

FSC UNVEILS NEW ADMINISTRATION'S FINANCIAL SECTOR MEASURES TO ENSURE STABILITY IN PEOPLE'S LIVELIHOODS

FSC Chairman Kim Joo-hyun announced the new administration's financial sector measures for ensuring stability in people's living conditions on July 14. The measures were discussed at the 2nd emergency meeting for stabilizing people's living conditions held by President Yoon Suk Yeol earlier on the same day.

FINANCIAL MEASURES FOR ENSURING STABILITY IN PEOPLE'S LIVING CONDITIONS

(BASIC DIRECTION) Strengthen efforts for providing financial supports through refinancing options, debt adjustment and emergency funds to help alleviate burdens on vulnerable groups such as small merchants, households, young adults and lower income earners facing difficulties amid rate hikes.

I. EASING FINANCIAL BURDENS ON THE SELF-EMPLOYED AND SMALL MERCHANTS

Support the self-employed and small merchants' recovery efforts by adjusting their debt payment burdens in line with their payment capabilities.

- a) Make a transition from the current system of financial rescue centered on payment deferments (since April 2020) to a system centered on making fundamental improvements to the financial structure focused on alleviating payment burdens

COVID-19 Financial Rescue System (Apr 2020~Sep 2022)	New Administration's Financial Structure Overhaul (Oct 2022~)
<p>Emergency liquidity provision (extra funding)</p> <ul style="list-style-type: none"> ▶ Maturity extension and payment deferment: KRW291 trillion ▶ Government-sponsored lending and guarantee support: KRW36.4 trillion ※ Debt size: KRW693 trillion (end-2019) → KRW916 trillion (end-2021) 	<p>Making real adjustment to debt payment burdens</p> <ul style="list-style-type: none"> ▶ Borrowers unable to make payments → debt adjustment through principal reduction ▶ Debt with excessive financial burdens → convert to long-term, low interest loans ▶ Borrowers in need to improve competitiveness → funding assistance for business remodeling, reorganization or improvement

- ▶ **(NEW START FUND)** Provide debt adjustment by purchasing some KRW30 trillion in bad debt (or at-risk debt)
 - Loan term (maximum 1~3 years), long-term installment payment (maximum 10~20 years), interest rate reduction
 - Principal reduction (60~90%) provided at a considerable rate to delinquent borrowers with overdue payments of 90 days or more

- ▶ **(REFINANCING LOAN)** Convert high interest rate loans (with interest rates of 7% or higher) to low interest rate loans (KRW8.7 trillion)¹
- ▶ **(FUNDING FOR BUSINESS OPERATION)** Funding support for business remodeling, reorganization or improvement (KRW42.2 trillion)²

b) Prepare a close-knit system of support for small merchants to ensure that there are no loopholes after the termination of the loan maturity extension and payment deferment program currently in place until the end of September 2022

- ▶ Maximum loan term of one year (interest-only payment) with five years of installment payments already put in place for deferred principal and interest payments
- ▶ Seek responsible management by individual financial institutions to ensure that maturity extension and payment deferment are still made available seamlessly without an abrupt debt collection taking place even after the end of September³

⇒ Appropriate sharing of small merchants' bad debt risks between borrowers, financial sectors and the government

c) Strengthen collaboration and synergetic effects between the small merchant consulting program offered by the Ministry of SMEs and Startups (MSS) and financial support programs while promoting the private sector's service offering such as market analysis using big data

- ▶ Seek government-sponsored financing support program offering preferential benefits on interest rate and maximum lending amount to small merchants who have completed the consulting (online sales support, marketing, etc.) program offered by the MSS⁴
- ▶ Provide support for enhancing the competitiveness of small merchants by promoting the use of business consulting services offered by government-sponsored financial institutions (Korea Inclusive Finance Agency, Industrial Bank of Korea, Korea Credit Guarantee Fund, etc.) and private sector financial institutions' market analysis based on big data analytics, etc.

II. ALLEVIATING FINANCING BURDENS RELATED TO HOUSING

Reduce interest payment burdens of home mortgage borrowers and ease housing related cost burdens of jeonse loan borrowers through provision of sufficient support for funds.

¹ All small merchants: KRW8.5 trillion (FSC) + small merchants with low credit background: KRW0.2 trillion (Ministry of SMEs and Startups)

² All small merchants: KRW41.2 trillion (FSC) + small merchants undergoing business closure: KRW1 trillion (Ministry of SMEs and Startups)

³ Granting maturity extension and payment deferment to borrowers—for those currently using the program and applying again—after the end of September by financial institutions on a voluntary basis about 90~95% of times currently being discussed.

⁴ In order to ensure a close linkage between the consulting program and financial support programs, relevant information provision and advertising efforts will be strengthened at financial institutions.

- a) **(REDUCE PAYMENT BURDEN)** Provide support for converting variable interest rate loans to fixed interest rate loans and seek extension of loan maturity
- ▶ Provide KRW40 trillion⁵ in mortgage refinancing program (called the relief conversion loan) for refinancing of variable rate home mortgage loans which will be converted to fixed interest rate loans
 - Inject additional KRW5 trillion (from KRW20 trillion to KRW25 trillion) to this year's government-sponsored mortgage refinancing program without adding to fiscal expenditures and offer additional interest rate reduction for young adults with low income background (10bp)
 - ▶ Reduce debt payment burdens by extending the maximum loan maturity from 30 years currently to 40 years for private sector financial institutions and from 40 years currently to 50 years for government-sponsored financial institution (Korea Housing Finance Corporation)
- b) **(ENSURE STABILITY FOR RENTERS)** Reduce housing related costs for renters through preferential loan and tax benefits
- ▶ Expand the cap on low interest rate guarantees⁶ for jeonse loans to help alleviate interest rate burdens when using jeonse loans
 - ▶ Increase the jeonse price eligibility and maximum loan amount of government-sponsored jeonse loans for young adults⁷
 - ▶ Expand tax exemption for principal and interest payments made on jeonse and monthly rent (from KRW3 million per year to KRW4 million per year)⁸
- c) **(EASE RATE HIKE)** Prevent financial companies from passing on interest rate burdens via market competition
- ▶ Introduce a monthly disclosure of interest rate comparisons to allow consumers to check and compare net interest spreads (NIS)
 - ▶ Improve the reasonableness and transparency in interest rate calculations through an overhaul in the interest rate spread calculation system and strengthening bank's self-assessment on interest rate calculation and internal control system
 - ▶ Encourage financial sectors to prepare and launch own financial products tailored to support vulnerable debtors⁹

⁵ KRW20 trillion in this year's 2nd supplementary budget and KRW20 trillion in next year's budget

* KRW40 trillion mortgage refinancing program is about 10.5% of variable home mortgage loans (KRW380 trillion).

⁶ Korea Housing Finance Corporation's jeonse loan guarantee cap: (Currently) KRW200 million → (To be expanded) KRW400 million (with guarantee rate at 90~100%)

* Share of jeonse loan guarantees by guarantor (%): 45.2 (Korea Housing finance Corporation), 22.2 (Korea Housing & Urban Guarantee Corporation), 32.6 (Seoul Guarantee Insurance)

⁷ (Pursued by the Ministry of Land, Infrastructure and Transport) Maximum jeonse loan amount / jeonse price eligibility: (Currently) KRW120 million / KRW300 million → (To be improved) KRW180 million / KRW450 million

⁸ (Pursued by the Ministry of Economy and Finance)

⁹ e.g. Offering 1%p reduction in interest rate to borrowers of high interest rate lending products with interest rates at 7% or above, offering principal reduction to borrowers on credit loans who have been making debt payments on schedule but have accrued overdue payments, etc.

III. STRENGTHENING DEBT ADJUSTMENT FOR YOUNG ADULTS TO SUPPORT RESTART

Newly introduce a special debt adjustment system for young adults and strengthen its ties with existing programs to help prevent long-term social stigmatization of failed investment attempts by young adults or low-income groups.

Private sector offered debt adjustment program	Government-sponsored debt adjustment program	Court Proceeding
Pre-workout by banks	CCRS & KAMCO's personal overdue debt purchase program	Bankruptcy Court
About 220,000 individuals a year	CCRS 110,000 individuals / KAMCO 30,000 cases	81,000 individuals

a) Introduce a special program for quick debt adjustment at CCRS¹⁰

- ▶ Provide support for reduction in interest payment and payment deferment (temporarily for one year) to young adults even if they have been ineligible to apply previously (e.g. before accruing overdue debt) in order to ensure quick recovery and restart for young adults

	Ordinary program	Special program for young adults
Interest payment reduction	None (15% maximum interest rate under contract)	30%~50% reduction offered to young adults with low credit background based on their debt burden (depending on income, assets, etc.) ※ e.g. 10% → 5%~7% (3%~5%↓)
Payment deferment	15% maximum interest rate under contract charged during the principal payment deferment period (0~3 years)	Application of 3.25% interest rate for young adults with low credit background during the principal payment deferment period (0~3 years)
Application fee	KRW50,000 charged	Exempted

* 34 years old or younger with credit scores in the lower 20 percentile (NICE 744, KCB 700)

b) Prevent excessive debt collection worries via KAMCO's overdue debt purchase

- ▶ Extend the application period for KAMCO's personal overdue debt purchase program (KRW2 trillion)¹¹ from the end of June 2022 currently to the end of 2022

c) Support quick restart through strong linkages between financial companies, CCRS and the Court System

- ▶ Strengthen ties and cooperation by setting up a consultative body made up of related institutions (financial companies' own pre-workout program, CCRS' debt adjustment program and the court's personal bankruptcy proceedings)
- ▶ Promote a fast-track proceeding¹² between CCRS and the court to support young adults and low-income earners' quick recovery and return to society

¹⁰ Credit Counseling & Recovery Service

¹¹ Government-sponsored personal overdue debt purchase program which provides reduction in principal payment through purchase of 3-month or more overdue debt on credit loans issued by banks.

¹² After consulting with CCRS, if personal bankruptcy proceeding is advised to be more favorable to debtor, a simplified court trial is offered.

IV. IMPROVING FINANCIAL SUPPORT FOR LOW-INCOME EARNERS AND LOW-CREDIT HOLDERS AND STAMPING OUT FINANCIAL CRIMES TARGETING VULNERABLE GROUPS

Provide sufficient funds to ensure stable living conditions for those that are unable to access the traditional financial system and protect them from financial crimes such as phishing scams.

- a) **(MICROFINANCE)** Improving low-income earners and low-credit holders' access to both public and private sector financial services
- ▶ Provide KRW10 trillion in microfinance products this year for low-income households and vulnerable groups (average for 2017~2021: KRW7.9 trillion)
 - The role of government-sponsored financial services is crucial to prevent a fallout of low-credit holders amid a narrowing difference between the maximum legal lending rate (20%) and the market rate
 - Strengthen provision of funding support for living expenses to vulnerable groups such as young adults, low-credit holders and low-income workers¹³
 - ▶ Review ways to stably secure funding for microfinance services that are currently operated on a temporary basis¹⁴
 - ▶ Promote banks to offer more lending products with preferential rates to low-income earners and review and expand online-only banks' lending to mid-to-low credit holders
 - ▶ Introduce (in 2023) a long-term (up to 10-yr) savings product with benefits exclusively for young adults to help them accumulate assets
- b) **(FINANCIAL CRIMES TARGETING VULNERABLE GROUPS)** Strengthening response system for financial crimes targeting lower income households, etc.
- ▶ Improve the response system¹⁵ to better cope with evolving and advancing phishing scam methods
 - ▶ Strengthen protections for victims of phishing scams by expanding payment suspension of accounts used in fraudulent activities and returning unlawfully earned money back to victims
 - ▶ Strengthen crackdown¹⁶ and seek improvements¹⁷ in investor protections to root out fraudulent activities such as spreading false and misleading information about stock markets using online social media platforms

¹³ (Young adults) Sunshine Loan Youth KRW0.2 trillion → KRW0.3 trillion, (Lowest credit holders) Special guarantee KRW0.24 trillion, (Low-income workers) Sunshine Loan for workers KRW2.4 trillion → KRW2.6 trillion

¹⁴ The lottery fund, a major funding source for microfinance services, is scheduled to make contributions until 2025, thus requiring additional funding sources.

¹⁵ e.g. Lowering maximum deposit amount allowed without a passbook using an ATM (currently KRW1 million), strengthening contactless real-name verification process, etc.

¹⁶ Secret (unannounced) and comprehensive crackdowns performed on more than 600 entities every year (FSS, KRX, Korea Financial Investment Association)

¹⁷ e.g. Ban on providing investment advices through two-way online social media platforms by those other than investment advisory businesses registered with and supervised by the authority → Imposing criminal penalty upon violation (revision to law being discussed at the National Assembly)

SCHEDULE

Authorities will implement the support measures intended for each vulnerable sector—such as small merchants, housing, debt adjustment and microfinance—as promptly as possible. Except for the measures that require amendments to the existing law, the implementation of measures will be completed in Q3 2022 in line with public demand and policy environment.

While making efforts to stabilize financial markets, authorities will communicate with the vulnerable groups such as young adults and low-income households to listen to their difficulties and continue to seek additional measures to help relieve their burdens. To this end, authorities will (a) review and respond to risk factors through the financial risk response taskforce and (b) maintain communication and seek additional support measures through the taskforce on resolving financial difficulties in vulnerable sectors.

Authorities will closely monitor the effects of these measures and any changes in economic conditions in the future to prepare additional measures if deemed necessary.

Policy task	Required measure	Implementation period
1. Easing Financial Burdens on the Self-employed and Small Merchants		
- Implement financial sectors' self-management plan for maturity extension and payment deferment	Draw up self-management plan	End-September
- Debt adjustment for the self-employed and small merchants (New Start Fund, KRW30 trillion)	Begin accepting application	End-September
- Low interest rate refinancing loan program for the self-employed and small merchants (KRW8.5 trillion)	Begin accepting application	End-September
- Funding support for the self-employed and small merchants' business remodeling, reorganization, improvement, etc. (KRW41.2 trillion)	Provide funding support	July
2. Alleviating Financing Burdens Related to Housing		
- Expanded supply of KRW25 trillion for the relief conversion loan program	Revise internal rule	Mid-September
- Provide young adults with low income background additional preferential benefits for relief conversion loans	Revise internal rule	Mid-September
- Extend the maximum loan maturity from 30-yr to 40-yr for private sector and from 40-yr to 50-yr for public sector	Revise internal rule	(Private sector) In place (Public sector) Mid-Aug
- Expand Korea Housing Finance Corporation's jeonse loan guarantee cap	Revise internal rule	October
- Increase the maximum jeonse loan amount on government-sponsored jeonse loan for young adults	Make changes to the Housing and Urban Fund Management Plan (July 2022)	August 1
- Expand tax exemption for principal and interest payments made on jeonse and monthly rent (* Applicable for jeonse and monthly rent loan payments made for 2022)	Revise Income Tax Act (H2 2022)	H2 2022
- Introduce monthly disclosure of net interest spreads	Set up system	August

- Improve transparency in interest rate calculation system by overhauling the interest rate spread calculation system, etc.	Revise best practice guideline	Q3
3. Strengthening Debt Adjustment for Young Adults to Support Their Restart		
- Introduce a much improved debt adjustment program for young adults	Revise CCRS agreement	End-September
- Extend the application period for KAMCO's personal overdue debt purchase program	Extend the application period	In place
- Strengthen ties between financial institutions, CCRS and the court system in support for debtors' recovery and restart	Set up a consultative body	Q3
4. Improving Support for Low-income Earners and Low-credit Holders & Stamping Out Financial Crimes Targeting Vulnerable Groups		
- Provide KRW10 trillion in microfinance products	-	Throughout year
- Encourage banks to expand microfinance support	-	Pursued continuously
- Make improvements to the vishing prevention system	Prepare measures for system improvement	Q3
- Root out fraudulent activities using social media and strengthen consumer protection	Revision of law	H2 2022

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