

## ADDITIONAL KRW 20 TRILLION TO BE PROVIDED FOR THE MORTGAGE REFINANCING PROGRAM

The government will provide an additional KRW 20 trillion starting March 30 for the government's mortgage refinancing program totaling KRW 40 trillion,<sup>1</sup> after comprehensive review and consultation with relevant organizations.<sup>2</sup>

We recognized mortgage borrowers' high interest and demands to switch to fixed-rate, amortized mortgages at lower interest rates as its initial amount of KRW 20 trillion was sold out in just four days since its launch on March 24.<sup>3</sup> The government considered it is the right time to push ahead a "Big Operation" to make the structure of household debt more stable in response to possible interest rate hikes.

With the KRW 40 trillion mortgage refinancing program, the government estimates that the share of fixed-rate, amortized mortgages out of banks' total mortgages would rise by as much as 10 percentage point. The program is also expected to reduce household debt by KRW 1.1 trillion per year as borrowers with switched mortgages worth KRW 40 trillion in total would start to repay the principal and interest payments together over a long term.

The additional KRW 20 trillion is the maximum amount that the Korea Housing Finance Corporation can afford to provide additionally, given its capital capacity. There will be no further injection of funding to expand the program.

Only those with floating-rate, interest-only mortgages from banks are eligible for the refinancing program. Banks will receive applications for the five working days starting March 30. If the value of mortgages applied for the program exceeds KRW 20 trillion, borrowers with lower-price houses will be given a priority.

<sup>1</sup> The program is targeted for improving the structure of banks' mortgages, which accounts for the biggest share of Korea's household debt. As of end-2014, the value of banks' mortgages totaled KRW 366 trillion. The program will switch floating-rate, interest-only mortgages to fixed-rate, amortized ones to help borrowers repay the principal and interest payments together over a long term and reduce risks in the event of interest rate increases.

<sup>2</sup> The Ministry of Strategy and Finance(MoSF), the Financial Supervisory Service(FSS), the Bank of Korea(BoK) and the Korea Housing Finance Corporation(KHFC)

<sup>3</sup> According to a sample survey on the first tranche of KRW 20 trillion, borrowers with an annual income less than KRW 60 million accounted for 70%, while those with houses worth more than KRW 600 million represented a mere 10%. That says there was a strong demand for the refinancing program from low-to-middle income households.

We acknowledged that there is a demand for expanding the eligibility to those with fixed-rate mortgages repaying the principal. The program, however, is not to merely reduce borrowers' debt servicing burden. The purpose of the program is to improve the quality of household loans by switching floating-rate, interest-only mortgages to fixed-rate, amortized ones. Therefore, it is difficult to expand the eligibility to those with fixed-rate mortgages repaying the principal.

We also reviewed whether to expand this program to non-banking institutions with the additional KRW 20 trillion. We concluded that it is difficult to devise a unified refinancing product applicable to all non-banking financial companies as interest rates and collateral values of mortgages vary depending on non-banking financial sector. Instead, for borrowers who have taken out loans from non-banking institutions, the government will help them to switch to the existing other refinancing products to relieve their debt-servicing burden.

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