

GOVERNMENT LOWERS STATUTORY CAP ON LENDING RATES TO REDUCE DEBT BURDEN ON LOW-INCOME BORROWERS

The government plans to lower a statutory cap on lending rates from the current 24% to 20% to reduce debt servicing burden on low-income borrowers.

Since the maximum lending rate was lowered to 24% in 2018, there have been discussions for further cuts, given low interest rates and the need for easing financial burden on low-income households.

The 20% statutory cap is expected to benefit 2.08 million borrowers, 87% of those who borrowed at higher rates, by saving KRW483 billion annually in debt servicing burden.

In order to more flexibly respond to changes in market conditions, the government intends to adjust the maximum lending rates by revising the enforcement decrees on the Act on Registration of Credit Business and Protection of Finance Users and the Interest Limitation Act. The new statutory cap will apply in the second half of 2021.

The government will also come up with complementary measures to ensure low-income borrowers' access to financial services and better protect them from predatory practices by illegal lenders.

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