding loans fell to 27.54 percent at the end of 2010 from 27.97 percent in June 2010. The ratio of newly-extended loans for housing in Specific Areas to total outstanding new housing loans also went down from 59 percent to 53 percent during the same period. Lower LTV ratios and higher lending interest rates demonstrate how much banks have improved in terms of risk control and sound management in the year.

Housing Loans to All Outstanding Loans



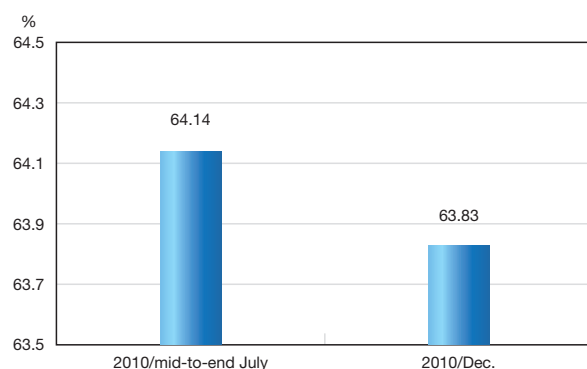
Source: Financial Statistics Monthly, CBC.

Newly-extended Housing Loans in Specific Areas to Total Outstanding New Housing Loans



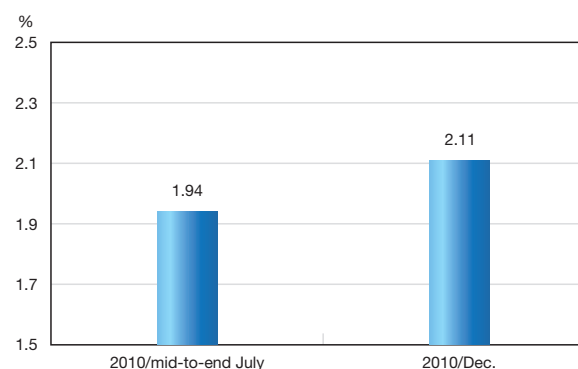
Source: Joint Credit Information Center.

Loan-to-value Ratios of Specific Areas



Source: Department of Banking, CBC.

Mortgage Rate of Specific Areas



Source: Department of Banking, CBC.