

FSC TO BOLSTER INCLUSIVE FINANCE MEASURES AND PROMOTE STRONGER SUPPORT FOR CREDIT RECOVERY

FSC Chairman Koh Seungbeom attended a memorandum of understanding signing event between major credit guarantee institutions on December 29 and delivered a speech emphasizing the importance of providing stronger credit recovery support for small merchants and other vulnerable debtors. The Credit Counseling & Recovery Service (CCRS) and five other relevant institutions including Korea Credit Guarantee and Korea Housing Finance Corporation signed an MOU pledging to improve standards for debt adjustment and strengthen support for credit recovery on guaranteed loans. The following is a summary of Chairman Koh's remarks.

CHAIRMAN'S REMARKS

(INCLUSIVE FINANCE MEASURES) The Korean economy has made a quick recovery amid the pandemic even though there are still uncertainties related to the spread of the new variant and asset price volatility. As the economic fallout of the pandemic weighs heavily on the financially vulnerable groups, the need for inclusive finance measures has become ever more important. For individuals with mid-to-low credit backgrounds, the credit market conditions have not deteriorated extensively. However, rising interest rates and the ongoing pandemic raise concerns about the possibility of a narrower access to finance for vulnerable groups. As such, the authorities plan to implement an array of inclusive finance measures to ensure that access to finance is available for vulnerable groups. First, the government will make available up to KRW10 trillion in microloan products for different groups. Second, the government will ensure that lending to lower income earners and other vulnerable individuals will not be impaired by the government's household debt management measures. Third, the authorities will work to provide low interest rate business relief loans to small merchants and self-employed business owners that have seen their earnings decline due to strict social distancing measures amid the pandemic. Along this line, the authorities will also work to root out illegal predatory lending and vishing scams targeted at those that are financially vulnerable.

(STRONGER CREDIT RECOVERY SUPPORT FOR GUARANTEED LOANS) Currently, the period from which a guaranteed loan can legally enter a debt adjustment process offered by the CCRS is after the occurrence of a payment by subrogation, which is usually six months after the occurrence of an overdue payment. On the contrary, loans without a guarantor may enter a debt adjustment program immediately after the occurrence of an overdue payment. As such, debtors on guaranteed loans may undergo longer periods of overdue status and experience difficulties returning back to normal economic activities. With an increased number of small business owners currently and expected to be on guaranteed loans amid the pandemic, it is necessary

to make changes to the current system and allow them to pay back what they can to help them recover quickly.

To help provide stronger credit recovery support for vulnerable debtors, the CCRS and the state-backed guarantee institutions have agreed to cooperate on the following—(a) debt relief of up to 70 percent on the principal of guaranteed loans that have begun to make payments by subrogation for one year or more¹ and (b) a shortening of the eligibility period for debt relief on guaranteed loans from one year or more after the beginning of payment by subrogation currently to six months or more after the beginning of payment by subrogation.² These adjustments made to the credit recovery standards on guaranteed loans will be available until 2023 with an intention to make support available to the financial vulnerable debtors who are struggling through the COVID-19 pandemic. In order to prevent moral hazard, strict screening procedures will be applied.

As these measures require close cooperation from relevant institutions, individual guarantee institutions should make efforts to inform their customers about the availability of a joint debt adjustment program offered by the CCRS³ while making improvements to their own debt management programs.

After reaching an agreement on the details, the enhanced credit recovery support measures will be made available from February 2022. The government will continue to make efforts in various areas to strengthen inclusive finance measures.

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

¹ About KRW2.1 trillion (300,000 guaranteed loans) in distressed debt expected to benefit from debt reliefs.

² About KRW800 billion (72,000 guaranteed loans) in distressed debt expected to benefit from the shortening of the eligibility period.

³ Please click [here](#) to see the press release dated November 22, 2021.