Financial Services Commission

Press Release

April 26, 2021

FSC TO WORK ON INCREASING THE SUPPLY OF MID-RANGE INTEREST RATE LOANS FOR MID-TO-LOW CREDIT HOLDERS

The FSC announced its plan to increase the availability of mid-range interest rate loans and seek further reduction in lending rates on April 23 as a follow-up measure of the lowering of the maximum legal lending rate.[1]

The measures focus on (a) improving rules to channel a vast supply of mid-range interest rate loans to borrowers with mid-to-low credit backgrounds, (b) lowering lending rates by requiring internet-only banks to expand their supply of mid-range interest rate loans, making improvements to the savings banks' credit evaluation model and making it easier for borrowers to switch loans, and (c) encouraging nonbanks to provide more mid-range interest rate loans.

It is expected that the measures will make available mid-range interest rate loans in the amount of approximately KRW32 trillion to two million individuals and KRW35 trillion to 2.2 million borrowers in this year and the next, respectively.

KEY MEASURES

I. IMPROVING RULES TO EXPAND THE AVAILABILITY OF MID-RANGE INTEREST RATE LOANS

(CREDIT SCORE REQUIREMENT FOR GOVERNMENT-INITIATED GUARANTEED LOAN) The government-initiated guaranteed loan thus far had no credit score requirement for borrowers. As a result, about fifty-five percent of borrowers were those with high credit standings in 2020. Therefore, a new credit score requirement will be introduced to channel more than seventy percent of government-initiated guaranteed loans to the borrowers in the lower thirty percentile of credit standing.

(IMPROVEMENT FOR PRIVATE SECTOR LENDING) Until now, only the previously announced mid-range interest rate loans were counted toward the performance of private sector lenders and this resulted in arbitrary counting. Therefore, the authorities will change the scope of mid-range interest rate loans that are recognized by the authorities to be all non-backed credit loans offered at below the maximum interest rate allowed within each sector that are provided to borrowers in the lower fifty percentile of credit standing. In addition, the interest rate cap in each sector will be lowered in line with the reduced maximum legal lending rate.

[1] Please click here to see the press release dated March 30, 2021.

(AS IS)

	Bank	Mutual finance	Credit card	Capital	Savings bank
Weighted average rate	6.5%	8.5%	11.0%	14.0%	16.0%
Rate cap	10.0%	12.0%	14.5%	17.5%	19.5%

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Rate cap	6.5%	8.5%	11.0%	14.0%	16.0%

(INCENTIVES FOR BANKS TO PROVIDE MID-RANGE INTEREST RATE LOANS) When target management of the household debt growth resumes, the authorities will consider granting a partial exemption for banks' mid-range interest rate loans and will take into account their performance when evaluating their management status. Each bank will develop an annual plan for the supply of mid-range interest rate loans and make it public on a voluntary basis. A comparative data on the banks' performance with regard to how much mid-range interest rate loans they provided will be made public every quarter.

II. PROMOTING INTEREST RATE REDUCTION THROUGH DIGITAL FINANCE TECHNOLOGIES

(MID-RANGE INTEREST RATE LOANS BY INTERNET-ONLY BANKS) The authorities will strengthen supervision and oversight over internet-only banks to promote an expansion of their supply of mid-range interest rate loans for borrowers with mid-to-low credit backgrounds in line with the intended goal of their establishment. The authorities will encourage internet-only banks to set up their own mid-to-long term plans to expand the availability of mid-range interest rate loans and will regularly monitor their implementation status and make them public.

(CREDIT SCORING SYSTEM FOR SAVINGS BANKS) The authorities will operate a taskforce to develop a credit scoring system intended for savings banks and targeting mid-to-low credit holders. About one million pieces of credit-related data gathered from borrowers with mid-to-low credit standings will be utilized in the process.

(DIGITAL TECHNOLOGIES FOR EXPANDING RELEVANT SERVICES) The authorities will work to establish and expand the availability of relevant services, such as the use of non-financial data for lending and providing comparative analysis on loan products, etc. These digital technology based services will help lower interest rates for those with mid-to-low credit standings and promote the development of online one-stop lending infrastructures.

III. ENCOURAGING NONBANKS TO PROVIDE MORE MID-RANGE INTEREST RATE LOANS

(SAVINGS BANKS' INTEREST RATES AND FEES) The authorities will work on revisions to the best practice guidelines on the interest rate calculation system of savings banks to encourage them to bring down rates to a reasonable level. In addition, fees related to loan brokerage services will be reduced by one percentage point and the authorities will work to ensure that brokerage fees for platform businesses will not be set at an exorbitant level in the process of setting up an online platform infrastructure that will provide services for switching loans.

(Bank-nonbank linked mid-range interest rate loans) The authorities will encourage a more closely coordinated lending system between banks and nonbanks whereby banks can serve as a connection to nonbanks for customers with mid-to-low credit standings. The authorities will actively support MOUs between savings banks and local banks in this regard and come up with best practice guidelines to provide a standardized work protocol.

(Regulatory Incentives for Nonbanks) The authorities will expand regulatory incentives on mid-range interest rate loans provided by nonbanks to help them absorb the needs of borrowers with low credit standings. The authorities will also lift some of the unfavorable measures being applied to high interest rate loans issued by credit finance businesses and savings banks, such as disadvantages in calculating the loan-to-deposit ratio and requiring additional loss provisions, to facilitate their offering of mid-range interest rate loans to borrowers with low credit standings.

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