



PLAN TO STRENGTHEN MICROFINANCE SUPPORT

The FSC announced its plan to strengthen microfinance programs to reduce financial burden of low-income borrowers and to support their self-sufficiency.

BACKGROUND

The government has been driving policy efforts to reduce financial burden of low-income borrowers and enhance their access to financial services through various microfinance programs. The Happiness Fund, launched in March 2013, purchased delinquent loans of 2.8 million low-income borrowers to reduce their debt repayment burden and supported debt-restructuring of 410,000 borrowers as of May 2015. Four major government-backed microloans have also provided a total of KRW 11 trillion to more than 1.1 million low-income borrowers since 2013.

In order to expand microfinance support in a sustainable way, the FSC came up with its plan focused on increasing the amount of policy microloans, while reducing debt servicing burden of low-income borrowers. Policy incentives will be also devised to give more benefits to those who faithfully repay their debt. Microfinance policy will be pushed forward to support the self-sufficiency of low-income families and individuals through comprehensive assistance for debt restructuring, job seeking and micro-savings.

KEY POLICY TASKS

1. Expand provision of policy loans, while reducing financial burden for low-income borrowers

The provision of government-backed microloans will be expanded from the current KRW 4.5 trillion to KRW 5.7 trillion per year, which will increase the number of beneficiaries from the current 470,000 to 600,000 per year.

To reduce debt servicing burden of low-income borrowers, the ceilings of government-backed micro-lending will be cut by up to 1.5%p starting from August 2015. The FSC will lower the statutory ceiling on lending by non-banking institutions from the current 34.9% to 29.9% through revisions to the Credit Business Act.

2. Provide more incentives for policy loan borrowers who faithfully repay their debt

Out of borrowers of government-backed microloans, those who faithfully repay their debt will be able to borrow up to KRW 5 million at the same rates in emergency loans starting from August 2015. For borrowers with their debt restructured and being repaid, credit cards will be issued starting from July 2015 to use up to KRW 500,000 per month with the credit cards.

3. Introduce microfinance products tailored to borrowers' needs

To promote stability of low-income families, a variety of microfinance products will be introduced to provide loans need for housing, education and post-retirement income.

Housing types subject to housing guarantee loans will be expanded to all public rental housings constructed by the Korea Land & Housing Corporation and regional housing corporations. Ceiling of the loans will be increased to KRW 20 million from the current KRW 10 million.

Chonsei guarantee loan products will be redesigned for borrowers of high-interest rate *chonsei* loans to restructure their loans into low-interest ones of 3 to 4%. Low income earners with equal to or less than KRW 15 million annually will be able to apply for *chonsei* guarantee loans up to KRW 50 million (currently limited to KRW 45 million).

Various microfinance products will be launched within the second half of 2015 to provide support for low income borrowers. Such products include tuition fee loans¹ for low income earners, insurance policies for the aged population over 65², and loans for the disabled³.

4. Increase supply of microfinance products

A new loan product will be introduced in November of 2015 for low-income borrowers to get additional bank loans after faithfully repaying policy microloans. They will be able to borrow up to KRW 30 million right after completing repayment of outstanding loans.

Furthermore, the FSC will encourage development of mid-interest rate loan products ($\approx 10\%$) by strengthening business ties between the banking and non-banking sectors.

5. Provide comprehensive services including microfinance, employment and welfare

Employees of microfinance agencies will be dispatched at nationwide employment and welfare centers to provide borrowers comprehensive consulting services including microfinance, employment and welfare.

For those having temporary difficulties to repay debt, the government will restructure debt, help find jobs, and recommend customized saving products in September 2015 to strengthen their self-sufficiency.

A matched savings products, or micro-savings, will be introduced for borrowers who have completed repaying policy microloans without overdue payment.

6. Provide support for delinquent borrowers to strengthen self-sufficiency

Maximum debt-relief rate for low income households will be increased to 60% from the current 50%. Borrowers of the Happiness Fund who are deemed to have no capability to repay debt will be given grace period of 3 years.

7. Establish an integrated agency for microfinance programs

The FSC will establish a one-stop service system for microfinance programs by integrating resources and information. To launch an integrated agency as a single control tower for

¹ Maximum KRW 5 million at 4.5% per household

² Maximum KRW 1.2 million of insurance fee will be provided to holders of policies with equal to or less than KRW 100,000 monthly insurance payment

³ Maximum KRW 12 million at 3% per individual

microfinance programs, the FSC will continue to work closely with the National Assembly to make possible for the single agency to be launched as soon as possible.

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