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## Press Release

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### COMPREHENSIVE MEASURES ON HOUSEHOLD DEBT

#### **PROGRESS BRIEF**

The government has responded to household debt problems with a series of policy measures in order to enhance the soundness of household debt and financial institutions and at the same time to ensure low-income households' access to loans.

- The application of debt-to-income (DTI) limits for mortgage loans, which had been temporarily eased until last March, was reinstated starting April.
- Measures to Encourage Sound Competition among Credit Card Companies (Feb. 9); Measures to Curb Credit Card Companies from Excessively Expanding Their Businesses (June 7)
- Measures to Ensure Low-Income Households' Access to Loans (April 15)

#### **DIAGNOSIS OF THE CURRENT HOUSEHOLD DEBT LEVELS**

As of end-March 2011, Korea's household debt reached KRW 801.4 trillion with an annual growth rate of 13% on average since the Asian financial crisis, exceeding the nominal GDP growth rate of 7.3% over the same period.

The growth of household debt during the post-crisis period is attributed to the combination of various factors such as low interest rates, abundant liquidity, expectations about rise in real estate prices, and excessive lending by financial institutions.

With all the conditions – the soundness of household debt, the proportions of loans extended to borrowers with good credit ratings, loss-absorbing capacity of financial institutions, and household asset holdings – taken into account, we see the current levels of household debt still “broadly manageable.”

However, we cannot rule out a possibility that household debt problems would turn into threats to Korea's economy and financial markets unless we take preemptive measures; therefore, the government came up with a package of measures to contain potential risks of household debt.



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## **FINANCIAL POLICY MEASURES ON HOUSEHOLD DEBT**

### **1. Measures to keep household debt growth at a manageable pace**

#### **A. For the banking sector**

- Apply higher BIS risk weights to high-risk mortgage loans or excessive loans disproportionately concentrated on a certain sector (e.g. mortgage loans extended by a bank exceed two times of its equity capital)
- Revise standards to evaluate banks' sales performance
- Establish sound practices that banks ensure borrowers' debt repayment capability before offering loans.
- Shorten a deadline for banks to meet the 100% cap of loan-to-deposit (LTD) ratio to from the end of 2013 to the end of June 2012.

#### **B. For the non-banking sector**

- Introduce leverage regulations for credit business companies
- Gradually strengthen loan-loss reserve requirements for card loans and other credit loans extended by

#### **C. For households**

- Facilitate more use of debit cards rather than credit cards by offering tax incentives

### **2. Measures to enhance the soundness of household debt**

- Provide more tax reductions for borrowers to switch to fixed-rate mortgages and to repay principal in installments
- Promote banks' issuance of mortgage-backed securities (MBS) and covered bonds

### **3. Measures to strengthen consumer protection**

- Strengthen banks' obligation to offer borrowers sufficient information on risk involved in floating-rate loans
- Waive early repayment penalties for borrowers who switch from floating-rate loans to fixed-rate loans
- Strengthen monitoring on illegal practices to attract more borrowers

### **4. Measures to ensure low-income households' access to loans**

- Make microcredit programs such as Smile Microcredit, Sunshine Loans, New Hope Loans more widely available
- Extend repayment period for low-income borrowers



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- Strengthen other supportive measures for low-income borrowers such as debt restructuring and loan-switch program in order to ease their debt servicing burden

### **IMPLEMENTATION PLAN**

We will start with measures that we can implement as early as possible from the second half of this year. In July, the FSS and the Korea Federation of Banks will launch a joint T/F to create detailed implementation guidelines.

For measures that require revision of related regulations and laws, we plan to submit a revision bill to the National Assembly within this year.

After reviewing household lending trend in the future and outcomes of these measures, we will come up with follow-up measures, if needed.

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