



Financial Services Commission  
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## Press Release

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February 28, 2012

### PLAN FOR IMPROVING LOAN APPROVAL PROCESS FOR SMES

#### **BACKGROUND**

Small and medium-sized enterprises (SMEs) primarily rely on indirect financing such as bank loans due to difficulties in funding their business through direct financing sources such as corporate bonds.

1. However, one of the most important elements that financial institutions consider in reviewing a company's loan application is whether the company can provide collateral for loans; therefore, start-up businesses or SMEs which lack such collateral still have difficulties in borrowing money from banks. Bank officials hold on to such collateral-based standards in reviewing SMEs' loan applications because they want to avoid their responsibility in the event of SME borrowers' default.
2. Banks also complain of insufficient information about SMEs available in a timely manner to evaluate SMEs' loan applications. SMEs raise the issue of fairness with banks' evaluation system of real estate collateral, pointing out that each bank's different standards make it harder to ensure objective and reliable evaluations of collateral assets.
3. The government and policy banks already have various programs to support SMEs; however, such programs are not well known to SMEs so they are not fully utilized.

Against this backdrop, the FSC has come up with a set of plans to improve the loan approval process for SMEs by reforming the immunity system for bank officials; fostering an SME-specialized credit bureau (CB); and improving banks' collateral evaluation system.

#### **MAJOR TASKS**

##### **I. Reform the immunity system for bank officials**

###### **1. Current situation**

- (1) The financial supervisory authorities have made several reforms to the immunity system in order to stimulate bank lending to SMEs; however, such measures fell short of a permanent reform of the system.



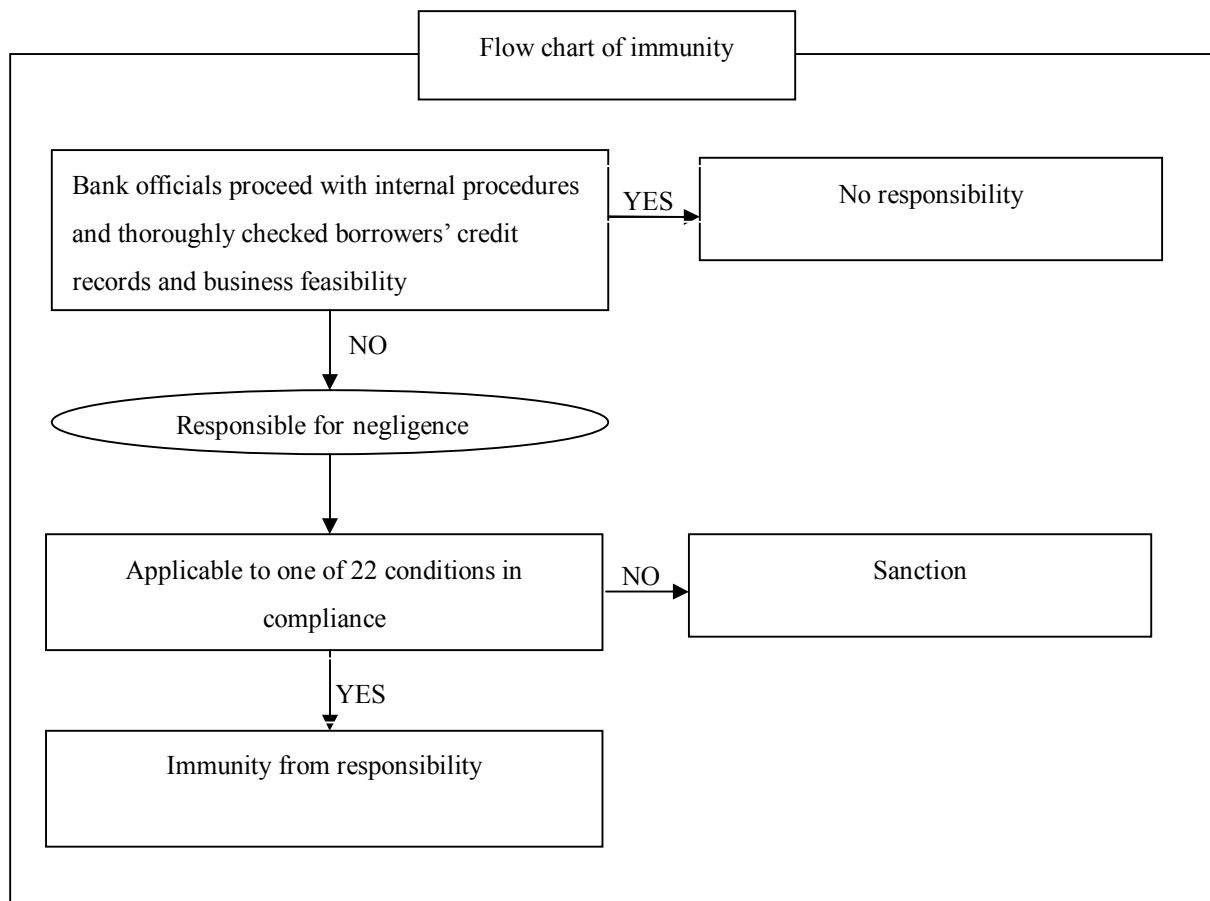
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Since 2006, an average of 145 officials per bank annually has been sanctioned for approving SME loans that later turned into non-performing ones.

- (2) Currently, conditions for granting immunity set by both the supervisory authorities and banks are too vague and complicated. The immunity system also lacks consistency as each bank applies different standards for immunity. Even if banks had granted immunity to their officials, there are some cases in which the supervisory authorities raised the issue again afterwards, which further discourages banks to lend to SMEs.
- (3) Even after being given immunity, bank officials still remain disadvantaged in performance evaluation.

## 2. Plan for improvement

- (1) The current regulation vaguely states that “those who act in good faith and with due diligence” are immune from responsibility; therefore, conditions for granting immunity need to be more specific as follows:
  - ① Bank officials have no responsibility for non-performing loans if they proceed with internal procedures and thoroughly check borrowers’ credit records and business feasibility in the process of reviewing loan applications.
  - ② Even if bank officials are found to be partially negligent, immunity can be granted under 22 specific conditions if such negligence is not intentional or critical.
  - ③ Conditions for granting immunity will be categorized into two different sets of conditions: 7 general conditions applicable to non-performing loans of large companies and SMEs; and 15 preferential conditions applicable to non-performing SME loans.
- (2) In principle, for cases to which banks already granted immunity, the supervisory authorities should respect banks’ decision and grant immunity. However, if banks’ decision to grant immunity is “clearly” against laws and internal rules, the supervisory authorities may intervene.
- (3) Bank officials already granted immunity will not be disadvantaged in performance evaluation.



### 3. Expected effects

These measures are expected to improve bank officials' conservative conventions in approving and granting SME loans. The improved immunity system will help make bank lending to SMEs less cyclical.

## II. Foster an SME-specialized Credit Bureau (CB)

### 1. Current situation

The Korea Enterprise Data (KED) was founded in February 2005 as an SME-specialized credit bureau in order to establish a database of SME credit information. However, as a subsidiary of Korea Credit Guarantee Fund (KODIT), KED is restricted in effectively collecting and compiling SME credit information.



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As a result, it has been pointed out that SME credit information provided by KED is insufficient and not accessible in a timely manner to be used in reviewing SME's loan applications.

## 2. Plan for improvement

With a consensus for a strengthened data base for SME credit information, banks plan to participate in active discussions in management of KED. Banks also agree to share a wider range of SME credit information with KED.

### III. Improve banks' collateral evaluation system

#### 1. Current situation

Except for collateral that exceeds a certain amount of value or that banks cannot evaluate on their own, most of collateral evaluations are currently conducted by lenders themselves with their own standards. SMEs have been raising the issue of fairness, arguing that the current collateral evaluation system cannot ensure objective evaluations of collateral assets.

#### 2. Plan for improvement

In order to improve expertise and fairness of banks' collateral evaluations, the Korea Federation of Banks will create a standard manual for banks' collateral evaluations.

Banks will strengthen their own expertise to ensure objectivity and fairness of collateral evaluations. Except for the cases in which banks themselves can make objective and reliable evaluations with reliable market data such as market prices of assets, it will be encouraged for banks to ask independent appraisers to evaluate collateral assets.

If loan applicants request independent appraisers, banks have to ask reliable outside appraisers to conduct a collateral evaluation.

### IV. Establish an integrated information system for SMEs

#### 1. Current situation

There has been no integrated information system to provide SMEs with information about supportive programs.

#### 2. Plan for improvement

A portal site to support SMEs ([www.smefn.or.kr](http://www.smefn.or.kr)) was launched on February 28, 2012 to provide 'one-stop' services. The website with a user-friendly interface will provide SMEs with an integrated and tailored search function on overall SME-related information.



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