

## FSC SECRETARY GENERAL HOLDS MEETING ON SOUNDNESS OF HOUSEHOLD AND INDIVIDUAL BUSINESS LOANS

FSC Secretary General, Sohn Byungdoo convened a meeting with the FSS and the KIF on May 15, to monitor the soundness of household and individual business loans.

### Summary of Secretary General's remarks

Secretary General Sohn stressed the need to exert more policy efforts to manage the soundness of household and individual business loans, and supporting financially vulnerable borrowers.

Mr. Sohn said household loan default rate at the end of January 2019 stood at 0.84%(provisional figure), a slight increase compared to the end of last year(0.75%). However, he diagnosed the level of default rates<sup>1</sup> is stable in general compared to last year. Individual business loan default rate at the end of first quarter, 2019 (0.75%) showed an increase as well compared to the previous month (0.63%), however, the default rate is yet reached a significant level.<sup>2</sup>.

Mr. Sohn said that the recent increase in default rate is attributed to relatively loose screening on business loans, which has been on the rise in the recent few years; and rise in default rate in regional financial institutions<sup>3</sup>. But he stressed that since regional banks and non-bank financial firms<sup>4</sup> have sufficient loss absorbing capacity, the risk of increased default rate to the financial system in general is restricted.

Secretary General said the debt-service-ratio(DSR) will be fully implemented to the non-banking sector starting from June this year, and the financial regulators will thoroughly inspect that non-bank financial firms are appropriately operating the rent-to-interest(RTI) ratio and loan-to-income(LTI) ratio regulations.

Mr. Sohn evaluated the financial industry's voluntary debt reduction program for defaulted household loan borrowers is smooth-sailing, and emphasized that the government will ensure facilitation of debt reduction program tailored to each individual business loan borrower as well.

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<sup>1</sup> household loan default rate of all financial institutions(%): (Mar.'13) 2.12 → (Mar.'19) 0.84

<sup>2</sup> individual business loan default rate of all financial institutions(%): (Mar.'15) 1.09, (Mar.'16) 0.69, (Mar.'17) 0.61, (Mar.'18) 0.58, (Mar.'19) 0.75

<sup>3</sup> default rate of regional financial firms (end-'18 → end-Mar.'19, %)

\*bank: (all banks) 0.32 → 0.38, (regional banks) 0.58 → 0.69

\*savings bank: (capital area) 3.70 → 3.85, (regional) 6.12 → 7.75

\*mutual finance; (capital area) 0.90 → 1.29, (regional) 1.65 → 2.40

<sup>4</sup> capital ratio (end-'18, %): (regional bank) 15.4, (mutual finance) 8.1, (savings bank) 14.4