Financial Services Commission
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Press Release

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COMPLEMENTARY MEASURES TO DEBT-TO-INCOME REGULATION

BACKGROUND

The regulation on debt-to-income (DTI) ratios is one of basic financial principles to ensure borrowers not to borrow beyond their means. Currently, the DTI ratio applied in Seoul is 50%; and 60% in metropolitan areas.

There have been discussions on how to improve the current regulation on DTI ratios. The FSC gathered opinions from financial and construction industries and relevant experts to come up with complementary measures to the DTI regulation. While maintaining the basic principle to ensure borrowers' ability to repay their debt, the complementary measures include the following new features:

(1) For young borrowers with stable income, estimates of their expected future income will be reflected into the denominator of income.

(2) For retirees who hold assets but find it difficult to prove their income, their net assets will be reflected into the denominator of income.

(3) Some measures previously taken to curb speculation will be eased.

I. YOUNG BORROWERS' EXPECTED FUTURE INCOME

The current DTI regulation count borrowers' earned income at a time when borrowers apply for loans. However, as young borrowers' income is expected to gradually increase over their work period, there is a need to take into account their expected future income.

(Eligibility)
The new rule will be applied to first-time home buyers aged less than 40 with earned income. Applicant should submit written documents issued by tax offices to prove earned income. Loan types covered by the new rule are loans with installment payments of principal and interest over the period of time longer than 10 years.

(Annual income growth rate)
Annual income growth rates will be adjusted based on the latest data published in annual reports of national tax statistics.[1]

(Expected future income)
With annual income growth rate for each age taken into account, an estimate of expected income average over the next 10 years

II. RETIREES' NET ASSETS

The DTI regulation has not counted borrowers' assets as income to prove their debt repayment ability. However, for retirees who own assets but whose ability to earn income is hard to prove, there is a need to take into account their assets when assessing borrowers' debt repayment ability.

Therefore, the new rule will count net assets owned by borrowers as income under certain conditions.

For those who own assets but cannot submit income proof, assets that meet the following requirements will be counted as income:
- **(Asset owner)** borrower and his/her spouse
- **(Asset types)** land, building, house, and rent subject to property tax under tax law
- **(Asset value)** value in market prices under tax law or appraised value
- **(Exemptions)** debts of borrower and his/her spouse
- **(Income conversion)** Financial institutions may decide the amount of income applicable to DTI ratios with income cap of borrowers' net assets multiplied by weighted average interest rate for banks deposit savings.

III. Financial income

Under the current regulation, taxpayers are not allowed to combine their earned income with financial income when they report their income. However, with the new measures, those who separately pay tax on their financial income will be allowed to add financial income to their income proof.

[1] According to the 2011 data, the annual income over 10 years from twenties to thirties increased 52.1% (4.3% per annum); 31.8% from thirties to forties (2.8% per annum)

IMPLEMENTATION PLAN

The new complementary measures will be implemented as soon as possible through administrative guidance. The new rules will be applied first to banks. Whether the application extends to the non-banking sector will be decided later. The FSC will evaluate effects and side-effects of complementary measures in a year and decide whether to continue to implement these measures.

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