



Financial Services Commission
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Press Release

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“SUNSHINE LOANS” FOR LOW-INCOME HOUSEHOLDS

1. Background

In the wake of global financial crisis, low-income households have become more in need of loans; however, loans for them have become less available as financial institutions for low-income households have been more concentrated on equity investment and project financing. As a result, low-income households have been increasingly relying on private lenders and credit business providers, thus facing the burden of paying higher interests.

Moreover, as the Bank of Korea (BOK) recently raised the base interest rate, if it leads to a rise in market interest rates, low-income household would bear higher burden of interest payment.

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(1) Starting from the end of July, approximately KRW 10 trillion will be extended over the next five years through the “Sunshine Loan” program by financial institutions* for low-income households.

*The National Agricultural Cooperative Federation, the National Federation of Fisheries Cooperatives, the National Credit Union Federation of Korea, the Korean Federation of Community Credit Cooperatives, and mutual savings banks

(2) The loans will be extended to individuals whose credit rating ranges from level 6 to level 10 or small business owners whose annual income is less than KRW 20 million.

(3) Interest rates will be set by each financial institution but with a ceiling* in place.

*As of July 20, the interest rate ceiling is 10.6% for financial cooperatives, 13.1 % for mutual savings banks. The ceiling may be adjusted depending on changes in funding costs of one-year maturity term deposits.

(4) The Sunshine loan program aims to help low-income households start up business (up to KRW 50 million), provide operating capital for business (up to KRW 20 million), or support urgently needed living expenses (up to KRW 10 million).

(5) Assuming that each individual makes a KRW 10 million loan, one million people are expected to benefit from the Sunshine loan program over the next five years. The Sunshine loan program will reduce the low-income household’s interest payment burden by KRW 6 trillion over the next 10 years.



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2. Detailed Plans

(1) Eligibility for Sunshine loans

Individuals whose credit rating ranges from level 6 to level 10 or low-income earners (including small-business owners, farmers and fishermen) whose annual income is less than KRW 20 million are eligible for the Sunshine loan program. Estimated by credit bureaus, the number of eligible applicants amounts to 17 million.

Those who are delinquent or default on loans, or who can't afford to repay their debt, thereby undergoing a work-out program or filing for personal bankruptcy, are not eligible.

(2) Operational details

Starting July 26, over the next five years, about KRW 10 trillion will be extended in loans guaranteed by 16 regional credit guarantee foundations and the Korea Federation of Credit Guarantee Foundations (KOREG). They are to provide a 85% guarantee for the loans, holding financial institutions accountable for the remaining 15% to prevent moral hazard and incentivize financial institutions to conduct a thorough assessment of borrowers' credit ability.

Interest rates will be set by each financial institution within the limitation of an interest rate ceiling. The rates may be adjusted by every three, six, or twelve months as borrowers choose. As the floating rate is composed of funding cost and spreads, changes in funding cost will be reflected on lending rates. Funding cost is a weighted average of interest rates on one-year maturity deposit whose maturity date comes two months before interest rates change.*

*funding cost(one-year maturity term deposit which matures in May 2010): 4.27% for financial cooperatives, 4.15% for savings banks.

As of July 2010, the interest rate ceiling is 10.6% for financial cooperatives, 13.1% for mutual savings banks.

*There is a 1% annual fee for the loan guarantee, but given that only 85% of the loans will be guaranteed, borrowers will have to pay 0.85% annually for the remaining balance.

If low-income earners, who have been making loans mostly from mutual savings banks or credit business providers, turn to the Sunshine loan program, their burden of interest payment would be significantly eased as the interest rate on their loans is to be lowered from 30~40%* to 10%.

*As of December 2009, credit business providers apply an average 41.2% rate on their loans. As of April 2010, a lending rate of mutual savings banks on loans extended to level 6 to level 10 credit holders is 32.6%.



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3. Expected Effects

The Sunshine loan program will provide low-income households with more access to financial services and ease their burden of interest payment. Assuming that each individual borrows KRW 10 million, if the maximum KRW 10 trillion is extended in loans over the next five years, the number of potential beneficiaries will reach one million. If those who used to make loans from savings banks or credit business providers shift to the Sunshine program, their burden of interest payment will be reduced by KRW 6 trillion with their interest rate being lowered from 30~40% to around 10%. In particular, the Sunshine loan program does not require cross-guarantee, which is usually required for financial cooperatives, so that more loans will be made available to low-income earners.

4. Future Schedules

The National Agricultural Cooperative Federation, the National Credit Union Federation of Korea, the Korean Federation of Community Credit Cooperatives, savings banks, and the National Federation of Fisheries Cooperatives will start to extend Sunshine loans starting July 26, and the National Forestry Cooperative Federation will launch the program starting August 16.

The FSC plans to conduct performance reviews on a regular basis to make necessary improvement to the Sunshine loan program in a timely manner. Based on the sales performance of sunshine loans, some modifications will be, if necessary, made to operational details such as eligibility for loans and lines of credit.

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