

## FSC LAUNCHES WORKING CAPITAL SUPPORT PROGRAM FOR SUPPLIERS & SUBCONTRACTORS IN KEY INDUSTRY

The government announced its plans to launch Working Capital Support Program (WCSP) using the key industry stabilization fund at the 7<sup>th</sup> Meeting of the Central Economic Response Headquarters on June 19.

### **BACKGROUND**

The government and banks have increased the availability of financial support for businesses in corporate loans and maturity extensions to help them tide over the COVID-19 crisis. Despite an increase in the availability of financial support, access to financial support remains difficult for many suppliers and subcontractors with unfavorable credit histories. As these suppliers and subcontractors make up the core of the key industries' ecosystem, it is essential to provide them with additional financial support to maintain competitiveness of these industries. Against this backdrop, the government will introduce the Working Capital Support Program (WCSP) financed by the key industry stabilization fund to extend working capital loans to suppliers and subcontractors.

### **WORKING CAPITAL SUPPORT PROGRAM**

**(SIZE)** Up to KRW5 trillion in working capital loans

**(SUPPORT TARGET)** Companies (a) established before May 1, 2020, (b) with SME or middle market enterprise standing, (c) in business sectors eligible to receive support from the key industry stabilization fund, (d) deemed as an essential player within the industry in terms of maintaining the industry competitiveness, protecting jobs and maintaining supply chains, and (e) expected to face shortages in working capital due to the pandemic-induced economic slowdown.

**(LENDING INSTITUTIONS)** Eligible suppliers and subcontractors are able to apply for loans at one of the program participating banks.

**(LOAN SPECIFICS)** Working capital loans (WCLs) (a) cannot be used to pay off debt from existing loans, (b) will be issued up to the amount necessary for the operation of business,<sup>1</sup> or up to KRW100 billion (2 percent of the total amount available for WCSP) or 50 percent of annual sales revenue, (c) have two-year maturity, and (d)

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<sup>1</sup> (a) Size of necessary working capital = working capital (accounts receivable + interest payments + operating costs) - projected sales revenue

have interest rates determined by banks based on credit records and maturity date with an incentive of lower rates for job retention efforts by companies.

**(PROGRAM PERIOD)** For six months from the program start date with the possibility of extension

## FINANCING THE PROGRAM

**(SPV)** A special purpose vehicle (SPV) will be created through equity injection from the key industry stabilization fund.

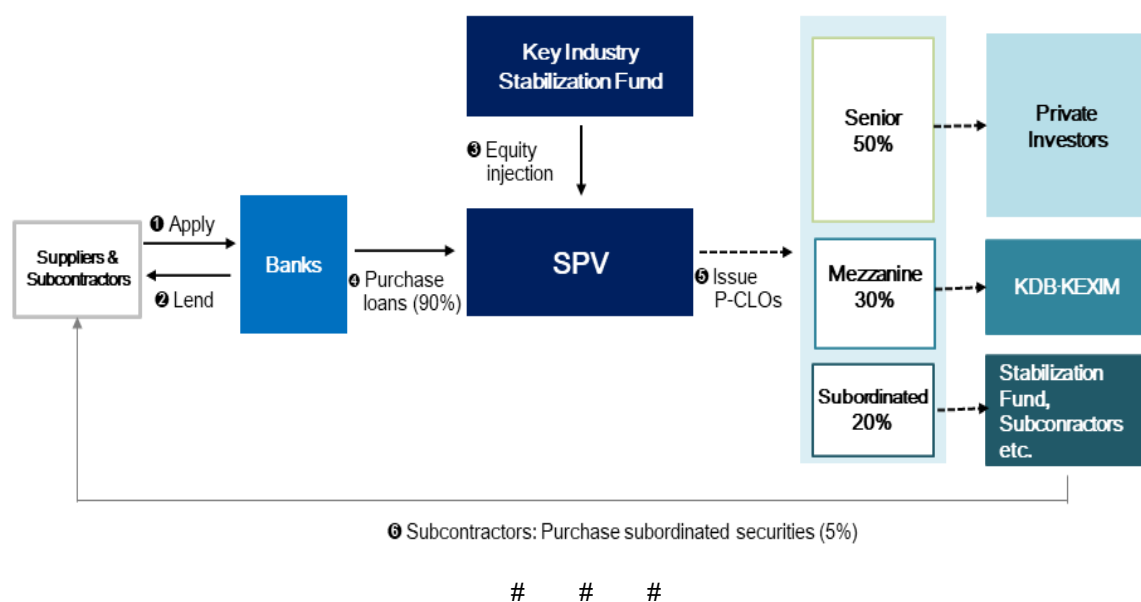
**(UNDERLYING ASSETS)** The SPV will create a pool of underlying assets by purchasing loans, and the management of loans will be carried out by creditor banks.

**(P-CLO ISSUANCE)** The SPV will issue primary collateralized loan obligations (P-CLOs) with WCL bonds as underlying assets.<sup>2</sup>

## SCHEDULE

The FSC will begin the process of determining the program target businesses in June and finalize support targets through coordination with the relevant ministries by early July. The issuance of WCLs will begin in late July, with SPV launching in July-August and P-CLOs being issued thereafter.

## STRUCTURE OF WCSP



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<sup>2</sup> Senior debt (AAA rating, 50%): sale to private investors  
 Mezzanine debt (BBB rating, 30%): holding by policy banks  
 Subordinated debt (C rating, 20%): holding by key industry stabilization fund (15%) and subcontractors (5%)