

FSC UNVEILS MEASURES TO CURB CREDIT LOANS

Vice Chairman Doh Kyu-sang presided over the 29th financial risk assessment meeting on November 13. At the meeting, Vice Chairman Doh unveiled the government's plans to more effectively manage household debt and discussed the implementation of the COVID-19 financial support programs.

BACKGROUND

Household debt in Korea expanded in the past two decades as the economy began to grow in the aftermath of the Asian financial crisis of 1997. In that period, the qualitative structure of household debt continued to improve due to an increase in the proportion of fixed-rate lending and installment payments.¹ The soundness of household debt also improved as the volume of financial assets held by households has been more than twice that of financial debt since the end of 2009, and the default rate across all financial sectors has fallen to 0.70 percent at the end of June 2020 from 1.74 percent at the end of 2009. However, an excessive growth of household debt raises concerns about downside risks to the economy and financial system as the pace of household debt growth in relation to GDP accelerated from 82.9 percent in 2014 to 97.9 percent in 2019. Thus, there needs to be a continuous effort to slow down and more effectively manage the pace of the growth.

The level of growth in household debt began to stabilize from the end of 2016. However, a shift toward expansionary policy this year in response to COVID-19 led to an upward trend with a rapid rise in credit lending in particular.² Although increased borrowing by lower income households may be inevitable amid a prolonged pandemic situation, the possibility of credit loans moving into real estate markets poses risks. Therefore, the following measures have been drawn up to prevent risks.

KEY MEASURES

The government will continue to maintain strong lending support for lower income households and small-scale businesses through existing stimulus programs amid a protracted pandemic situation. At the same time, efforts to more proactively manage risks related to household debt will be carried out.

I. SHORT-TERM MEASURES

In order to more effectively manage the growth in credit loans, the government will

¹ Fixed-rate lending: 15.9% (2013) → 49.4% (2019)
Installment payments: 18.7% (2013) → 52.6% (2019)

² For recent data on household debt, please click [here](#) to see press release dated November 11, 2020.

pursue a two-track approach aimed at (a) bolstering the banks' own credit lending standards and (b) tightening rules on borrowers' debt service capacity for high-risk loans and high-income earners.

(BANKS' CREDIT LENDING STANDARDS) Banks are required to set their own management goals on credit lending, which will be subject to a monthly inspection by the authorities, in an attempt to encourage a rollback to the previous level. The authorities will also strengthen management and regularly check to prevent banks from issuing credit loans above twice the amount of annual income.

(RULES ON HIGH-RISK LOANS & HIGH-INCOME EARNERS) The FSC will reassess the debt service ratio (DSR) rules on borrowers with cumulative credit loans in excess of KRW100 million. First, the authorities will consider lowering the proportion of high-DSR loans³ allowed at banks in the first quarter of 2021 to tighten control over high-risk loans. Second, the application of individual DSR will be expanded to credit loans in excess of KRW100 million by high-income earners with annual income above KRW80 million. Third, a stronger post-lending management measure will be introduced on high-amount credit loans in excess of KRW100 million to prevent the use of excessive leverage for investing in real estates or other assets.

II. LONG-TERM MEASURES

In the first quarter of 2021, the government will introduce measures to more effectively manage household debt, which will be centered on tightening the DSR rules. The upcoming measures will focus on (a) gradually switching the application of DSR rules from the current financial institution-wide approach toward an individual borrower-centered approach and changing the current debt-to-income (DTI) ratio standard for home mortgage loans with DSR, (b) working on further improvements on DSR rules across all financial sectors on a par with those of advanced economies, (c) making DSR calculation methods to more appropriately reflect the borrowers' payback capabilities and (d) reinstating the temporarily eased rules on loan-to-deposit ratio and other interim deregulatory measures.

COVID-19 FINANCIAL SUPPORT PROGRAMS⁴

(In trillion won)		
▶ EMERGENCY LOANS FOR SMALL MERCHANTS	TARGET	PROVIDED
- 1 st round of financial support (Feb 7~)	16.4	14.6
- 2 nd round of financial support (May 25~)	10.0	2.53

(In trillion won)		
▶ FINANCIAL SUPPORT FOR SMEs & MIDDLE MARKET ENTERPRISES	TARGET	PROVIDED
- Loans (Mar 16~)	21.2	23.1
- Guarantees (Apr 1~)	7.9	6.7

³ Above 70% and 90% DSR

⁴ From February 7 to November 6, 2020

(In trillion won)

▶ LIQUIDITY SUPPORT FOR CORPORATE BOND & SHORT-TERM MONEY MARKETS	TARGET	PROVIDED
- Liquidity support for securities firms (Mar 24~)	5.0	8.6
- Corporate bond and CP underwriting and refinancing programs (Mar 30~)	6.1	2.2
- Low-rated corporate bond & CP purchase program (Jul 24~)	20.0	2.0
- P-CBO issuance (Apr 1~)	11.7	3.0

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