

HOUSEHOLD DEBT MANAGEMENT PLAN AND STEP-BY-STEP NORMALIZATION OF DEREGULATORY MEASURES

The FSC prepared plans for the normalization of regulation on household debt which contain the new administration's household debt management strategies and a step-by-step normalization in lending regulations in support of housing ladder, as part of the new administration's economic policy agenda announced on June 16.

NEW ADMINISTRATION'S HOUSEHOLD DEBT MANAGEMENT PLAN

I. STABLE MANAGEMENT OF HOUSEHOLD DEBT GROWTH

The government will work to stably manage the growth of household debt so that a considerable expansion in household debt in the process of dealing with the COVID-19 pandemic does not impose burdens on the country's economy and financial system.

- Prevent excessive expansion of household debt relative to income levels by promoting the practice of "borrowing based on one's repayment capability (the debt service ratio rule) and making debt payments in installment."¹

II. STEP-BY-STEP NORMALIZATION OF REGULATION ON HOUSING LOANS

The government will work to normalize the regulation on loan-to-value (LTV) ratio in a step-by-step manner in order to help ease difficulties faced by non-speculative homebuyers in the process of tightening control over household debt.

- Ease first-time homebuyers' maximum LTV ratio to 80 percent.²
- Normalization of rules on LTV ratios for homeowners (single property and multiple property owners) will be pursued after considering the implementation of the DSR rules and the household debt and real estate market situations.

While pursuing a gradual normalization in LTV ratios, the government will seek supplemental measures to help prevent DSR rules from restricting lending.

¹ 3rd stage of individual borrower-level DSR regulation (total loan amount of more than KRW100 million) scheduled to go into effect from July 1.

² (a) Easing maximum LTV ratio to 80% regardless of the region or home price, while increasing the maximum loan amount from the current level of KRW400 million to KRW600 million
(b) Current income level for preferential LTV ratio for first-time homebuyers (KRW100 million for a married couple within 7 years) will no longer apply.

- Expand the level of future income that can be recognized in DSR calculation for young adults (51.6 percent for 20s and 17.7 percent for 30s).
- Improve lending regulation for living expenses in line with the implementation of the 3rd stage of individual borrower-level DSR regulation.³

III. PROTECTION OF VULNERABLE BORROWERS AMID INCREASING INTEREST RATES

The government will work to ease the burden of debt payment for vulnerable borrowers as they may face the possibility of default in times of rising interest rates.

- Provide long-term fixed rate refinancing program for loan transfers (relief conversion loans). → KRW20 trillion plus KRW20 trillion⁴
- Introduce a 50-year government-sponsored mortgage loan product⁵ and promote an incremental repayment method (for principal and interest) that starts with a small amount of debt payment but the amount grows in time.

DETAILS OF KEY MEASURES

I. EXPANDING IMPLEMENTATION OF INDIVIDUAL BORROWER-LEVEL DSR RULE⁶

- a) **(OVERVIEW)** Allow issuance of new loans to the borrowers subject to the regulation whose individual DSRs are within the regulated level (40 percent for banks and 50 percent for nonbanks).

<Plan for Expanding Implementation of Individual Borrower-level DSR>

	Introduced in Dec. 2019	1 st Stage (Jul. 2021)	2 nd Stage (Jan. 2022)	3 rd Stage (Jul. 2022)
Mortgage loan	Home price over KRW900 mil. In speculation and overheated speculation areas	(a) Home price over KRW600 mil. in all regulated areas	Total loan amount above KRW200 mil. ((a)+(b) maintained)	Total loan amount about KRW100 mil. ((a)+(b) abolished)
Credit loan	Annual income above KRW80 mil. and KRW100 mil. (Dec, 2020)	(b) Annual income about KRW100 mil.		

- b) **(EXEMPTION FOR DSR RULE)** Certain loan products are excluded from DSR calculation for the purpose of protecting lower income households and vulnerable groups.

* LOAN PRODUCTS EXCLUDED FROM DSR CALCULATION	* Policy tasks for improvement in underline
(a) (HOUSING) Jeonse loans, government-sponsored mortgage loans, moving expenses, loans for balance payments on new home purchases	
(b) (LIVING EXPENSES) Microfinance product, small-sum credit loan of KRW3 million or lower (including securities-collateralized loan), reverse mortgage pension, commercial vehicle financing products,	

³ Abolishing the rule that restricts credit-based lending within the amount of annual income, etc.

⁴ Included in the [2nd supplementary budget](#) for 2022 (May 12, 2022).

⁵ One of the government's ten projects for stabilizing people's living conditions (1st Ministerial Meeting on Economic Affairs, May 30, 2022).

⁶ Debt Service Ratio (DSR): Total annual debt service amount (principal and interest payments) / annual income

installment payment, lease and short-term card loan
(c) (OTHER TYPES OF GOVERNMENT-SPONSORED FINANCING PROGRAMS) Loans issued in emergency situations under government policies such as loans under agreement with the government, public institutions or local governments under certain policy initiatives, assistance to a particular region for natural disaster, etc.
(d) <u>Home mortgage loans approved by the credit evaluation committee as emergency living expenses</u> * Maximum loan: (currently) KRW100 million → (example for improvement) KRW150 million ※ Refer to policy task #4
(e) (OTHER) Insurance policy loans, saving secured loans

II. EASING LTV RATIO TO 80 PERCENT FOR FIRST-TIME HOMEBUYERS

a) Details: Apply maximum loan-to-value (LTV) ratio of 80 percent on first-time homebuyers regardless of the location or the price of home.⁷

Limit the maximum loan amount to KRW600 million⁸ (currently KRW400 mil.) and consider increasing the maximum loan amount in the future after taking into consideration the household debt and real estate market situations.

※ For non-homeowners⁹ other than first-time homebuyers, application of the preferential treatment¹⁰ for LTV ratios currently applied to lower income households and non-speculative homebuyers will be in place.

<Comparison for First-time Homebuyers before and after the 80% LTV Ratio>

	As of now	To be changed	
Eligibility	First-time homebuyers and other non-homeowners (no age restriction)	First-time homebuyers (no age restriction)	Other non-homeowners (no age restriction)
Home price	Up to KRW900 million (in speculation and overheated speculation areas) Up to KRW800 million (in areas subject for adjustment)	No restriction	Same as now
Income (dual income for married couple)	Below KRW100 million (for first-time homebuyers) Up to KRW90 million (for other non-homeowners)	No restriction	KRW90 million
LTV	60% (up to KRW600 mil.) & 50% (KRW600 mil. to KRW900 mil.) in speculation and overheated speculation areas 70% (up to KRW500 mil.) & 60% (KRW500 mil. to KRW800 mil.) in areas subject for adjustment 70% for other areas	80%	Same as now
DTI	Up to 60%	Same as now	Same as now
DSR	Up to 40% (50% in nonbanking sector when maximum loan exceeds KRW100 million)	Same as now	Same as now
Maximum loan	KRW400 million	KRW600 million	KRW400 million

b) Schedule: Revise the supervisory regulation on banking business and begin implementing in Q3 2022

⁷ The authorities will promote subscription of mortgage insurance (insurance compensating loss to lending institutions in case of a default by borrower) to encourage issuance of mortgage loans with LTV of up to 80 percent.

⁸ Median apartment price at end-2021 was KRW770 million. Application of 80% LTV results in KRW620 million.

⁹ Those who used to own a home in the past but have since sold the property and became a non-homeowner.

¹⁰ Annual income of KRW90 million for married couple and home price of KRW900 million or lower → LTV ratio of 50~60%, maximum loan KRW400 million (for speculation area) in place

III. EXPANDING RECOGNITION OF YOUNG ADULTS' FUTURE INCOME IN DSR CALCULATION

a) Background

Improve the DSR rule for young adults whose current income levels in DSR calculation lead to underestimation in their payment capabilities despite high potential income growth in the future.¹¹

b) Details

Make improvements to the guidelines already being observed in the financial industry to allow a more practical evaluation of one's payment capability throughout one's lifecycle.

- Improve the future income calculation method¹² based on the age-specific income data made available on Statistics Korea's employment and labor statistics to help reflect more realistic changes in income.
- Allow borrowers to choose the maturity deemed to be more favorable to them when calculating future income.¹³

Real maturity	Applied maturity for calculating future income	
	As of now	To be changed
Less than 10 years	Application of future income not available	
10 to 20 years	Application of real maturity	Possible to choose a more favorable option between real maturity and the maximum 20-year maturity
20 to 40 years	Maturity limited to 20 years	

- ※ Expand the maximum loan for the age groups that have high potential of growth in future income.¹⁴

<Examples of Increased Maximum Loans>

(CASE #1) A **30 year old** worker with monthly income of **KRW3 mil.** who does not own a home (annual interest rate of 3.5%, DSR 40%, 30-yr maturity, expected income growth rate +17.7%)
 - Current income: KRW36 mil. per year / Future income: KRW42.37 mil. (= KRW36 mil. x (1+0.177))¹⁵
 - Maximum loan: KRW267.23 million → **Up to KRW314.52 million (+17.7%)**

(CASE #2) A **24 year old** worker with monthly income of **KRW2.5 mil.** who does not own a home (annual interest rate of 3.5%, DSR 40%, 30-yr maturity, expected income growth rate +51.6%)
 - Current income: KRW30 mil. per year / Future income: KRW45.48 mil. (= KRW30 mil. x (1+0.516))
 - Maximum loan: KRW222.69 million → **Up to KRW337.60 million (+51.6%)**

- c) Schedule:** Revise the financial industry's best practice guidelines and begin implementing in Q3 2022.

¹¹ Prepare standards for taking into account future income growth when calculating the present DSR level in the guideline on credit evaluation.

¹² (As of now) average income between the time of loan issuance and the time of maturity → (To be changed) average of changes in income at each age from the time of loan issuance until the time of maturity

¹³ (As of now) Maturity is limited to 20 years → (To be changed) When calculating future income, borrowers can choose a more favorable option between (a) the current maximum maturity of 20 years and (b) the real maturity (e.g. 30 years).

¹⁴ (As of now) 38.1% (early 20s), 12.0% (early 30s) → (To be changed) 51.6% (early 20s), 17.7% (early 30s)

¹⁵ 20-yr maturity applied

IV. IMPROVING LENDING REGULATION FOR LIVING EXPENSES

a) Background

Make certain improvements to the current regulation on lending for living expenses to help ease the financing condition for those in actual need of borrowing in line with the expanded implementation of the individual borrower-level DSR rule from July 2022.

b) Details

(1) Removing annual income-based cap for credit loan

(As of Now) The maximum credit loan amount is restricted within one's annual income (through administrative guidance).

(To be Changed) While removing the annual income-based cap on credit loans, manage excessive borrowings in excess of income levels in a uniform way using individual borrower-level DSR regulation.

※ Examples of changes in maximum loan amount with the removal of the annual income cap for credit loans

If a borrowing rate of 5 percent with a 5-year maturity and KRW100 million in annual income is considered,

(UNDER CURRENT SYSTEM OF ANNUAL INCOME CAP) Maximum loan of KRW100 mil. (about 25% DSR)

(UNDER CHANGED SYSTEM WITH 40% DSR) Maximum loan of KRW160 mil. (app. 1.6 times of annual income)

(2) Expanding loans for emergency living expenses not included in DSR calculation

(As of Now) For mortgage loans issued for emergency living expenses, up to KRW100 million can be excluded from DSR calculation when approved by individual lending institutions' credit evaluation committees.¹⁶

(EXAMPLE FOR IMPROVEMENT) Expand the maximum limit of mortgage loan for emergency living expenses that can be exempted from DSR calculation from the current level of KRW100 million to KRW150 million.¹⁷

When the aforementioned improvements take place, it is necessary that financial institutions perform close screening of borrowers' payment capabilities and abide by the principle of suitability when issuing loans.

c) Schedule: Removal of annual income-based cap for credit loan will take effect from July 1, and for expanding loans for emergency living expenses, the authorities will revise the supervisory regulation on banking business and begin implementing in Q3 2022.

¹⁶ Issuance of loan in excess of one's DSR is allowed within the limit of KRW100 million when it is proven that the purpose of the loan is for emergency living expenses and has been approved by the credit evaluation committee.

¹⁷ Along this line, the authorities will consider ways to further ease lending rules for critical living expenses in order to help prevent excessive tightening in credit availability as a result of the expanded implementation of the individual borrower-level DSR regulation.

V. REFINANCING PROGRAM FOR LOAN TRANSFERS (RELIEF CONVERSION LOANS)

a) Background

To provide support for reducing the principal and interest payment burdens of borrowers who are on variable interest rate mortgage loans and to remove the risk of additional interest rate hikes in the future.

b) Program Details

Provide a refinancing program that allows the current variable interest rate mortgage loans to be converted to long-term fixed rate mortgage loans through the securitization of mortgage-backed securities held by the Korea Housing Finance Corporation and offer additional reduction in interest rates.

- Provide KRW20 trillion in 2022 plus maximum KRW20 trillion in 2023¹⁸

Eligible borrowers (with preferential condition) for the relief conversion loan program that is expected to be available in 2022

- **(ELIGIBILITY)** Variable interest rate home mortgage loans from the banking and non-banking sectors including mixed rate schemes which combine fixed and variable interest rates¹⁹
- **(HOME PRICE)** Market value of up to KRW400 million → Application and selection of eligible applicants to be made from lower-priced homes first
- **(INCOME)** Up to KRW70 million a year for married couple
- **(MAXIMUM LOAN)** Up to KRW250 million
- **(INTEREST RATE)** Fixed interest rate of up to 30bp lower than the interest rate of the government-sponsored mortgage loan (known as “Bogumjari Loan”)²⁰ at the time of loan issuance

c) Schedule (tentative): Application expected to open in September.²¹

VI. IMPROVING KOREA HOUSING FINANCE CORPORATION’S MORTGAGE SYSTEM

a) Details

(1) Apply maximum 80 percent LTV ratio (55~70% currently) for first-time homebuyers regardless of the location of the home or the type of the property

¹⁸ First, the authorities plan to provide KRW20 trillion (for borrowers with preferential condition) in 2022 and consider injecting a maximum of additional KRW20 trillion in 2023 after considering situations on interest rate trends, market demand and budgetary condition.

¹⁹ A mixed interest rate scheme starts with a fixed interest rate and then changes to variable rates after a certain period. For instance, for 30-yr maturity, it starts with fixed rate payments for the first five years and then turns to variable rates thereafter.

²⁰ 4.35~4.60% as of June 2022 (Bogumjari loan is a long-term mortgage loan designed by KHFC.)

²¹ Revision to internal rules of the Korea Housing Finance Corporation and six banks (Kookmin, IBK, Nonghyup, Shinhan, Woori and KEB Hana that take part in accepting and reviewing applications), signing agreement between them and setting up a network system in June-August.

(whether it is an apartment or not).²²

- (2) Increase the loan limit through introduction of 50-year maturity mortgage
- Expand the maturity on government-sponsored mortgage loan products from the current 40 years to 50 years.²³

※ Effects of Increasing Mortgage Maturity from 40-yr to 50-yr

* For a newly married couple earning KRW30 million a year, 60% DTI applied for government-sponsored mortgage loan and has KRW50 million in credit loan (at 4.25% interest rate) who wants to borrow KRW300 million with a 40-yr government-sponsored mortgage loan (4.6% interest rate in June 2021)

→ If using 50-yr maturity, the principal and interest payment burden will be reduced by KRW90,000 per month with the amount of maximum loan increasing by KRW20 million.

	40-yr maturity (A)	50-yr maturity (B)	Difference (B-A)
Monthly payment	KRW1.37 mil.	KRW1.25 mil.	- KRW90,000
Maximum loan amount	KRW290 mil.	KRW310 mil.	+ KRW20 mil.

- (3) Reduce debt payment burdens of young adults by introducing incremental payment method²⁴

- Introduce the incremental payment method for 40-year government-sponsored mortgage loan for young adults and newly married couples to help alleviate their payment burdens at the beginning.

- (4) Reduce fee burdens of mortgage users by lowering early payment fee rates on government-sponsored mortgage products by 25 percent from the current level of 1.2 percent (three-year sliding period) to 0.9 percent (three-year sliding period).

b) Schedule (tentative)

(JULY 2022) Lower fees on early payment and expand the application of incremental mortgage repayment method that starts from a small amount and then increases gradually.

(AUGUST 2022) Introduce 50-year maturity

(NOVEMBER 2022) Apply maximum 80 percent LTV ratio on home mortgages of first-time homebuyers

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²² Promote use of mortgage guarantees (to be newly introduced through Housing Credit guarantee Fund) to facilitate issuance of loans with 80% LTV ratios. In line with the easing of LTV ratio to 80%, the authorities will seek adjustment to the eligibility requirements for other types of government-sponsored mortgage loan (Bogeumjari Loan).

²³ Eligibility for 50-yr mortgage loans: 34 years old or younger or married couple (within 7 years)

²⁴ Debt payment method (available for young adults up to 39 years old) which starts with a small amount of payment (with larger portion of interest payment relative to principal payment) but gradually increases in the amount of principal and interest payment over time.