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Press Release

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REVISION OF LOAN-LOSS RESERVE REQUIREMENTS ON CREDIT CARD ASSETS

The Financial Services Commission (FSC) made a resolution at the eleventh meeting held on 15 June 2011 to revise the Regulation on Supervision of Specialized Credit Financial Business and the Regulation on Supervision of Banking Business on loan-loss reserve requirements for credit card assets.

BACKGROUND

The ratio for provisioning varies depending on the classification of the loans in question.* Applying equal loan-loss provisioning ratio for sales on credit and card debts (card loans, cash advance, revolving), which differ in delinquency ratio** and loss ratio, could be potentially problematic.

*Loan loss provisioning ratio: Pass- 1.5%, precautionary- 15%, substandard- 20% doubtful- 60%, estimated loss- 100%

** Delinquency ratio as of 2010: credit sales (0.9%)/ card loans (2.2%)

Total outstanding credit card debt at the end of 2010 marked a sharp increase of 19% from a year earlier, far more than a 6.3% increase in total household debt over the same period. This brings about the need for stronger risk management of credit card assets by differentiating the criteria for loan loss provisioning by card asset.

REVISION

Considering higher loss ratio on card debts than credit card sales, different ratios of loan loss provisioning will apply for each type of assets.

Loan loss provisioning ratio will significantly rise for credit sales excluding pass class of assets and card debts, reflecting expected loss ratio.



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Revised loan loss reserve requirements

(Unit: %)

Classification	# of months delinquent	Current		Revised	
		Credit sale	Credit loan	Credit sale	Credit loan
Pass	< 1	1.5		1.1	2.5
Precautionary	1~3	15		40	50
Substandard	> 3	20		60	65
Doubtful	3~6	60		75	75
Estimated loss	> 6	100		100	100

The FSC expects the revision to effectively enhance credit card companies' ability to absorb losses and prevent excessive competition to expand card debts as the burden of loan loss provisioning for card debts increases *.

* According to an analysis of top five credit card companies, additional loan-loss reserves requirements were expected to amount to KRW 211.7 billion (7.8% of their pre-tax profits).

The revision will be applied to credit card companies and banks which operate credit card business from the settlement of accounts for the first half in June.

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