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## Press Release

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March 22, 2011

### FINANCIAL MEASURES TO SUPPORT NORMALIZATION OF HOUSING TRANSACTIONS

#### **Background**

In order to stimulate the depressed housing market last year, the government announced the Aug. 29 measures including the temporary easing of the application of debt-to-income (DTI) ratio for mortgage loans. Since the implementation of the Aug. 29 measures, housing transactions have rebounded while household debt including mortgage loans continuously increased.

\*apartment transaction volume in Seoul metropolitan area (in thousands): 9.0 (Sept 2010)→12.4 (Oct)→17.5 (Nov)→20.2 (Dec)→16.0 (Jan 2011)→19.0 (Feb)

\*mortgage lending (KRW in trillions): 2.6 (average from Jan to Aug 2010)→3.3 (Sept)→3.5 (Oct)→4.4 (Nov)→5.3 (Dec)→1.8 (Jan 2011)→2.8 (Feb)

#### **Key Contents**

1. The temporary easing of the application of DTI ratio for mortgage loans will be expired at the end of March as scheduled, and the previously-imposed DTI limit\* will be reinstated starting April.

\*the DTI ratio: 40% for speculative area, 50% for non-speculative area in Seoul, 60% for Incheon and Gyeonggi Province.

2. The FSC has also come up with complementary measures to support non-speculative housing transactions.

1) The raised cap for microcredit loans (from KRW50 million to KRW100 million), exempted from the DTI regulation, will be maintained to make sure that low-income households have no difficulties financing their housing purchase.

2) Preferential treatment of higher lending limit using the DTI ratio will be given towards non-grace-period repayment loans along with fixed-rate loans and principal and interest installment loans.

\*non-grace-period loans: +5%p

\*fixed-rate loans: +5%p

\*principal and interest installment loans: +5%p



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※ For example, for non-speculative Seoul area with 50% DTI application, if a mortgage is given out without a grace period and with fixed-rate principal and interest installments, 65% DTI will be applied.

### **Expected Effects**

By reinstating the DTI regulation, the FSC aims to prevent borrowers from borrowing above their means. With the DTI limit back in place, we expect to help make both lenders and borrowers financially sound. Also, it will contribute to keeping the household debt under control.

As the increased cap for microcredit loans will be maintained, the DTI regulation is not expected to lead to a sharp slump in the low-income household borrowing.

Also, we expect the eased DTI ratio application for fixed-rate principal and interest installment mortgages to help non-speculative homebuyers finance their homes, and at the same time, reduce the amount of floating rate lump-sum repayment mortgages that are usually taken out by speculative buyers.

### **Schedule**

New measures will be applied starting April to newly extended loans after financial institutions revise their internal rules by March.

For further inquiries:

Lee, J. Ernst  
Spokesperson, Foreign Media  
Foreign Press & Relations Office  
Financial Services Commission

Tel: +82-2-2156-9582

Fax: +82-2-2156-9589

E-mail: [happyhero@korea.kr](mailto:happyhero@korea.kr)