

FSC ANNOUNCES PLANS FOR IMPLEMENTING STRESSED DEBT SERVICE RATIO RULES IN H2 2024

- The second phase implementation of stressed debt service ratio (DSR) rules to begin from September 1, 2024.
- The plan for H2 2024 takes into account the fact that comprehensive government-wide measures to support lower income households and self-employed individuals are currently being drawn up and the overall situation with the real estate project finance loan market.
- The government will continue to maintain its current stance on household debt management aimed at stably controlling the pace of household debt growth within the level of annual GDP growth.

The Financial Services Commission announced its plan to implement the second phase of stressed debt service ratio (DSR) rules from September 1, 2024, a postponement of two months from the initial plan. Considering that government-wide support measures intended to alleviate the challenges and difficulties of lower income households and self-employed business owners are currently being drawn up and the fact that the viability assessment for the real estate development sites under project finance loans will start from the end of June, the decision to postpone the application of the second phase stressed DSR rules is aimed at facilitating a soft-landing of the stressed DSR regulation in the market.

The stressed DSR regulation imposes a certain level of additional stress rate when calculating a borrower's DSR as it takes into account the possibility of the borrower facing heavier repayment burdens in the future with increases in interest rates.

< Gradually Phasing in Stressed DSR Rules >

| | | 1 st Phase | 2 nd Phase | 3 rd Phase |
|------------------------|----------|---|--|--|
| Enforcement period | | (As is) Feb 2024 ~ June 2024 (To be) Feb 2024 ~ Aug 2024 | (As is) From Jul 2024 (To be) From Sep 2024 | (As is) From early 2025 (To be) From Jul 2025 |
| Type of loans | Banks | Mortgage loans | Mortgage loans + Credit loans | Mortgage loans + Credit loans + Other types of loans |
| | Nonbanks | - | Mortgage loans | Mortgage loans + Credit loans + Other types of loans |
| Additional stress rate | | 25% of base stress rate | 50% of base stress rate | 100% of base stress rate |

Key details of the second phase stressed DSR rules, effective from September 1, 2024, are as follows.

First, the additional stress rate of 0.75 percent will be applied, which will be at a 50 percent level of the base stress rate (1.5 percent), an increase from the current level of 25 percent.

Second, credit loans from the banking sector and home-backed mortgage loans from the nonbanking sector will be subject to the stressed DSR limits. However, for credit loans, calculation of DSR with the additional stress rate will only take place for borrowers when the balance of credit loans exceeds KRW100 million.

Third, when applying individual DSR limits, the maximum loan limits are expected to decrease by about 3 to 9 percent for mortgage loans from banks and nonbanks, depending the type of interest structures (variable, mixed, or periodically changing), and by 1 to 2 percent for credit loans from banks, depending on the type of interest structure and maturity. However, considering that the proportion of borrowers whose maximum loan limits are expected to be significantly curtailed by the stressed DSR limits is only about 7 to 8 percent of all borrowers, some 90 percent or more of borrowers will continue to see the same level of loan limits and interest rates as previously.

The stressed DSR rules are currently being implemented in stages and in a gradual manner. The period of phase three implementation where an additional stress rate will be applied on all types of household loans that are subject to the DSR regulation will be decided in the future (potentially in July 2025) after examining the progress and adjustment in the market.

The financial authorities expect that the stressed DSR regulation will help to improve the qualitative structure of household debt in the long run, and will become especially effective when interest rates begin to come down in the future.

The authorities will work to ensure seamless implementation of the second phase expansion of the stressed DSR limits from September 1, 2024. At the same time, the authorities will continue to closely monitor the trend of household debt growth and work to stably control the pace of growth within the level of annual GDP growth.

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