Financial Services Commission

Press Release

September 30, 2022

MEASURES TO SOFT LAND LOAN MATURITY EXTENSION AND PAYMENTS DEFERMENT FOR SELF-EMPLOYED AND SMES

The government and financial institutions decided to provide loan maturity extension for up to three more years and payments deferment for up to one more year for the borrowers currently using these programs.[1] While providing sufficient time for the self-employed and SMEs to recover their repayment capabilities, authorities will ensure thorough protections for those who are unable to recover on their own with New Start Fund for the self-employed and a debt adjustment program for SMEs. During the extended period, loan forbearance programs will allow businesses to draw up their repayment plans tailored for individual situations in consultation with financial institutions. This will help ease the concern about financial institutions' financial soundness and support soft landings for both borrowers and financial institutions.

OVERVIEW

Since April 2020, the financial authorities and financial institutions have made available loan maturity extension and principal or interest payments deferment for SMEs and small merchants experiencing temporary liquidity shortage from COVID-19. As businesses continued to incur damages from COVID-19, the maturity extension and payments deferment program has been extended six-month each for four times over the past two and a half years. Financial institutions have provided forbearance support for KRW362.4 trillion loan through this program till June 2022. As of the end of June 2022, 570,000 borrowers and KRW141 trillion loans are still under this support.

EVALUATION ON CURRENT SITUATION

After COVID-19 business restrictions were completely lifted on April 18, business conditions for the self-employed and SMEs are gradually returning to normal. However, deterioration in economic and financial conditions such as rising interest rates, high price level and falling currency value delays a full recovery. Amid slow business recovery, there is a concern that the self-employed and SMEs may default on their debts if the loan maturity extension and payments deferment program expires at the end of September as scheduled. This will not only cause a social and economic shock but also raise the possibility of systemic risk resulting from contagion across financial sectors. Therefore, it is necessary to support soft landing for both borrowers and financial institutions by allowing enough time for businesses to completely recover.

[1] Maturity extension and payments deferment were previously scheduled to expire at the end of September 2022.

MEASURES TO SUPPORT SOFT LANDING FOR BORROWERS AND FINANCIAL SECTOR

Since July, the FSC has operated a consultative body on maturity extension and payments deferment program along with the Ministry of SMEs and Startups (MSS), the Financial Supervisory Service (FSS) and all financial sectors. Through several meetings, authorities discussed measures to support soft landing of the program in connection with the government's financial measures to stabilize people's livelihoods such as New Start Fund. The authorities held a meeting with SMEs and small merchant industry groups to listen to their voices and reflect them in a balanced way. Following these meetings, authorities decided to provide the below support in October for the borrowers who are currently using the maturity extension and payment deferment program.

I. PROVIDE SELF-EMPLOYED AND SMES SUFFICIENT TIME TO RECOVER

a) **(MATURITY EXTENSION)** Maturity extension made available by authorities' program will be switched to financial institutions' voluntary agreement. Financial institutions agreed to provide maturity extension for up to three years[2] in order to allow borrowers to focus solely on their business recovery without worrying about the uncertainty of maturity extension, partial payment request or abrupt increase in spread rates, etc.

b) **(PAYMENTS DEFERMENT)** Borrowers currently on payments deferment program can continue to receive the same support until September 2023. While previous payments deferment provided six months, this support will be up to one year to allow enough time for borrowers who are undergoing temporary liquidity shortage to recover before they start debt payments. Borrowers supported by payments deferment program need to draw up repayment plans (for both principal and future interest payments) until March 2023 with assistance of financial institutions. Through one-on-one consulting, each financial institution and borrower will prepare optimal repayment plan after comprehensively considering factors such as the pace of business recovery, the size of debt payment, etc.

II. PROVIDE FUNDAMENTAL AND SUBSTANTIAL SUPPORT TO HELP RECOVER REPAYMENT CAPACITIES IN CONNECTION WITH FINANCIAL MEASURES TO STABILIZE LIVELIHOODS

When a borrower wishes to opt for debt adjustment in spite of maturity extension and payments deferment, the following programs will be available.

a) Small merchants and the self-employed can get support from New Start Fund (KRRW30 trillion) scheduled to launch on October 4, 2022. This fund may offer maturity extension and debt adjustment like interest rate reduction depending on borrowers' conditions.

b) SMEs that are not eligible for New Start Fund can get support like fast-track debt adjustment after undertaking credit risk evaluation. For SMEs that have not gone

[2] Same as the application processing period for New Start Fund.

through credit risk evaluation, other types of debt adjustment are available from each financial institution.

FURTHER PLAN

The announced measures will take effect from October 4 on the same day the application for New Start Fund opens. The FSC and FSS will closely monitor the implementation of the measures to ensure no confusion on the spot. While working on seamless implementation of the KRW125 trillion-plus financial measures to stabilize people's livelihoods, authorities will promptly draw up and announce additional measures to support SMEs in response to deterioration in economic and financial conditions. In this regard, authorities will carry out the following.

a) Continue to provide KRW41.2 trillion of fiscal funding program (in place since July) designed to extend financial liquidity and competitiveness of the self-employed and small merchants.
b) Provide KRW8.5 trillion of low-interest rate refinancing program (conversion from high-interest rate business loan) from September 30 for the self-employed and small merchants who have been hit by the COVID-19 through 14 banks.
c) Provide about KRW6 trillion of fixed low interest rate loans for SMEs through Korea Development Bank (KDB) and Industrial Bank of Korea (IBK) starting from September 30.[3]
d) Prepare additional financial support measures for SMEs to ease their temporary liquidity concerns, boost their future growth potential and assist their recovery efforts through consultation with the Ministry of Trade, Industry and Energy (MOTIE) and MSS.

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

[3] (a) Eligibility: Open to all SMEs even for those that are not current borrowers from KDB or IBK
(b) Detail: - (Preferential interest rate) Reduce interest rate (maximum -1.0%p) for fixed interest rate loans to the level that is equivalent to an adjustable rate loan
- (Option to switch rate scheme) Choice of switching from a fixed interest rate scheme to an adjustable rate scheme (or vice versa) offered every six months after loan issuance