

SUPPLEMENTARY BUDGET APPROVAL AT NATIONAL ASSEMBLY TO EXPAND AVAILABILITY OF FINANCIAL SUPPORT

The National Assembly passed the supplementary budget on May 29, 2022 which includes KRW1.7 trillion worth of financial support programs intended to help the self-employed business owners and small merchants experiencing difficulties due to COVID-19 and the vulnerable groups such as young adults and lower income groups.

The financial support programs to help improve people's living conditions consist of six main tasks worth about KRW1.7 trillion in total in the supplementary budget.

- (a) KRW600 billion (plus KRW500 billion in in-kind contribution) in debt adjustment, (b) KRW680 billion in low interest rate transfer loans and (c) KRW220 billion in targeted support funds to help with the recovery of the self-employed business owners and small merchants and improve their competitiveness
- (d) KRW15 billion in expanded supply of loans for young adults with low incomes and (e) KRW48 billion in special guarantees for those with lowest credit scores to help improve the access to financial services for vulnerable groups such as lower income households and young adults
- (f) KRW109 billion in government-sponsored transfer loans to help ease the high interest payment burdens of non-speculative homeowners and improve the overall structure of household loans

KEY DETAILS OF FINANCIAL SUPPORT PROGRAMS TO HELP PEOPLE'S LIVELIHOOD

I. DEBT ADJUSTMENT PROGRAM FOR SMALL MERCHANTS AND THE SELF-EMPLOYED

a) Program Overview

(PROGRAM PURPOSE) To support normal business operation and restart efforts of small merchants and self-employed business owners who have been experiencing difficulties in making loan payments due to losses accrued from the COVID-19.

- Provide preemptive support to prevent deterioration in business foundation via sale of overdue debts or collaterals in the case that the level of business recovery is not sufficient for loan payment burdens.
- Assist restart efforts of borrowers who have turned insolvent due to difficulties in making payments for abruptly increased debt.

(PROGRAM MECHANISM) Provide payment schedule adjustment and debt reduction by setting up a new fund (tentatively called "restart fund for small merchants and self-employed business owners") to purchase debts.

(PROGRAM SIZE) Up to KRW30 trillion (which amounts to about 5% of total loans issued to the self-employed business owners and small merchants who are qualified

for the program)

(IMPLEMENTATION SCHEDULE) It will be available from October 2022 when the current loan maturity extension and payment deferment program expires. Applications for debt adjustment will be accepted and purchase of debts will take place for three years until September 2025.

b) Eligibility and Support¹

(ELIGIBILITY) Borrowers that are either an individual business owner or a corporate entity categorized as a small merchant that have suffered losses² from the COVID-19 pandemic and either have non-performing loans (for 90 days or longer) or are at risk of accruing bad debt.³

(PROGRAM DETAILS) Adjustment of payment schedules and interest rate reduction are provided to all borrowers while additional support of a principal reduction is provided for credit liabilities of insolvent borrowers with long-term non-performing loans.

- **(SUSPENSION OF DEBT COLLECTION)** Suspend accumulation of overdue payments and debt collection activities by financial companies immediately (next day) when borrower applies for debt adjustment.
- **(ADJUSTMENT OF PAYMENT SCHEDULE)** Adjust the payment schedule and conditions by granting a sufficient deferment period (e.g. one year) and allowing a shift to a long-term installment payment plan (e.g. over ten years).⁴
- **(INTEREST RATE REDUCTION)** Adjust interest rates to help ease payment burdens resulting from high interest rates (application of differential interest rates based on the payment period to be considered).
- **(PRINCIPAL REDUCTION)** Provide a drastic reduction in principal (e.g. 60% to 90%)⁵ for credit liabilities held by insolvent borrowers who have long-term non-performing loans.

c) Expected Cost: KRW600 billion (plus KRW500 billion in in-kind contribution) in 2022 (an addition of KRW2.5 trillion to be considered after 2023)

Provide fiscal investment of KRW600 billion (plus KRW500 billion in in-kind contribution) through the Korea Asset Management Corporation (KAMCO)⁶ which manages debt adjustment funds and consider making additional fiscal investment after 2023 for total investment of KRW3.6 trillion.

¹ Specific details about eligibility and program details are expected to be finalized after a consultation with the financial industry.

² Those qualified for COVID-19 loss compensation, using the loan maturity extension and payment deferment program offered by the financial industry, etc.

³ Certain loans that are not fit for the aim of the program or that cannot be subject to debt adjustment are excluded, such as a loan for purchasing a real estate or for home rental business entity, mortgage loan for buying home, jeonse loan, etc.

⁴ Additional extension of deferment and installment payment periods to be considered for secured loans.

⁵ Principal reduction rate from similar programs: (Self-employed business owner 119) none, (Credit Counseling and Recovery Service) 0~70%, (National Happiness Fund) 54.6% on average and (individual rehabilitation through court) 60% on average

⁶ Issues own bonds to purchase bonds that are subject to debt adjustment and guarantees loss recovery from operating programs.

II. TRANSFER LOANS WITH LOW INTEREST RATES AND TARGETED SUPPORT FUNDS

a) Program Overview

(PROGRAM PURPOSE) Provide targeted financial support programs for small merchants and self-employed business owners to (a) ease the burden of making payments on high interest rate loans and (b) help with their recovery efforts and business competitiveness.

(IMPLEMENTATION SCHEDULE) Program will be available as it gets ready for operation in the second half of this year.

b) Program Details⁷

(LOW INTEREST RATE TRANSFER LOAN) Provide transfer loans with low interest rates for self-employed business owners who have high interest rate loans.

- **(ELIGIBLE BORROWER)** Individual business owners or small businesses and small merchants that are classified as corporate entities who have suffered losses from the COVID-19.⁸

- **(ELIGIBLE LOANS)** Business loans held by eligible borrowers who have been making payments on loans faithfully

- **(PROGRAM SIZE)** About KRW8.5 trillion

- **(MAXIMUM LOAN)** Up to KRW30 million (tentative)⁹

- **(INTEREST RATE)** Up to 7% (tentative) of interest rate offered on transfer loans

- **(IMPLEMENTATION SCHEDULE)** It will be available from October 2022 when the current loan maturity extension and payment deferment program expires.

(TARGETED SUPPORT FUNDS) Supply fiscal funds worth KRW41 trillion for two years to help with the recovery efforts and improve business competitiveness.

- **(FISCAL SUPPORT)** Supply KRW3.25 trillion in special guarantees to small merchants hit by COVID-19 to prepare for the post-pandemic business environment.

<Tentative Plan for Special Guarantee Program>

(ELIGIBILITY) Small businesses and small merchants directly affected by the prolonged period of COVID-19 pandemic as they experienced a drop in loan, etc.¹⁰
(PURPOSE OF BORROWING) For operating costs and facilities expenditure
(MAXIMUM SUPPORT) KRW100 million (tentative) per business
(PREFERENTIAL BENEFITS) Provision of guarantee fee reduction (e.g. -0.5%p), easing conditions for application review, etc.
(METHOD) Direct guarantee

- **(UTILIZING OWN FINANCES)** Supply funds for operating costs, facilities or

⁷ Specific details about eligibility and program details are expected to be finalized after a consultation with the financial industry.

⁸ Those qualified for COVID-19 loss compensation, using the loan maturity extension and payment deferment program offered by the financial industry, etc. Excludes business types that are deemed to be inappropriate to provide fiscal support such as gambling, gaming, entertainment and real estate, as well as those that are not seen as maintaining normal business operation due to tax evasion, accumulation of overdue payments at financial institutions, suspension or closure of business, etc.

⁹ An upward revision of maximum loan to be considered based on the business type (individual or corporate).

¹⁰ Need document showing a drop in sales from the previous year, or businesses showing eligibility through a record of receiving support for distancing measures or compensation for losses, etc.

equipments and restart efforts of small merchants and self-employed business owners by utilizing government-sponsored financial institutions' own financial resources.

- **(IMPLEMENTATION SCHEDULE)** Program will be available as it gets ready for operation from the second half of this year depending on budgetary situation.

c) Expected Cost: KRW900 billion

- Support KRW680 billion for providing guarantees on transfer loans¹¹ worth KRW8.5 trillion for small merchants and self-employed business owners that have been hit by the COVID-19.

- Support KRW220 billion for providing special guarantees worth KRW3.25 trillion in preparation for the post-COVID-19 era.¹²

III. BOLSTERING SUPPORT FOR YOUNG ADULTS WITH LOW INCOME BACKGROUND

a) Program Overview

(PROGRAM PURPOSE) To help ease financial difficulties of young adults such as college students and jobseekers that have low access to financial services due to their thin credit background by offering them a fair opportunity for accessing lending service.

(PROGRAM METHOD) Expand the supply of the Sunshine Youth Loan product, a low interest rate microloan service which had been in place for young adults with low incomes.

<Sunshine Youth Loan>

(ELIGIBILITY) (a) College students, unemployed youths or those employed by SMEs for a year or less and are 34 years old or younger and (b) earning KRW35 million a year or less.

(LOAN CONDITIONS) Interest rates from 3.6% to 4.5% with maximum loan of KRW12 million

- **(INTEREST RATE)** 4.0% for college students and unemployed youths; 4.5% for SME employed with a year of less of working experience; and 3.6% for basic income beneficiaries, lower income group, people with disabilities, North Korean defectors, single-parent family, etc.

- **(MAXIMUM LOAN)** Up to KRW12 million (maximum KRW6 million per year)

- Up to KRW3 million for living expenses (no proof needed for the usage of loan) for six months which can be reapplied every six months when necessary for up to four times (two years) for a total lending of KRW12 million.

- For other types of needs for a loan that require proof of usage, such as school, medical, housing, etc., the loan will be granted within the amount specified by the document for up to KRW9 million a year.

(PAYMENT METHOD) Maximum 15 years (8 years of deferment period and 7 years of payment)

(IMPLEMENTATION SCHEDULE) Expected to start from June 2022.

b) Program Details

The total amount of lending under the Sunshine Youth Loan program will be

¹¹ From high interest loans to low interest loans.

¹² Apart from the fiscal expenditure portion of KRW3.25 trillion in special guarantees, KRW38 trillion in financial support tailored to the needs of small merchants will be provided by government-sponsored financial institutions without additional input from the government's fiscal resources.

expanded by 50 percent in 2022 from KRW200 billion previously to KRW300 billion.

c) Expected Cost

KRW15 billion in fiscal support to be provided to expand the availability of Sunshine Youth Loans by KRW100 billion.

IV. SPECIAL GUARANTEE PRODUCT FOR BORROWERS WITH LOWEST CREDIT SCORES

a) Program Background

(PROGRAM PURPOSE) To respond preemptively to the danger of illegal predatory lending as there are concerns about borrowers with lowest credit scores who find it difficult to get access to the traditional financial system amid interest rate hikes falling victims to illegal predatory lending practices.

(PROGRAM METHOD) Prevent potential damages of illegal predatory lending practices by launching a special guarantee product exclusively for people with lowest credit scores.

(IMPLEMENTATION SCHEDULE) Program will be available as it gets ready in the second half of this year.

b) Program Details (tentative)

(ELIGIBILITY) Individuals with lowest credit scores (in the lowest 10 percentile) whose annual income is KRW45 million or below and who cannot make use of the other existing microfinance products¹³

(MAXIMUM LOAN) Up to KRW10 million

(PAYMENT METHOD) 3-year or 5-year term available for installment payments on both principal and interests with an up to one year deferment period.

(GUARANTEE RATIO) 100% guaranteed by the Korea Inclusive Finance Agency

(INTEREST RATE) Default rate of 15.9% with a reduction offered every year according to the total period of the loan¹⁴

(PROGRAM SIZE) About KRW240 billion

c) Expected Cost: Support KRW48 billion for guarantees in providing KRW240 billion in guaranteed microloans to those with lowest credit scores.

V. GOVERNMENT-SPONSORED TRANSFER LOANS

a) Program Background

(PROGRAM PURPOSE) To help alleviate the principal and interest payment burden of borrowers that have mortgage loans with variable interest rates and to remove the danger of interest rate hikes in the future.

(PROGRAM METHOD) Convert current mortgage loans with variable interest rates to long-term fixed interest rate mortgage loans through the securitization of mortgage-

¹³ Have a record of overdue loan payments in the past.

¹⁴ If payments are made on schedule, 3.0%p reduction every year (for 3-yr loan) or 1.5%p reduction every year (for 5-yr loan).

backed securities held by the Korea Housing Finance Corporation and provide the benefit of additional interest rate reductions.

(IMPLEMENTATION SCHEDULE) Program will be available when the system gets ready in the second half of this year.¹⁵

b) Eligibility and Conditions

(ELIGIBILITY) Mortgage-backed loans with variable interest rates¹⁶ from the banking and nonbanking sectors.

(HOME PRICE) Market price of up to KRW400 million → Selection of eligible applicants to be made from low-priced homes first

(INCOME) Up to KRW70 million a year for married couple (tentative)

(MAXIMUM LOAN) Up to KRW250 million (tentative)

(INTEREST RATE) Fixed interest rate of up to 30bp lower than the interest rate of the government-sponsored mortgage loan¹⁷ at the time of loan issuance.

c) Expected Cost: KRW109 billion for 2022

KRW109 billion to be injected to the Korea Housing Finance Corporation to ensure a stable management of its finances following additional issuance of mortgage-backed securities at large scale.

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

¹⁵ KRW20 trillion planned for 2022 based on the interest rate, market demand and budgetary situations in the future.

¹⁶ Including mixed rate scheme combining fixed and variable interest rates (e.g. for 30-yr maturity, 5-yr fixed rate → variable rate thereafter).

¹⁷ 4.10~4.40% as of May 2022