Financial Services Commission

Press Release

November 24, 2016

FOLLOW-UPS ON THE HOUSEHOLD DEBT MANAGEMENT MEASURES ANNOUNCED ON AUG. 25

The FSC announced follow-up measures on household debt management as the measures announced on August 25, 2016 started to show a sign of policy effects, particularly in slowing down the pace of household debt growth in the non-banking sector and collective lending. Since the August 25 measures took effect, collective lending for apartment buyers and non-residential mortgages from the mutual banking sector fell significantly.

① The outstanding balance of collective loans remains on the rise as loans for middle payments for previously-signed contract were taken out. However, the amount of newly approved loans for middle payments to purchase an apartment sharply fell in October.[1]

② The growth pace of household loans in the mutual banking sector started to slow down in November since the loan-to-value ratios on non-residential mortgages in the sector were tightened on October 31.

The follow-up measures are aimed to extend tighter screening standards for loan approvals, to collective mortgages and loans from mutual finance institutions, which have been under less strict standards than bank mortgages. Guidelines for loan screening will be applied to such collective loans and mutual finance loans as well, under the principle that household debt should be borrowed ***within the borrower's repayment ability*** and ***repaid in installments from the beginning***.

- For pre-sale of new apartments after January 1, 2017, home buyers' collective loans to pay the remainder of the money will be subject to tighter screening standards, as currently applied to banks' mortgages.

- Mutual finance institutions will establish and implement their guidelines for screening loan applications in the first quarter of 2017.

- The debt service ratio(DSR) will be used as a reference from early December when financial institutions screen loan applications and assess borrowers' repayment ability.

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For any inquiry, please contact Foreign Press & Relations Team at fsc_media@korea.kr

[1] The amount of new loans for middle payments dropped from a monthly average of KRW 4.5 trillion between January and September 2016 to KRW 1.6 trillion in October.