

# Taiwan Banks Could Withstand A Potential Property Downturn, Report Says

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This report does not constitute a rating action.

Softening demand in Taiwan's property market could push up nonperforming loans for banks over the next one to two years. Most lenders have good defense and could withstand moderate volatility in the domestic property market.

That's according to a report we published today, titled "**Taiwan Banks Could Withstand A Potential Property Downturn.**"

"We tested banks' sensitivity to stress scenarios if property prices weaken and sector nonperforming loans (NPLs) rise," said Taiwan Ratings credit analyst Eunice Fan. "The sector has good provisions and financial buffers, and would avoid a major hit to capital and earnings even if property-related NPLs rose materially."

Residential property transactions are cooling after brisk price rises and a jump in mortgage lending last year. While house prices have stayed strong, a reversal is possible.

We anticipate banks will slow their pace of mortgage lending growth to 3%-5% over the next two years.

Banks' property-related exposure (including home mortgages, housing-repair loans and real estate development and construction lending) remain at roughly a third of total loans.

In our view, the potential credit losses associated with property market volatility could be absorbable by banks' core earnings. The loan-loss reserves applied to real estate loans would also act as a buffer.

The regulator has required banks to set aside a 1.5% credit loss reserve for mortgage and real estate lending, higher than the 1% general reserve for other loans. This is precautionary, given the 90-day delinquency rate for mortgage loans was a low 0.07% in June 2024, and the low level has been maintained since 2021.

In our base case, we think NPLs for mortgages will stay below 0.2% of total loans, and real estate NPLs below 0.5% for the next two years. Our stress scenarios tested up to 2% NPLs for mortgage and 6% for real estate loans.

The full report is available to subscribers of TRC's Rating Research Service (<https://rrs.taiwanratings.com.tw/>) and for members of the media by contacting Simon Chen at +886-2-2175-6871 or via email at [simon.chen@taiwanratings.com.tw](mailto:simon.chen@taiwanratings.com.tw).

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