

## DEBTOR ASSISTANCE WITH LEGAL REPRESENTATION AND LITIGATION SERVICES AVAILABLE AT FREE OF CHARGE

The FSC unveiled an overview of the current status on the use of debtor assistance with legal representation program on June 1. In 2021, a total of 1,200 victims of illegal private lending or debt collection activities applied for support in 5,611 cases and debtor assistance with legal representation was provided in 4,841 cases in total, which signifies that the debtor assistance program has become a crucial social safety net for damages inflicted by illegal private lending.

The authorities plan to continue to make efforts to prepare for a rise in demand for remedies from illegal private lending by strengthening ties with various types of inclusive finance measures and securing sufficient fiscal resources, while working to stamp out illegal private lending by closely cooperating with investigative authorities.

### **OVERVIEW**

Since January 28, 2020, the government has been offering the debtor assistance with legal representation program<sup>1</sup> at free of charge to help victims of illegal debt collection activities done by both registered and unregistered money lenders and to support those that have fallen prey to exorbitant interest charges in excess of the maximum legal lending rate.

When a victim of illegal private lending applies to seek support through the Financial Supervisory Service (FSS)'s website or via a phone call<sup>2</sup> placed to the illegal private lending help center or the Korea Legal Aid Corporation (KLAC), attorneys from KLAC provide assistance with legal representation in dealing with illegal private lenders and for litigation services at no cost to debtors.

**(LEGAL REPRESENTATION FOR HANDLING DEBT COLLECTION ISSUES)** KLAC attorneys provide service of handling debt collection issues with creditors (money lenders) in place of debtors in order to help debtors avoid any harm caused by illegal debt collection activities.<sup>3</sup>

**(LITIGATION SERVICES)** For damages incurred by exorbitant interest charges in excess of the maximum legal lending rate and illegal debt collection activities, KLAC

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<sup>1</sup> The debtor assistance with legal representation system became available in 2014, but due to the low awareness about the program and economic burden on victims that have low income background, the government began to provide debtor assistance with legal representation and litigation services at free of charge (government budget of KRW1.14 billion in 2022).

<sup>2</sup> Illegal private lending help center (1332), KLAC (132)

<sup>3</sup> It is prohibited for creditors to directly get in contact with debtors through visitation, phone call or text message.

attorneys provide litigation services in place of victims for making a request for a return of funds, getting compensation for damages and confirming the existence of debt as well as throughout the personal debt recovery and bankruptcy proceedings. **(OTHER LEGAL COUNSELING)** KLAC attorneys offer legal counseling on illegal private lending on issues such as the illegality of loan contract and debt collection, information about the litigation process, etc.

### **APPLICATION FOR ASSISTANCE WITH LEGAL REPRESENTATION SERVICES IN 2021 (FSS)**

**(APPLICATION STATUS)** In 2021, a total of 1,200 debtors who fell prey to (or were at risk of falling prey to) illegal private lending by unregistered money lenders filed applications for the debtor assistance with legal representation program through the FSS's illegal private lending help center.<sup>4</sup> Backed by active promotion of the availability of the program and increased convenience and accessibility through an addition of mobile application function, the number of applicants as well as debt accounts increased significantly (up 89.9 percent and 292.7 percent, respectively) compared to the previous year<sup>5</sup> while the average number of debt accounts for an individual (4.68) also rose considerably.

<Application for Debtor Assistance with Legal Representation and Litigation Support>			
	2020	2021	Growth (rate)
# of applicants	632	1,200	568 (+89.9%)
# of debt accounts	1,429	5,611	4,182 (+292.7%)
Ave. # of debt accounts applied by a debtor	2.26	4.68	2.42 (+107.1%)

**(NUMBER OF DEBT ACCOUNTS)** Among applicants, the number of multiple debt holders with two or more debt accounts stood at 549 (or 45.7 percent), the proportion of which rose 14.4 percentage points from the previous year (198 or 31.3 percent). In particular, there were 242 multiple debt holders with six or more debt accounts (20.2 percent), the proportion of which rose 12.3 percentage points from the previous year (50 or 7.9 percent). The maximum number of debt accounts held by an individual was 93 in 2021 (compared to 37 in 2020).

<Application by Number of Debt Accounts>						
# of debt accounts	2020		2021		Growth	
	# of debtors	Proportion	# of debtors	Proportion	# of debtors	Proportion
1	434	68.7%	651	54.3%	217	-14.4%p
2 to 5	148	23.4%	307	25.6%	159	+2.2%p
6 to 10	28	4.4%	113	9.4%	85	+5.0%p
11 to 30	20	3.2%	104	8.7%	84	+5.5%p
31 or more	2	0.3%	25	2.0%	23	+1.7%p
Total	632	-	1,200	-	568	-

**(LENDER AND DAMAGE TYPE)** Applications related to unregistered money lenders were most prevalent (97.9 percent), standing at 5,484 cases. Regarding damage

<sup>4</sup> The number of applications based on the number of debt accounts stood at 5,611.

<sup>5</sup> In 2020, the number of applicants and debt accounts were 632 and 1,429, respectively.

types, applications filed for support with exorbitant interest charges in excess of the maximum legal lending rate in conjunction with support for harm caused by illegal debt collection activities have been most prevalent (98.2 percent) with 5,509 cases.

<Application by Lender Type>

Type	2020		2021		Growth	
	# of app.	Proportion	# of app.	Proportion	# of app.	Proportion
Unregistered money lender	1,348	94.3%	5,484	97.7%	4,136	+306.8%
Registered money lender	81	5.7%	127	2.3%	46	+56.8%
Total	1,429	-	5,611	-	4,182	+292.7%

<Application by Damage Type>

	(a) Interest charge above maximum lending rate	(b) Illegal debt collection activities	(a) & (b)	Total
2020	105	353	971	1,429
2021	17	85	5,509	5,611

**(AGE)** Applicants in their 30s were most prevalent (455 applicants or 37.9 percent) with the proportion rising from the previous year (34.7 percent). Due to the expanded method of application including via mobile, the proportion of applicants in their 20s also increased from the previous year (from 23.1 percent to 30.4 percent).

<Application by Age>

Age	2020		2021		Growth	
	# of applicants	Proportion	# of applicants	Proportion	# of applicants	Proportion
20s	146	23.1%	365	30.4%	217	+7.3%p
30s	219	34.7%	455	37.9%	159	+3.2%p
40s	184	29.1%	269	22.4%	85	-6.7%p
50s	63	10.0%	75	6.3%	84	-3.7%p
60s & above	20	3.2%	36	3.0%	23	-0.2%p
Total	632	-	1,200	-	568	-

## **PROVISION OF ASSISTANCE WITH LEGAL REPRESENTATION SERVICES (KLAC)**

In 2021, the FSS and KLAC made available debtor assistance with legal representation and other types of assistance to a total of 4,841 cases (about 86.3 percent from the total number of applications).<sup>6</sup> Due to the improvements made to the application procedure<sup>7</sup> and simplification of document filling,<sup>8</sup> the overall provision of support increased significantly (4,841 cases or 86.3 percent) compared to the previous year (919 cases or 64.3 percent).

<sup>6</sup> Debtor assistance provided at free of charge: 4,747 cases (legal representation in dealing with illegal debt collection activities), 30 cases (litigation services), 64 cases (rescue made prior to a litigation through reconciliation, etc.)

Some cases closed early at a consultation stage or in other cases applicants withdrew their application or were subject to denial.

<sup>7</sup> A written notice can be issued both in hardcopy and electronic document formats.

<sup>8</sup> Personal data use consent form needed for application can be submitted online.

<Provision of Assistance with Legal Representation Services>

Type	2020	2021	Growth in Volume (growth rate)
Number of applied cases (a)	1,429	5,611	4,182 (+292.7%)
Number of supported cases (b)	919	4,841	3,922 (+426.8%)
Rate of assistance provided (b/a)	64.3%	86.3%	+22.0%p

In 4,747 (98.1 percent) out of the total of 4,841 supported cases, KLAC attorneys provided assistance of handling illegal and excessive debt collection activities done by creditors as they stood in place of debtors. In 30 other cases, legal assistance for litigation (return of interest charges in excess of the maximum legal lending rate) was provided at no cost to debtors, and in 64 other cases, pre-litigation rescue was made through reconciliation, etc., restoring the rights of debtors in a total of 96 cases in 2021.<sup>9</sup>

<Examples of Illegal Debt Collection Activities>

a) When debt collector attempts to collect debt without identifying his/her identity	f) When debt collector asks a third party (e.g. family member) for debt payment
b) When debt collector attempts to collect debt on a cancelled or nonexistent debt	g) When debt collector causes threat, fear or anxiety in the process of debt collection attempts
c) When debt collector repeatedly calls or visits debtor's home	h) When debt collector pressures debtor into borrowing money to pay for debt
d) When debt collector calls or visits at night (9 p.m. to 8 a.m.)	i) When debt collector attempts to collect debt from someone in a workout or bankruptcy process
e) When debt collector informs a third party (e.g. family member) about debt	j) When debt collector provides false information about a legal proceeding taking place

## **FURTHER PLAN**

The free offering of debtor assistance with legal representation helps vulnerable groups to be able to deal with illegal and excessive debt collection activities without worrying about cost, while providing public support to victims who have been incapable of properly handling such incidents due to the lack of knowledge on legal issues. The authorities have been making improvements to the convenience and accessibility of debtors by allowing application through mobile and improving the document filing process.

In the future, the authorities will continue to make efforts to provide assistance with legal representation to debtors and damage relief to those who have fallen prey to illegal private lending activities.

**(EXPAND SUPPORT)** The authorities will prepare for a rise in demand for assistance by enhancing ties with the self-rescue support (fund)<sup>10</sup> made available by the Korea Inclusive Finance Agency and working to secure fiscal resources.

<sup>9</sup> In 2021, KRW840 million saved by provision of free litigation service and pre-lawsuit legal consultation (KRW200 million in 2020).

<sup>10</sup> Provide support for debt reduction and maturity extension through debt adjustment program offered by the Credit Counseling and Recovery Service, etc.

**(STRENGTHEN COORDINATION)** The authorities will strengthen coordination and cooperation with investigative authorities such as the National Policy Agency to help prevent illegal activities. The authorities will regularly share information about illegal private lenders that have caused harm to multiple victims with investigative authorities and work to strengthen deterrence for illegal activities by actively requesting investigation on cases in which victims wish to seek criminal penalty on creditors (violators).

**(BOOST PUBLIC AWARENESS)** The authorities will continue to make collaborated efforts to raise public awareness on the availability of the debtor assistance program using various online and offline promotion mechanisms.<sup>11</sup>

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For press inquiry, please contact Foreign Media Relations at [fsc\\_media@korea.kr](mailto:fsc_media@korea.kr).

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<sup>11</sup> Using social network channels, posters and leaflets of relevant institutions such as the FSS and KLAC.