

FSC CHAIRMAN DISCUSSES GOVERNMENT PLANS TO CURB OVERHEATING IN HOUSING PRICES

FSC Chairman Eun Sung-soo held talks on tightening mortgage regulations to curb overheating in housing prices on December 16. Chairman Eun urged careful preparation and coordination from all financial regulators as some of the newly introduced measures, such as a ban on mortgage lending for high-priced homes, will go into effect beginning tomorrow. Chairman Eun also underscored the importance of both micro- and macro-prudential management in our financial system.

KEY MEASURES

I. PROHIBIT MORTGAGE LOANS ON HIGH-PRICED HOMES

The government will prohibit mortgage loans on houses valued over KRW1.5 billion in government-designated speculative areas.

II. STRENGTHEN MORTGAGE LENDING RESTRICTIONS IN SPECULATIVE AREAS

For properties valued over KRW900 million in speculative areas, a loan to value (LTV) ratio of 20 percent will be applied for values in excess of KRW900 million, while a 40 percent LTV ratio will continue to apply for amounts up to KRW900 million.

In addition, the government will gradually bring down debt service ratios (DSR) to 40 percent in all financial sectors¹ by the end of 2021 in order to prevent unsecured personal loans from being diverted into home purchases.

For individuals who own a single home and subsequently purchase a second home and for non-homeowners who purchase a property valued over KRW900 million, the current requirement to sell existing property and move into the newly purchased home within 2 years will be reduced to 1 year.

III. IMPROVE MANAGEMENT OF LOANS IN LEASING BUSINESS

Within the speculative areas designated by the government, the Rent to Interest (RTI)² ratio for individual home leasing business operators will be raised from the current 1.25 times to 1.5 times.

¹ Current DSR: 40 percent in banking sector & 60 percent in non-bank sectors

² Annual income from leasing business / total interest payments on leasing business

IV. PREVENT OPPORTUNISTIC INVESTMENT BEHAVIOR USING JEONSE³

The government aims to prevent opportunistic investment behavior using jeonse by requiring multiple home owners or those who purchase homes valued over KRW900 million to pay off loans borrowed for jeonse.

The Seoul Guarantee Insurance will begin to impose a restriction on jeonse loan guarantees if the applicant is in possession of a property worth more than KRW900 million, as is the case with the Korea Housing Finance Corporation and the Korea Housing and Urban Guarantee Corporation.

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³ A lump-sum deposit for rent without monthly payments