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Research on Relief Loans in Taiwan Banking System

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ABSTRACT: Due to geographical position, Taiwan is frequently invaded by natural disasters, especially typhoons and earthquakes. These disasters cause hundreds of deaths and huge damages of properties in suffered areas. For instance, in 2009, Typhoon Morakot brought catastrophic damages. Hundreds of people died and enormous losses were caused in southern Taiwan.

Taiwan is a warm island. When catastrophe occurs, donations and supplies throughout Taiwan would flood into stricken regions immediately to help sufferers pass through their difficulties. At the same time, the government would send numerous search-and-rescue teams into the areas and deploy relief measures to help sufferers rebuild their homes. As a member of Taiwan's society, banks should do their best to help sufferers from sorrows. Therefore, after disasters, banks in Taiwan immediately provide favorable loans to help victims. These specific loans, with lower interest rates and easier application procedures, will give victims substantial helps to be back to normal lives.

This article mainly focuses on relief loans and details are described in separate chapters. The content covers funding sources, eligible applicants, applicable scope, loan amount, repayment methods, interest rate, and application procedures.

KEYWORDS: relief loans, disaster

1. INTRODUCTION

Due to geographical position, Taiwan is frequently invaded by natural disasters, especially typhoons and earthquakes. These disasters cause hundreds of deaths and huge damages of properties in suffered areas.

Taiwan is a warm island. When catastrophe occurs, donations and supplies throughout Taiwan would flood into stricken regions immediately to help sufferers pass through their difficulties. At the same time, the government would send numerous

search-and-rescue teams into the areas and deploy relief measures to help sufferers rebuild their homes.

As a member of Taiwan's society, banks should do their best to help sufferers from sorrows. Because natural disasters occur continuously, most government-owned banks in Taiwan provide relief loans to help victims recover from damages. These relief loans include:

1.1 Natural disaster reconstruction loans for individual victims

1.2 Natural disaster reconstruction loans for

enterprises

1.3 Natural disaster reconstruction loans for farmers, fishermen, and related enterprises

1.4 Natural disaster reconstruction loans for small and medium enterprises

These specific loans, with easier application procedures, longer term of repayment, and lower interest rates, will give substantial helps to the victims.

In August 2009, Typhoon Morakot struck Taiwan severely. Rare and rapid precipitation damaged southern and eastern Taiwan. Typhoon Morakot caused not only floods and stops of railroad services and highway connections, but also serious landslides in mountain areas. 673 people died and 26 were missing. The agriculture losses were over NTD 19.5 billion. Due to these severe damages caused by Morakot, private organizations and Taiwan government joined disaster relief works without any hesitation. Meanwhile, under the guidance of the government and the Bankers Association of the Republic of China (BAROC), Taiwan banks provided all kinds of relief loans for victims' choices. These banks were willing to take over victims' remaining principles of original housing mortgages. Therefore, the sufferers could get substantial helps to release their burdens and to rebuild their homelands.

As the banking industry aggressively joining in the rescue operations, their achievements were remarkable and applauded by every community. In other words, helping sufferers to rebuild their homes did not only fulfill banks' own social responsibilities, but also enhance their corporate images.

2. SOCIAL RESPONSIBILITY of BANKS

Most of the banks in Taiwan are commercial banks. Their goals are to maximize profits. Most of their profits are earned from spreads between deposit and loan interest rates. Funds for loans are from public savings. Therefore, with the idea of contributing to the society, most of the banks eagerly devote themselves into public services to fulfill their social responsibilities. In other words, earning profits is not the only purpose of banking business. Banking business is a caring business to public welfare. It should guarantee rights of depositors, assist developments of different industries, and support government's financial policies to ensure enhancement of whole economy.

Loan principles set by BAROC indicate that banks should follow five basic guidelines, security, liquidity, public responsibility, profitability, and growing possibility. Among the five basic guidelines, public responsibility emphasizes the social responsibility that banks should take. Therefore, conducting relief loans is the incarnation of public responsibility.

Typhoon Morakot caused numerous deaths and losses. Meanwhile, it impacted the economy tremendously. However, the banking sector acted at first place after the disaster happened. Under guidance of the government and relevant departments, the banking sector immediately established various methods of relief loans to help the sufferers to recover.

3. SPECIFIC RELIEF LOANS OFFERED BY TAIWAN BANKS

After the violent strike of Typhoon Morakot, helping the sufferers was an integral and unanimous activity. With guidance of government sectors and BAROC,

banks deeply involved in these reconstruction programs. Specific relief programs of each sector will be systematically described in Chapter 3.

3.1 Bankers Association of the Republic of China (BAROC)

Under resolutions on August 12th, 2009, relief programs for sufferers' original housing mortgages are described as below:

- 3.1.1 For sufferers' original housing mortgages, banks were recommended to accept applications of delaying to pay the principle for 2 years.
- 3.1.2 Terms of original housing mortgages should be prolonged with extensions of principle redemptions.
- 3.1.3 Interest rates of original housing mortgages were also recommended to be lowered in order to ease sufferers' burdens. These interest rate deductions were determined by banks.
- 3.1.4 Certificates of disaster-affected issued by local authorities should be provided, while sufferers apply for relief loans. Otherwise, damage-affected proves authenticated by banks were also qualified to apply. Meanwhile, applications should be filed before December 31st, 2009.

On August 27th, 2009, the council passed relief programs and reported them for verification to the Financial Supervisory Commission, Executive Yuan, R.O.C.. Later, these programs were announced and conducted by the banks. Details were listed below:

- 3.1.5 Favorable interest rates and extensions of

loan redemption programs for sufferers:

The original two-year principle extension paying program for sufferers remained unchanged. However, interests during the extension should be exempt. According to the regulation, banks could apply for interest subsidies from the government.

- 3.1.6 Housing mortgages bearing programs for sufferers:

3.1.6.1 Bearing principles:

Identified by the government that houses were so devastated to be unlivable, the original lending banks should bear the unpaid loans of houses and then take over properties or lands from debtors. If lands have not been eliminated, the government should bear the sufferers' unpaid loans and win mortgages of lands as well.

3.1.6.2 Bearing amount:

Depending on conditions of properties and abilities of solvency of sufferers, financial institutions offer two solutions, one was bearing house and land loans, and the other was bearing part of house loans only. Moreover, depending on whether the land existed or not, there were two kinds of situations:

3.1.6.2.1 Land eliminated:

Until August 8th, 2009, the unpaid house and land loans should be borne by financial institutions. In remaining years of the loans, financial institutions could apply for subsidies from the government and the subsidiary annual interest rate could be up to 2%.

3.1.6.2.2 Land existed:

The government should bear the sufferers' unpaid loans and win mortgages of lands as well.

3.2 The government:

On August 28th, 2009, the government announced special regulations after Typhoon Morakot severely struck Taiwan. Regulations related to banks' relief loans are listed below:

3.2.1 Article 7th

If identified by the government, houses were so devastated to be unlivable and houses or lands were taken over by original lending banks, banks could apply for subsidies from the Ministry of Interior and the subsidiary annual interest rate could be up to 2%. If land existed, the government should bear the sufferers' unpaid loans and win mortgages of lands as well.

The scope, methods and procedures for interest subsidies, identifications of houses could be utilized or not, and the other matters should be set by the Ministry of Interior, after consulting with related departments.

Financial institutions could extend terms of payments of sufferers' housing loans and credit card debts which were applied before disasters. Meanwhile, payments of principles and other fees could be extended, interests occurred in the extension should be exempted and banks' interest lost could be subsidized by the government. Scopes of subsidies, terms of extensions, operating procedures, and other matters should be set

by the Financial Supervisory Commission, Executive Yuan, R.O.C., after consulting with related departments.

3.2.2 Article 18th

If agricultural lands, fish farms, and other agricultural related facilities that were set as collaterals for loans were damaged and destroyed, financial institutions could take over these collaterals in the scope of the rest of loans.

According to regulations mentioned above, financial institutions could be subsidized by the government for up to 80% of bearing loans. The scope, methods and procedures for subsidies, and the other matters should be set by the Council of Agriculture, Executive Yuan, after consulting with the Financial Supervisory Commission, Executive Yuan, R.O.C..

Hence, departments supervised by the Executive Yuan, including the Ministry of Economic Affairs, the Council of Agriculture, and the Financial Supervisory Commission, continuously announced related relief programs. These programs had detail regulations of banks' relief loans in order to support sufferers.

Meanwhile, the Central Bank of Taiwan coordinated eight government-owned banks to conduct relief loans of Typhoon Morakot. These 8 banks were Bank of Taiwan, Taiwan Cooperative Bank, Land Bank of Taiwan, Hua Nan Commercial Bank, Chang Hwa Bank, Bank of Kaohsiung, Taiwan Business Bank, and Mega International Commercial Bank. Relief loans for Typhoon Morakot were listed below:

3.2.1 Natural disaster reconstruction or repair

loans for individual victims

application.

3.2.2 Natural disaster reconstruction loans for small and medium enterprises

3.3.3.2 Repair Loans

3.3 Banks

Guided by the government and BAROC, details of relief loans are described as below:

3.3.3.2.1 A certificate of property ownership.

3.3.1 Source of capital: Conducted by banks' own capital.

3.3.3.2.2 A certificate containing every registered residence of the household.

3.3.2 Qualification of applicants:

3.3.3.2.3 A certificate issued by local government to prove that properties were unlivable because being devastated by Typhoon Morakot,.

3.3.2.1 Victims of Typhoon Morakot (People who possessing a damaged property and registering in it)

3.3.3.2.4 Declaration of no double application.

3.3.2.2 Among property owner, spouse, or lineal relatives, only one is eligible to apply.

3.3.4 Period of Accepting Applications: From now to August 31st, 2010 (The period covered almost one year after disasters.)

3.3.2.3 Each applicant can only apply for one of reconstruction loans, repair loans and reconstruction / re-purchasing loans provided by Relief Foundation. Double application is prohibited.

3.3.5 Amount:

3.3.5.1 Reconstruction / Re-Purchasing Loans: No more than TWD3,500,000 for each applicant.

3.3.3 Documents required:

3.3.5.2 Repair Loans: No more than TWD1,500,000 for each applicant.

3.3.3.1 Reconstruction / Re-Purchasing Loans:

3.3.6 Approved Amount:

3.3.3.1.1 A certificate containing every registered residence of the household.

3.3.6.1 Reconstructed/ Re-Purchasing Loans:

3.3.3.1.2 A certificate issued by local government to prove properties were unlivable because being devastated by Typhoon Morakot.

3.3.6.1.1 80% of victims' wish amount was approved at most. If they did not satisfy with the amount, they could apply for a credit loan to get the rest 20%. However, total amount of these two could not exceed

3.3.3.1.3 Declaration of no double

TWD 3,500,000.

3.3.6.1.2 Total amount, including the credit loan, should be 100% guaranteed by Small and Medium Enterprise Credit Guarantee Fund of Taiwan (Taiwan SMEG).

3.3.6.2 Repair Loans:

3.3.6.2.1 The goal is to restore to the situation before disasters happened.

3.3.6.2.2 80% of victims' wish amount was approved at most. If they did not satisfy with the amount, they could apply for a credit loan to get the rest 20%. However, total amount of these two could not exceed TWD 1,500,000.

3.3.6.2.3 Total amount, including the credit loan, should be 100% guaranteed by Taiwan SMEG.

3.3.7 Loan Interest Rate:

3.3.7.1 Interest rate of bank: Two-year savings mobile rate of Chunghwa Post Co., Ltd. plus 0.8% annual interest rate.

3.3.7.2 Subsidiary interest rate of the government: 1.333%. (This equaled interest rate of bank minus interest rate paid by borrowers.)

3.3.7.3 Interest rate paid by borrowers: Two-year savings mobile rate of Chunghwa Post Co., Ltd. minus 0.533% annual interest rate.

3.3.8 Term and Repayment methods:

3.3.8.1 Reconstruction / Re-Purchasing Loans: 20 years at most, including no more than 5 years of delaying payment of the principle. When the principle suspension period ends, the principle with interest should be equally divided in the rest years by annuity method.

3.3.8.2 Repair Loans: 15 years at most, including no more than 3 years of delaying payment of the principle. When the principle suspension period ends, the principle with the interest should be equally divided in the rest years by annuity method.

3.3.9 Guarantor: Not necessary.

4. CONCLUSION

Typhoon Morakot brought severe damages to Taiwan in August, 2009. Based on coordinating with policies and fulfilling social responsibilities, banking industry helped to release burdens of sufferers and get through the difficulties. Relief loans provided victims for practical assistances. Moreover, to enhance efficiencies of relief loans, banking industry adhered to principles of rapidity and simplicity. Banking industry's deep involvement in reconstruction was one of the main reasons that damaged areas could recover in a short time. Following are several reasons that banks could coherently and effectively join the relief work:

4.1 The government and related departments rapidly issued recovery policies right after the disaster. These organized procedures successfully guided banks to conduct relief loans.

4.2 Born with the nature of public responsibility, banking industry showed greatest humanitarian

caring on sufferers. Therefore, with resolutions of BAROC, the only goal for banks was to devote themselves to relieve victims of disasters.

4.3 Funding for relief loans came from the banks' own capital. Sufficient financial resources could amplify successes of relief loans and enrich insufficient government budgets.

4.4 Favorable interest rates of relief loans could relieve burdens of victims. Also, interest subsidies from the government would enhance banks' willingness to conduct these relief loans.

4.5 If the collateral was insufficient, Banks could get 100% guarantee from Taiwan SMEG to ensure claims to the debts.

4.6 Procedures of applying relief loans were quick and easy. Standard operating procedure was set to manage every step, avoiding resources to be carved up.

In the future, happenings of natural disasters are still unpredictable. Therefore, banks should have prepared relief loans and comprehensively consider actual needs of sufferers, including individuals, corporations and small and medium enterprises. In short, banks should take their social responsibilities to help victims to go through the sorrows with practical solutions.