

## GOVERNMENT AND FINANCIAL SECTORS TO WORK FOR SOFT LANDING OF BUSINESS LOAN FORBEARANCE

The FSC and FSS along with major banks, financial industry associations and other relevant institutions<sup>1</sup> decided to set up a consultative body to work together for a soft landing of the loan maturity extension and payment deferment program<sup>2</sup> for small merchants and SMEs and held its first meeting on July 22.<sup>3</sup> Through consultative body meetings, authorities will work to prepare a close knit system of support for a soft landing of the maturity extension and payment deferment program in close connection with the government's financial sector measures to help stabilize people's livelihoods announced on July 14.<sup>4</sup>

### **BACKGROUND**

The FSC and financial holding companies held discussions on the implementation of the financial sector measures to help stabilize people's livelihoods as well as the maturity extension and payment deferment measure at the meeting between the FSC Chairman and CEOs of financial holding firms held on July 21. At the meeting, the financial holding firms stated that financial institutions have been drawing up measures voluntarily in preparation for the termination of the maturity extension and payment deferment program. They indicated that financial institutions are providing one-on-one consulting service and rescheduling of debt payments to help borrowers who are currently on the loan forbearance program to make installment payments (for deferred principal and interest payments) according to their individual debt service capabilities.<sup>5</sup> They explained that each financial institution is preparing its own plan for dealing with borrowers on a case-by-case basis. Nonetheless, in order to prevent potential confusion arising between financial institutions due to divergent situations of borrowers (e.g. debtors with multiple debt accounts), the CEOs of financial holding firms suggested that drawing up a joint guideline that is agreeable by both banks and nonbanks is needed to effectively deal with the areas that individual financial institutions alone cannot adequately address on their own.

### **FUTURE DIRECTION FOR DISCUSSION**

As a follow-up to the suggestion made by the financial holding firms, a consultative body has been set up today to allow flexibility in cooperation and liaison between the

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<sup>1</sup> KODIT, IBK, NICE Research Center

<sup>2</sup> Currently scheduled to expire at the end of September.

<sup>3</sup> Consultative body meeting to be held every week.

<sup>4</sup> Please click [here](#) to see the press release dated July 14, 2022.

<sup>5</sup> Please click [here](#) and [here](#) to see earlier announcements in March and September 2021, respectively.

(a) Provision of one-on-one consulting between financial institution and debtor for offering the most appropriate repayment method for individual debtors

(b) Up to 1-year forbearance on principal and interest payments and support 5-year installment payment

government and all financial sectors for establishing a system of examining, discussing and responding for a soft landing of the maturity extension and payment deferment program. Individual financial institutions will look into their own measures for debtors on a voluntary basis, and if there are areas requiring supplemental measures, the consultative body will consider ways to support a soft landing of the maturity extension and payment deferment program that are agreeable by all financial sectors.

As the government is preparing for the implementation of the KRW80 trillion worth of financial sector measures to help stabilize people's livelihoods for self-employed business owners and small merchants,<sup>6</sup> financial institutions will work on support measures in close connection with the government's plan for bringing stability to people's livelihoods. On a voluntary basis, financial institutions will offer maturity extension to debtors who are deemed to be eligible for continued offering of support through maturity extension and payment deferment while the government provides financing support through government-sponsored financial institutions (KRW41.25 trillion). For debtors facing difficulties with high interest rate loans, the government will offer support through refinancing loans with lower interest rates (KRW8.5 trillion). For those experiencing difficulties in making debt payments, authorities will provide debt adjustment support in connection with the "New Start Fund" (KRW30 trillion) and make continuous efforts based on individual debtors' situations to ensure minimizing shock from the termination of the maturity extension and payment deferment program and work to prevent loopholes.

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<sup>6</sup> Made available through bipartisan agreement on the supplementary budget