Financial Services Commission
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Press Release

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MEASURES ON NON-BANKING SECTOR'S HOUSEHOLD LENDING

BACKGROUND

The Korean government announced last year "*Comprehensive Measures on Household Debt*"(June 29, 2011) and "*Measures to Increase Accessibility of Low-income Households to Financial Services*"(April 15, 2011) to preemptively manage household debt growth.

In 2011, household loans increased by 7.6%, lower than 8.1% in 2011. However, household lending in the non-banking sector increased by 9.9%. Particularly, household loan growth by cooperative financial institutions and insurance companies still remains high.

If household lending by non-banking institutions keeps growing at such a rapid pace, it would undermine the overall soundness of the sector and adversely affect our economy and financial market in the long term.

Against this backdrop, the government came up with follow-up measures to keep the growth of household loans by the non-banking sector under control.

(1) The measures aim to keep household loan growth particularly by cooperatives and insurers at manageable levels and manage household lending in a sound manner. At the same time, the government will ensure the "*Comprehensive Measures on Household Debt*" (June 29, 2011) are implemented as scheduled.

(2) In order to minimize side effects that these measures could bring to the economy and low-income households, these new lending rules will be phased in gradually, applicable to newly extended loans.

(3) We will also make sure the "*Measures to Increase Accessibility of Low-income Households to Financial Services*" are implemented as scheduled.

MEASURES TO CURB COOPERATIVE FINANCIAL INSTITUTIONS' LENDING

1. Stricter loan-to-deposit (LTD) rules

Cooperative financial institutions will be required to keep their LTD ratios below 80%. Cooperatives with LTD ratios over 80% will be required to bring down the ratios below 80% within two years. For cooperatives whose LTD ratios exceeding the average ratio of the sector, they will be under supervision to keep the ratios to a standstill at the levels of end-2011.

2. Strengthened regulations and supervision on loans with higher default risks

   Interest-only loans that exceed a certain amount, loans with a lump-sum repayment scheme, or loans extended to heavily indebted individuals will be classified as “high-risk” loans. Newly extended “high-risk” loans will be required to meet a stricter requirement for loan-loss provisioning.

   Cooperatives with excessive “high-risk” loans will be under focused inspection and supervision to prevent deterioration in their soundness.

3. Restrict cooperatives’ lending to non-members

   Each cooperative of the National Agricultural Cooperative Federation (NACF) and the National Federation of Fisheries Cooperatives (NFFC) will be required to limit their lending to non-members within 1/3 of a total of their newly extended loans annually.

   From this year, each cooperative of the NACF will be directed to reduce their lending to non-members to levels less than 1/3 of their newly extended loans. The same rule will also be applied to each cooperative of the NFFC from 2015 after a revision of relevant laws.

4. Narrow the scope of individuals considered as “members of cooperatives of a cooperative federation”

   “Members of cooperatives of different cooperative federations” will be no longer considered as “members of cooperatives of a cooperative federation.” Lending to members of other cooperative federations, which has been considered as “lending to members of cooperatives,” will be classified as lending to non-members, subject to the new lending limit. This narrow scope of “members of cooperatives” is applicable only to loans extended by cooperatives as part of their credit business.

5. Improve a loan approval process

   For non-banking financial institutions, it will become mandatory requirement to check written documents that prove borrowers’ ability to repay debt before they extend household loans.

6. Gradually raise standards for cooperative financial institutions’ asset soundness and loan-loss provisions

   Standards for cooperative financial institutions’ asset soundness and loan-loss provisioning will be gradually raised even during the grace period (by end-June, 2013) to meet the stricter requirements by July 2013.

Headquarters of cooperatives will submit their implementation plans to supervisory authorities on a voluntary basis and check progress in each cooperative.

MEASURES TO CURB INSURANCE COMPANIES' LENDING

1. Stricter regulations on household lending

Loan-loss provisioning standards for insurers will be strengthened to levels of banks.

*normal: 0.75%→1.0%, precautionary: 5%→10%, doubtful: 50%→55%

In calculation of insurers' credit values at risk under the Risk-Based Capital (RBC) regime, risk-weightings for mortgage loans will be raised.

*normal mortgage loans: 1.4%→2.8%,
high-risk mortgage loans (interest-only, lump-sum payment, heavily indebted borrowers): 1.4%→4.0%

2. Restriction on excessive marketing activities

Insurance companies and their sales agents will be restricted in excessive advertising and solicitation to sell their household loan products. Insurers will be prohibited from excessively hiring sales agents to sell their loan service.

Insurance companies whose household lending grows fast will be subject to focused inspection to ensure their loan sales activities are kept appropriate.

"Appropriateness in handling household loans" will be added to indicators of the Risk Assessment and Application System (RAAS) to encourage insurers to manage their household loan services in a sound manner.

MEASURES FOR STRENGTHENED MICROFINANCE PROGRAMS

1. Three major microfinance programs – 'Smile Microcredit', 'Sunshine Loans', 'New Hope Loans' – will strengthen their support for low-income households.

2. In order to ease the burden of interest payment, we will help indebted household to switch their high-interest loans to low-interest loans and provide loan brokerage services tailored to low-income households' needs.

3. In order to ease low-income households' burden of mortgage payment, the Korea Housing Finance Corporation (KHFC) will provide special guarantee programs so that borrowers can switch their mortgage loans from non-banking institutions to ones from banks.

IMPLEMENTATION PLAN

These measures will start to be implemented as early as the first quarter of 2012. The measures that need revisions of relevant regulations will be implemented by the third quarter. Revision bills on relevant laws to implement these measures will be submitted to the National Assembly for parliamentary approval within this year.

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