

PLAN TO FACILITATE THE USE OF MOVABLE ASSETS AS COLLATERAL

The FSC outlined its plan to make it easier for SMEs to borrow from banks, using their movable properties as collateral. On May 23, FSC Chairman Choi JongKu visited the Sihwa Industrial Complex, a cluster of SMEs in Gyunggi Province, to see a demonstration of how banks can utilize the Internet of Things (IoT) in tracking and monitoring movable assets offered as security – for example, factory machines. At a meeting with SME entrepreneurs on the site, Chairman Choi briefed on potential benefits of movables as collateral and FSC's policy schemes to facilitate the use of movable assets as collateral.

BENEFITS OF MOVABLE PROPERTIES AS COLLATERAL

- Movable assets account for a large portion of SME's assets so that they could serve as a useful funding source for start-ups and early-stage SMEs, which often lack immovable assets they can provide as collateral.
- Movable assets grow along with the development of business, making it possible for start-ups and SMEs to use their movable property as collateral to get funds for growth capital.
- A pool of movable assets, offered as a security, is less vulnerable to the volatility of business cycle and less likely to default in the event of an economic downturn.
- Movable assets enable SMEs to borrow more loans at lower interest rates, compared to what they could have borrowed on credit.

CURRENT PROBLEMS WITH MOVABLES AS COLLATERAL

Despite such benefits, movable assets have not been actively used as collateral. From a bank's perspective, movable assets are considered to be a riskier security than immovable assets:

- Movable property offered as security involves depreciation of value and difficulty of figuring out who is really entitled to the pledged asset.
- They are also exposed to a risk of being damaged or lost, incurring extra expenses for monitoring and managing such collateral.
- Markets in which movables offered as collateral can be traded are not sufficient enough to match supply and demand in such transaction, making banks' exits harder and longer.

As a result, the amount of loans secured against movables has decreased to KRW 205 billion as of March 2018, just one third of its record-high of KRW600 billion in 2013, one year after such type of loans first came on the market in August 2012.

POLICY SCHEMES TO FACILITATE THE USE OF MOVABLES AS COLLATERAL

The FSC's plan is focused on addressing these problems that make banks reluctant to accept movable properties as collateral, aiming to boost the provision of loans secured against movables to KRW3 trillion in 3 years and KRW6 trillion in 5 years.

1. Improvement in infrastructure and legal framework

- The FSC and banks will jointly develop infrastructure such as database, monitoring and tracking systems that will make it easier for banks to evaluate, monitor and manage movable assets offered as collateral.

(Pilot operations are expected to launch in the 2nd half of 2018, aiming to be fully operated in 2019)

- The FSC and the Ministry of Justice will form a taskforce to propose a revision to *the Act on Security Over Movable Property and Claims*, which came into force in June 2012, in order to better protect the rights of the security holder and to facilitate wider use of movable assets as collateral.

(A draft bill is expected to be proposed by the end of 2018)

2. Expansion and flexibility in acceptance of movable property as collateral

(Korea Federation of Banks will amend relevant standards in the 2nd half of 2018)

- The FSC will broaden the range of companies allowed to offer movable assets as collateral, currently limited to manufacturers, to include those in the retail and services sector.
- The type of movable property recognized as collateral will be expanded to a variety of movable items including motor vehicles, half-finished and finished products.
- The acceptance of movables as collateral, currently limited to only one type, will be expanded into all types of loans.
- The loan-to-value ratio on movable assets, currently capped at 40%, will be eased to allow banks more flexibility in evaluating movable property as a security.

3. Incentives for both banks and companies

(To be introduced in the 2nd half of 2018)

- The FSC will devise incentives for both companies and banks in an effort to encourage the use of movable assets as collateral – e.g. government-backed loans of KRW 1.5 trillion over the next 3 years for companies; and preferential on-lending limits & interest rates for banks.