Financial Services Commission

Press Release

December 27, 2023

STRESSED DEBT SERVICE RATIO RULES TO TAKE EFFECT IN 2024

- Stressed DSR rules to apply on all loan types subject to the DSR regulation.
- An additional stress rate of 1.5 percent (minimum) to 3.0 percent (maximum) to apply.
- Application on home mortgage loans in the banking sector to begin from February 26, 2024, with plans to expand to other types and sectors in the same year.
- Application of additional stress rate to take effect gradually (25% of stress rate in H1 2024, 50% in H2 2024 and 100% from 2025).

The Financial Services Commission announced that the stressed debt service ratio (DSR) rules will take effect in 2024 on all types of loans that have variable, mixed or periodically changing interest rate structures. The stressed DSR system imposes a certain level of additional stress rate when calculating the borrower's DSR as it takes into account the possibility of the borrower facing heavier repayment burdens in the future with increases in interest rates.

The additional stress rate will be determined based on the comparison of interest rates between the five-year peak level and the present level (as of May and November of every year). However, to buffer against the possibility of overestimating or underestimating the risk associated with interest rate changes in times or both high and low interest rates, the additional stress rate will be decided between a minimum of 1.5 percent and a maximum of 3.0 percent.

For loans with variable interest rates, an additional stress rate of the five-year peak rate minus the present rate will be applied.

For loans with mixed interest rate structures—those with a fixed interest rate for a certain period of time first and changed into a variable interest rate structure thereafter—the longer the period of fixed interest rate structure, the lower the level of additional stress rates. For instance, for 30-year loans, if the period of fixed interest rate is set between five to nine years, the additional stress rate will be applied at a 60 percent level. For the fixed rate terms of nine to fifteen years and fifteen to twenty-one years, the additional stress rate will be applied at a 40 percent level and a 20 percent level, respectively.

For loans with periodically changing interest rate structures, additional stress rates will be applied at eased levels. For 30-year loans, if the period of interest rate change is five to nine years, the additional stress rate will be applied at a 30 percent level. For those with nine-to-fifteen-years and fifteen-to-twenty-one-years period of interest rate change, the additional stress rate will be applied at a 20 percent level and a 10 percent level, respectively.

For credit loans, the additional stress rate will be applied only when the total balance of unbacked loans (for both existing and new loan accounts) exceeds KRW100 million. In addition, additional stress rates on credit loans will take into account the fact that they tend to have shorter term maturities compared to home mortgage loans. More specifically, there will be no additional stress rates for five-year or longer maturity credit loans with fixed interest rates. For fixed interest rate credit loans with maturities between three to five years, a 60 percent level of additional stress rates imposed on mortgage loans will be applied. For other credit loans, application of additional stress rates will follow that of variable interest rate loans.

The stressed DSR rules will be implemented in stages to alleviate concerns about abrupt declines in maximum loan amounts. In the first stage, from February 26, 2024, home mortgage loans from banks will be subject to the stressed DSR rules. From June 2024, credit loans from banks and home mortgage loans from nonbanks will be subject to the stressed DSR rules. In the second half of 2024, after looking at the progress of how the system if being implemented, the authorities will consider whether to expand the application to other types of loans.

To facilitate a more seamless adjustment in the market, the additional stress rate will be applied at a 25 percent level in the first half of 2024 and increased to a 50 percent level in the second half of the same year. From 2025, the additional stress rate will be applied at a 100 percent level. For loan agreements being renewed by same lenders, application of the additional stress rate will be postponed until 2025.

With the adoption of the stressed DSR rules, the authorities expect that borrowers will be less likely to undergo excessive debt payment burdens since their loan conditions take into account the possibility of changes in interest rates. Moreover, this will promote a transition to more fixed interest rate loans, which will help to improve the qualitative structure of household debt.

The stressed DSR system will upgrade the current DSR rules as it takes into account the risk of changes in interest rates for borrowers. The authorities expect that the upgraded DSR rules will help to promote more prudent household credit management practices. Meanwhile, in the process of overseeing the implementation of the stressed DSR system, the authorities will work to ensure that there is no abrupt decline in lending.

# # #

For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.