

## FSC PLANS TO INTRODUCE SMALL BUSINESS LOAN REFINANCING PROGRAM

The FSC announced its plan to introduce a small business loan refinancing program worth KRW8.5 trillion to help lower interest payment burdens of self-employed business owners and small merchants.

### **BACKGROUND**

In the process of dealing with the COVID-19 pandemic, the size of loans for the self-employed and small merchants increased as well as their debt service burdens, and the qualitative structure of their loans deteriorated with an expansion in high interest rate loans from nonbank sectors. Recent interest rate hikes resulting from an accelerated pace of monetary tightening in major economies has resulted in added debt servicing burdens for the self-employed and small merchants. As such, small businesses hit by a protracted pandemic are experiencing difficulties in normalizing their business operation while making payments on high interest rate loans at the same time.<sup>1</sup>

At the 2<sup>nd</sup> emergency meeting for stabilizing people's livelihoods held on July 14, the government introduced comprehensive support packages for self-employed business owners and small merchants in the amount of KRW80 trillion as shown below.

- a) **(FOR BORROWERS WITH REPAYMENT CAPABILITY)** KRW41.2 trillion in financing support for liquidity provision and to help boost their business competitiveness *(already announced on July 25)*
- b) **(FOR BORROWERS HAVING DIFFICULTIES WITH HIGH INTEREST RATES)** KRW8.5 trillion in refinancing support with low interest rate loan *(included in today's announcement)*
- c) **(FOR BORROWERS WITHOUT REPAYMENT CAPABILITY ON THEIR OWN)** KRW30 trillion worth "New Start Fund" to be set up for debt adjustment support through principal payment reduction, etc. *(to be announced in mid-August)*

Today, the FSC is announcing specific plans for introducing a low interest rate refinancing program in the amount of KRW8.5 trillion to help alleviate the self-employed and small merchants' payment burdens with high interest rate loans.

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<sup>1</sup> Balance of self-employed business loans (NICE): KRW456.6 trillion (end-2019), KRW653.4 trillion (end-Jun 2022)

Traits of self-employed business loans (Bank of Korea): Adjustable rate loans (70.2%), bullet payment loans (45.6%), 1-year or less maturity (69.8%)

## **KEY DETAILS OF LOW INTEREST RATE REFINANCING PROGRAM**

### **I. ELIGIBILITY**

The low interest rate refinancing program from high interest rate loans is available for small merchants and small-scale businesses that (a) have incurred damages from COVID-19 (b) are making payments on existing loans on schedule and (c) are either individually own businesses or corporate entities.

- a) Recipients of COVID-19 loss recovery funds and other types of government-initiated business loss compensation, or those who have benefited from the loan maturity extension and payment deferment program as of the end of June 2022
- b) Currently operating their business normally to be able to make payments on refinanced loans
- c) Individually owned businesses registered as a “sole proprietor” under the Value-added Tax Act, or small merchant and small-scale corporate entities registered as a “corporate entrepreneur” under the Value-added Tax Act and classified as a “small enterprise”<sup>2</sup> under the Framework Act on Small and Medium Enterprises

Businesses that have closed temporarily or permanently, those that have failed to meet national and local tax duties or have unpaid financial obligations cannot be considered as borrowers who are able to make debt payments normally and thus will be supported through the “New Start Fund” program which is expected to be announced in mid-August.

Gambling and gaming, entertainment bars, real estate leasing and sales, financial, legal, accounting, tax and health-related business areas that are excluded from the types of business that are eligible to receive support from government-backed funds currently are excluded from eligibility.

Related authorities such as the Korea Credit Guarantee Fund (KODIT) and Korea Credit Information Service (KCIS) will set up a refinancing program platform along with financial institutions to allow self-employed business owners and small merchants to check their eligibility.

### **II. LOANS ELIGIBLE FOR REFINANCING PROGRAM**

Refinancing support is available for business loans<sup>3</sup> issued by financial sectors for covering costs related to business facilities or operation with interest rates of 7 percent or higher at the time of applying for the refinancing program. Loans handled by financial sectors include credit-based or collateral loans extended to businesses from banks, savings banks, specialized credit finance companies (card companies and capital companies), mutual finance firms and insurance companies, and loans issued until the end of May 2022 given the aim of the program is to provide support for pandemic-hit businesses.<sup>4</sup> However, loans falling outside the business loan

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<sup>2</sup> Average sales of KRW1 billion to up to KRW12 billion depending on enterprise type

<sup>3</sup> Business loans issued to individual business owners with a certificate of business registration or corporate entities

<sup>4</sup> Loans issued before the end of May 2022 and renewed thereafter are also eligible for support.

category or those that are deemed to be inappropriate for the refinancing program will be excluded<sup>5</sup> from eligibility.

### III. WHERE TO APPLY

The low interest rate refinancing program can be applied at banks, and certain nonbank lenders will also be authorized to handle the refinancing program.

- a) Banks will offer refinancing of high interest rate loans issued by nonbank lenders, their own branches and other banks.<sup>6</sup>
- b) Nonbank lenders will also be allowed<sup>7</sup> to offer refinancing of high interest rate loans extended to their own customers to ensure consumer choice and equity between financial institutions.

### IV. DETAILS OF REFINANCING PROGRAM

**(TOTAL SIZE)** KRW8.5 trillion until the end of 2023

**(REFINANCING LIMIT)** KRW50 million for an individually owned business and KRW100 million for a small corporate entity on one or more high interest loan accounts

**(PAYMENT TERM)** Total five years with two years of interest-only payment and three years of installment payment thereafter

**(INTEREST RATE AND GUARANTEE FEE)** Maximum 6.5 percent of interest rate and guarantee fee in banking sectors depending on borrower's credit history

- Up to 5.5% fixed interest rate for first two years in banking sector with the application of banks' 1-yr corporate bond (AAA) rate plus 2.0%p as the maximum interest rate from the third to fifth year
- 1% fixed guarantee fee rate annually

**(FUNDING SOURCE)** KRW680 billion in fiscal investment in KODIT appropriated through the supplementary budget passed in May

### V. HOW TO APPLY AND REGISTER

Self-employed business owners and small merchants can check their eligibility and the eligibility of loans from the online refinancing program platform (KODIT) or by visiting branch offices. For those eligible, application will be available at banks and certain nonbank lenders from the end of September. To help speed up and ensure

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<sup>5</sup> e.g. Housing related loans for personal use or leasing, auto loans for personal use, stock loans, overdraft bank accounts (commercial auto loans for trucks and heavy equipment are eligible for the refinancing program as they are highly related to the fields of business of the self-employed and small merchants)

<sup>6</sup> Participation confirmed by 14 banks (Kookmin, IBK, Shinhan, Woori, Hana, Nonghyup, Suhyup, SC, Busan, Kyongnam, DGB, Kwangju, Jeonbuk, Jeju) with participation from internet-only banks expected to be decided in September after consultation since they have not handled guarantees from KODIT.

<sup>7</sup> Decision to offer refinancing program will be made by individual nonbank lenders on a voluntary basis.

convenience in the application process, the use of online application will be promoted via banks' mobile apps and websites. However, in the case where the number of corporate owners is two or more, or in case the use of online application is difficult (for elderly applicants, etc.), on-site application will also be available at banks and certain nonbank lending institutions.

To help minimize inconvenience and prevent system congestion in the application process, for both online and on-site application, applicants will be allowed to submit application only on their designated application day<sup>8</sup> at the beginning.

In September, detailed information and consultation for application and usage will be provided through call centers and the online refinancing program platform.<sup>9</sup>

## **VI. FURTHER PLAN**

The small business refinancing program has been prepared after a sufficient period of gathering opinions from relevant stakeholders since the authorities launched a consultative body of related institutions in April 2022.

Currently, all financial institutions, KODIT and KCIS are making changes and upgrading their network systems for establishing a refinancing program platform where applicants can check eligibility and submit application and lenders can issue refinancing loans and relevant notifications. In September, a business agreement containing specific work process will also be prepared for all financial sectors. In order to facilitate the use of the refinancing program, authorities will work to ensure an exemption from sanctions for financial sector employees with regard to their work in the provision of refinancing support if there is no intent or negligence found on their part.

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For press inquiry, please contact Foreign Media Relations at [fsc\\_media@korea.kr](mailto:fsc_media@korea.kr).

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<sup>8</sup> Applicants will apply on their designated day corresponding to the last digit of their business registration number.

<sup>9</sup> Specific application period and method as well as more specific information about call centers and the online refinancing program platform will be made available in September after coordination with relevant institutions.