

Press Release

February 12, 2009

EMERGENCY CREDIT GUARANTEE PROGRAM FOR SMEs AND SMALL BUSINESS OWNERS

1. Background

In the midst of deepening global financial crisis, small and medium-sized enterprises (SMEs) and business owners are facing capital liquidity problems because of tightening market conditions. Domestic financial institutions including banks, wary of escalating credit risks, have been reluctant to grant loans to SMEs and business owners with relatively low credits.

Decreasing export and faltering domestic consumption have further deteriorated the business conditions especially for companies that rely on exports and produce price-sensitive goods or services. As such, SME bankruptcies have been on the rise while SME loans have significantly dropped. Therefore, a need for SMEs' easier liquidity access has been urgently called for.

2. Credit Guarantee Support Plan

A. In response to the unprecedented financial crisis, Emergency Credit Guarantee Program has been set up, and it will be actively operated until the end of 2009

- All existing guarantees over by ***Korea Credit Guarantee Fund(KODIT)*** and ***Kibo Technology Fund(Kibo)*** that mature in 2009 will be automatically fully rolled over.

**With the exception of bankrupt/court receivership SMEs; those in workout/restructuring programs will get conditional guarantee*

- For new guarantee applications, more generous selection criteria and guarantee limit will be applied.
- In principle, 100% guarantee will be provided to core industries in exports, “green growth industries,” high-tech companies, new entrepreneurs, and small business owners.

KODIT: Out of 21 credit rating categories, from the previous 15th(KC4) eligibility will be lowered to the **18th(KD3)**

Kibo: Out of 10 rating categories, from the previous 6th(B), eligibility will be lowered to the **8th(CC)**

- To best reflect considerable reduction in sales, the limit on sales amount will be also loosened for the guarantee.

KODIT: for exporters from 1/3 → **1/2 of total sales**

for manufacturers from 1/4 → **1/2 of total sales**

Kibo: for required funds based on SMEs’ sales forecast among others: 100% → **130 ~ 150%**

- Export-related contracts such as letters of credit will be guaranteed without limit.

B. Multiple guarantees between KODIT and Kibo

In order to avoid cases in which an SME is automatically disqualified for a new guarantee because of previous guarantee history with a different guarantee institution, guarantees offered will be categorized by the nature of borrower’s businesses.

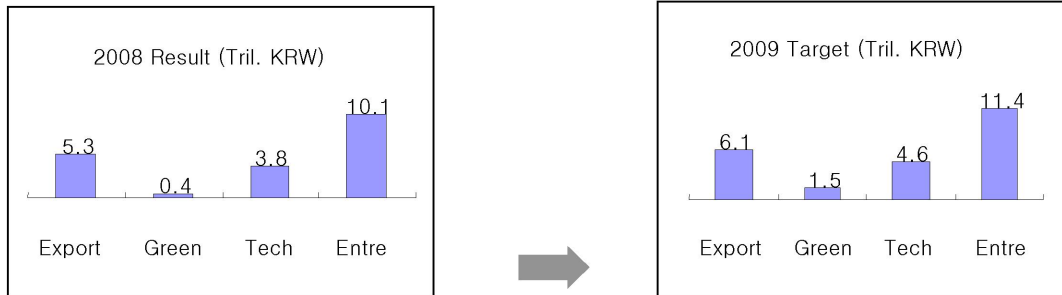
**KODIT and Kibo have agreed to categorize SMEs by their business lines according to a pact signed on December 2005.*

- For now, SMEs can receive guarantees from both institutions if they are eligible for either one of the programs run by KODIT and Kibo*:

Specialized Guarantee Program & Fast Track Program

**KODIT: P-CBO guarantee; Kibo: One-Stop guarantee*

- C. In support of core businesses in exports, “green growth industries,” high-tech, and new entrepreneurs, a quota system will be implemented in supplying guarantee among these industries.



- Further, maximum guarantee ratio (95% → 100%) and amount (KRW 3bn → KRW 10bn) will be raised for SMEs in these core industries, and their credit rating will be also raised by one notch.
- **Corporate-Bank Partnership Program** to support the guarantee program: Large corporation and commercial banks provide capital to guarantee institutions; banks can benefit from this program by having their BIS ratio improved while large corporations can secure their subcontractors.
 - ✓ Corporate-Bank Partnership Program: on January 19, 2009 for the amount of KRW 42bn
 - ✓ Kookmin Bank Program supporting “green growth industry” SMEs: on January 23, 2009 for KRW 50bn
 - ✓ Six banks’ special capital injection: in February for KRW 550bn

- D. Measures to ensure fast and full-fledged guarantee program: to expedite and expand credit guarantee and to offer the staff legal immunity against liability suits.

- When a guarantee institution grants an SME 100% guarantee after an initial review, the SME can skip a bank’s loan review to get the loan.
- The loan process will be completed within 7 days: sufficient manpower necessary for this task will be in place.
- KODIT’s “Guarantee Automated Review System” for small amounts will be fully facilitated for SMEs’ easy and fast access.

- Kibo will expand its One-Stop Guarantee System for the same purpose.

3. Follow-up measures

Follow-up measures will be carried out to make sure that the program runs properly and fairly as intended while monitoring against any cases of moral hazards and signs of neglecting corporate restructuring commitments.

- A. To ensure the success of the program, the staff and management of guarantee institutions will have to be protected against legal liability. For their immunity, economic ministries will make a provision necessary to exempt them from any liability in the audit review.
- B. To strengthen the appropriate operation of the emergency credit guarantee program, strict screening system will be implemented through which SMEs subject to bankruptcy and court receivership will not be eligible for the program.
 - SMEs under corporate restructuring/workout programs may get guarantee under the condition of exhibiting strong commitment to completing management improvement plans
- C. Close monitoring of SMEs' use of loans lent under the guarantee program

The Financial Supervisory Service, FSS, will take charge of monitoring the progress with the program to make sure that both guarantee institutions and commercial banks fully service their commitment and that SMEs and small business owners are getting fast and easy access to guarantee and fund as they are supposed to under the program.

As one way of monitoring this, KODIT/Kibo and lenders(i.e. banks) will have to submit weekly report to the FSS on actual contracts of guarantees and loans.

Any rejected eligible SMEs and business owners can file complaints to either the FSS or the Korea Federation of Small and Medium Businesses, and guarantee institutions or banks violating the terms will be subject to the regulator's corrective actions or admonitions.