

IV. Annex

The Effectiveness of the CBC's Targeted Macroprudential Measures on Real Estate Loans

After the global financial crisis, repatriation of residents' funds triggered by poor performance of their overseas investments, together with factors such as the substantial reduction in estate and gift taxes, low real estate tax, speculation in pre-sale housing and the extension of subway routes in Taipei metropolitan area, pushed up the demand for houses. Consequently, surging transactions, rising home prices, and increasing concentration on real estate loans of banks have heightened banks' credit risk since the second half of 2009.

To prevent financial institutions' funds from being used for real estate speculation, and to urge financial institutions to enhance credit risk management, the CBC implemented a series of targeted macroprudential measures on real estate loans, such as moral suasion, introducing regulations on real estate loans, and relevant supporting measures. Recently, credit risk management associated with real estate loans has improved. With this backdrop, the CBC lifted relevant restrictions in two phases in 2015 and in 2016, respectively, and passed the responsibility of sound management of real estate lending back to banks.

1. The CBC Adopted Targeted Macroprudential Measures on Real Estate Lending in a Step-by-Step Manner

1.1 Three Waves of Moral Suasion from October 2009

Concerned about surging housing prices and increasing concentration on real estate loans by banks, the CBC has employed three waves of moral suasion.

Year/month	Moral Suasion	Contents
2009/10	Urging banks to enhance risk management of housing loans	1. Requiring banks to impose restrictions on loan terms of real estate speculators 2. Requiring banks to submit reports on housing loans every two weeks
2010/9-11	Urging banks to enhance risk management of land collateralized loans	1. Requiring banks to enhance risk management of land collateralized loans 2. Requiring banks to submit monthly reports on land collateralized loans
2012/4	Urging banks to enhance risk management of high-value housing loans	1. Requiring banks to enhance risk management of high-value housing loans 2. Requiring banks to submit monthly reports on high-value housing loans

1.2 Four Rounds of Measures Implemented on Real Estate Loans since June 2010

To provide more specific guidelines regarding these moral suasion concerns for financial institutions to comply with, and in line with the government's policy of "strengthening risk management of real estate lending" under the "Plan to Enhance the Soundness of the Housing Market", the CBC has introduced several rounds of targeted macroprudential measures (i.e., selective credit controls) on real estate loans since June 2010, aiming to further enhance financial institutions' risk management of real estate loans.

Year/month	Measures	Contents
2010/6	Enacting the regulations governing housing loans in Specific Areas	For second or more housing loans for a single borrower who purchases houses in Specific Areas ² , the loans are subject to a cap on loan-to-value (LTV) ratios at 70% with no grace period
2010/12	Amending the regulations governing housing loans in Specific Areas	1. Expanding the scope of Specific Areas ³ and the scope of regulated entities to include corporate legal entities 2. Lowering the LTV ratio cap to 60%
	Enacting the regulations governing land collateralized loans	For loans collateralized by residential or commercial land plots in urban planning districts, borrowers are required to submit concrete construction projects, LTV ratios are capped at 65%, and 10% of approved loans shall be extended only after construction commences
2012/6	Enacting the regulations governing loans for high-value housing loans	Capping LTV ratios of high-value ⁴ housing loans at 60% and removing the grace period
2014/6	Amending the regulations governing housing loans	1. Expanding the scope of Specific Areas ⁵ 2. Capping LTV ratios at 50% for third or more housing loans by a single borrower 3. Revising the definition of high-value housing ⁶ and lowering the LTV ratio ceiling to 50% 4. Lowering the LTV ratio ceiling of housing loans granted to corporate legal entities to 50%, applicable across the country

1.3 Relevant Supporting Measures

To enhance financial institutions' credit risk management of real estate loans, the CBC has also strengthened the collection and analysis of statistical data, conducted targeted financial examinations, and urged banks to exercise self-discipline over housing loans and industrial land collateralized loans.

² Specific Areas here include Taipei City and ten districts in Taipei County covering Banqiao, Sanchong, Zhonghe, Yonghe, Xinzhuang, Xindian, Tucheng, Luzhou, Shulin, and Xizhi. After the administrative rezoning effective December 25, 2010, Taipei County was upgraded to New Taipei City.

³ Three more districts, namely Sanxia District, Linkou District and Tamsui District in New Taipei City, were included.

⁴ Defined as: (1) located in Taipei City or New Taipei City, valued at NT\$80 million or more; (2) located in other areas, valued at NT\$50 million or more.

⁵ Expanding the scope of Specific Areas to include four more districts, namely Wugu District, Taishan District, Bali District, and Yingge District, in New Taipei City and four districts, namely Taoyuan District, Luzhu District, Zhongli District, and Guishan District, in Taoyuan City.

⁶ Redefined as residential properties valued at more than NT\$70 million in Taipei City, NT\$60 million in New Taipei City, and NT\$40 million located elsewhere in Taiwan.

1.3.1 Collecting Statistics of Real Estate Loans and Conducting Targeted Financial Examination

To apprehend the situation of real estate lending by financial institutions, and to monitor if they duly comply with the regulations governed by the CBC, the CBC required financial institutions to submit loan statistics periodically and conducted targeted financial examinations.

Furthermore, the CBC made a proposal at the "Coordination Meeting of Financial Regulators" held in March 2011, recommending the FSC to strengthen financial examinations on real estate loans and dummy account borrowing.

1.3.2 Advising Mortgage Borrowers to Be Mindful of Risks Stemming from Future Interest Rate Changes

In view that interest rate changes may influence borrowers' mortgage interest payments, the CBC requested the Bankers Association of the Republic of China to notify member banks to alert mortgage borrowers to the risks from interest rate changes.

In addition, since mortgage expenditure as a percentage of household income already exceeded 30%, the Board of the CBC reiterated at the September 2013 meeting that borrowers should be mindful of risks from interest rate changes.

1.3.3 Urging Banks to Exercise Self-Discipline on Housing Loans and Industrial Land Collateralized Loans

Year/month	Measures	Contents
2013/3	Urging for self-discipline by banks on housing loans outside the Specific Areas	Banks shall exercise self-discipline with prudent measures on housing loans for properties outside the Specific Areas but already showing a noticeable uptrend in housing prices.
2013/12	Urging for self-discipline by banks on industrial land collateralized loans	In the CBC's meetings with eight major banks self-discipline was called for to keep borrowers from using bank funds for speculative investment in industrial land.
2015/2		The CBC met with the Industrial Development Bureau (Ministry of Economic Affairs), the Banking Bureau and the Financial Examination Bureau (Financial Supervisory Commission), the National Treasury Administration (Ministry of Finance), the Joint Credit Information Center, and ten major banks to discuss the principles of approving industrial land collateralized loans, and to obtain a consensus on terms of idle industrial land collateralized loans; The CBC also urged banks to adopt self-discipline according to the aforementioned principles and to incorporate them into internal credit extension rules.

1.4 Two-Phase Unwinding of Measures on Real Estate Loans from August 2015

Given that financial institutions' credit risk management of real estate loans has improved and the time seemed appropriate to exit macroprudential measures, the CBC made amendments to these measures in two phases.

Year/month	Measures	Contents
2015/8	Relaxing some of the regulations governing housing loans	1. Narrowing the scope of Specific Areas ⁷ 2. Raising the LTV ratio ceiling on housing loans for corporate legal entities, high-value housing loans and a single person's third (or more) housing loans to 60%
2016/3	Repealing the regulations governing real estate loans except for high-value housing loans	1. High-value housing loans to remain regulated in view of volatile house prices and still high concentration of new high-value housing loans which may incur high risks borne by banks 2. Risk management of the other types of housing loans to henceforth rely on banks' own terms and self-discipline

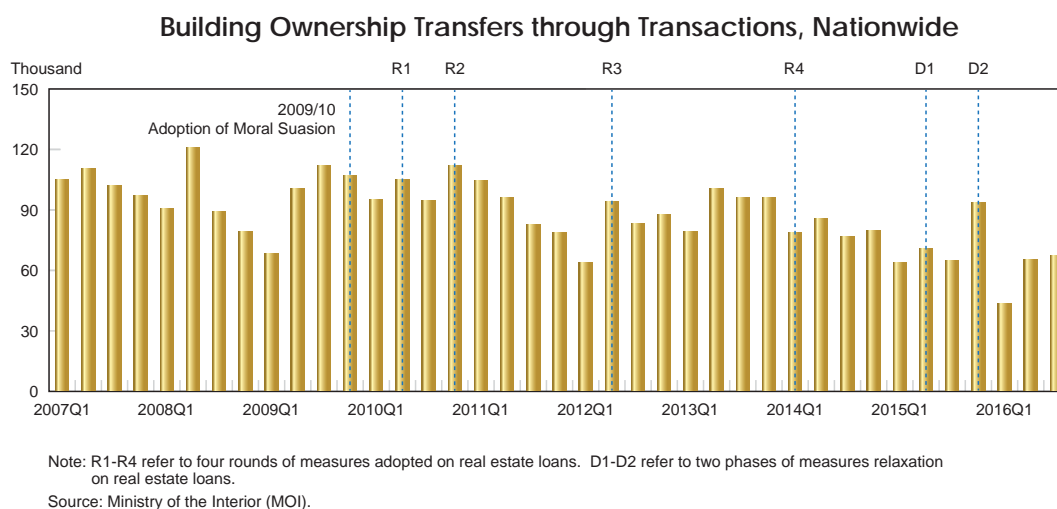
2. Housing Market Returned to Fundamentals As Speculative Demand Abated

With the real estate market rebounding in the second half of 2009, housing prices continued to increase. To sustain financial stability, the CBC implemented targeted macroprudential measures on real estate lending. With these measures, along with the government's real estate-related tax reform (such as raising property tax and levying a consolidated housing-and-land income tax), speculative transactions have decreased and housing loans were mainly taken out by first-time or relocating home buyers. Housing prices trended up at a slower pace and the housing market returned to fundamentals.

2.1 Number of Ownership Transfers through Transactions Decreased

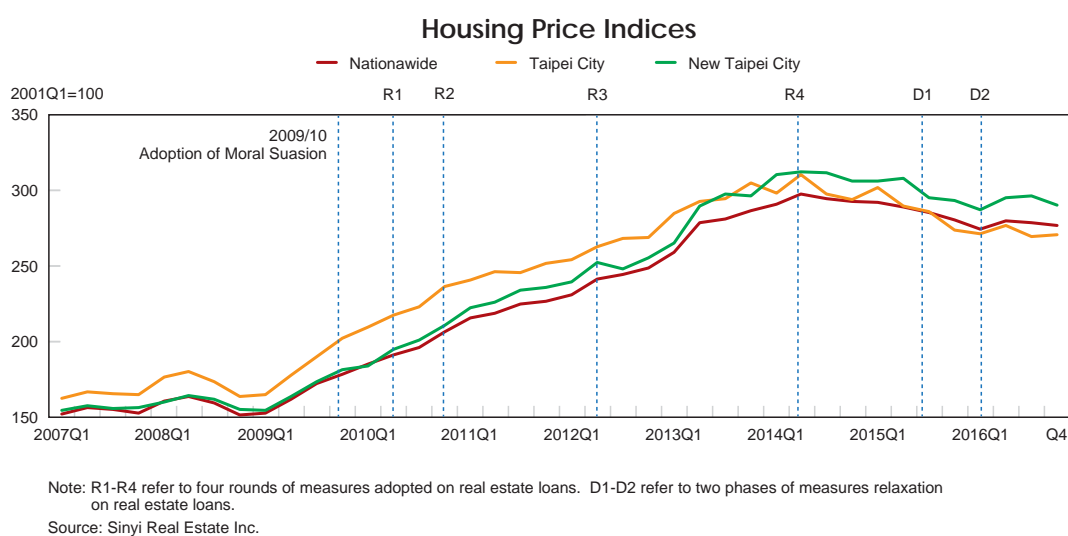
The government introduced the "Plan to Enhance the Soundness of the Housing Market" in April 2010. The CBC also implemented several targeted macroprudential measures progressively to strengthen risk management of real estate loans in line with the aforementioned plan. In addition, the specifically selected goods and services tax was imposed in June 2011 and the property transaction price registration mechanism was launched in August 2012. As a result, housing market transactions moderated. Later on, the regulations governing housing loans were tightened by the CBC in 2014, while people who own multiple houses were faced with a heavier tax burden, and a consolidated housing-and-land income tax was implemented beginning 2016. Consequently, housing market transactions continued to diminish. The number of building ownership transfers through transactions nationwide dropped from 407 thousand in 2010 to 245 thousand in 2016.

⁷ Removed two districts in New Taipei City, namely Bali and Yingge, and four districts in Taoyuan City, namely Taoyuan, Luzhu, Zhongli and Guishan.



2.2 Housing Prices Moderated

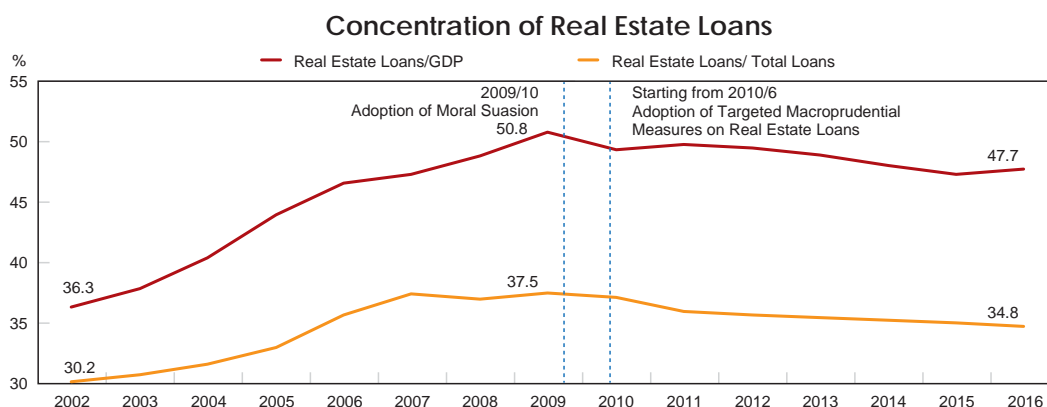
Housing prices for existing homes increased dramatically from the second quarter of 2009, particularly in Taipei City and New Taipei City. Owing to continual real estate market enhancement measures implemented by the government since 2010, housing prices grew at a moderate pace. As transaction volume in the housing market contracted, housing prices have trended slightly downwards since 2014.



3. The CBC's Targeted Macroprudential Measures on Real Estate Loans Have Proved Effective

3.1 Bank Lending Concentration on Real Estate Loans Fell

The ratio of housing loans to GDP declined from 50.8% at the end of 2009 to 47.7% at the end of December 2016. The ratio of housing loans to total loans declined from 37.5% to 34.8% during the same period.



Notes: 1. Real estate loans include loans for house purchasing, repairs and improvement, and loans for construction.

2. Include the data of domestic banks and the local branches of foreign and Mainland Chinese banks.

Sources: 1. CBC.

2. DGBAS, Executive Yuan.

3.2 For Housing Loans in Specific Areas, LTV Ratios Turned Lower, and Lending Rates Rose

During the period when targeted macroprudential measures were implemented by the CBC, the LTV ratios of housing loans within Specific Areas, land loans, and high-value housing loans have declined and lending rates have generally risen.

The targeted macroprudential measures have proven to be effective. Financial institutions have prudently managed credit risk associated with real estate loans. This would ensure financial stability and help promote sound development in the housing market.

Loan Item	LTV Ratio (%)		Lending Rate (%)	
	Before Measures Adopted	After Measures Adopted	Before Measures Adopted	After Measures Adopted
Specific Areas Housing	63.91 (2010/7)	57.21 (2016/2)	1.97 (2010/7)	2.07 (2016/2)
Land	68.36 (2010/12)	62.36 (2016/2)	2.08 (2010/12)	2.71 (2016/2)
High-Value Housing	80-90 ¹ (2012/5)	57.93 (2016/12)	1.84 (2012/5)	1.70 ² (2016/12)

Notes: 1. In some cases, the LTV ratio was higher than 90%.

2. The reason the lending rate on high-value housing loans in Dec. 2016 was lower than that before adoption of credit controls is that banks lowered their housing loan interest rates following the CBC's four policy rate cuts since Sept. 2015.

4. Conclusion

Sound development in the real estate market is indispensable to financial stability, the lack of which could imperil macroeconomic integrity. Looking forward, the CBC will continue to monitor financial institutions' credit risk management of real estate loans and the enforcement results of targeted macroprudential measures, and undertake appropriate policy actions in a timely manner to ensure financial stability.

