Financial Services Commission

Press Release

October 27, 2022

FSC Proposes Revision of Supervisory Regulation on Savings Banks to Improve Soundness Management

The FSC proposed a revision to the regulations on supervision of mutual savings banks in order to improve management of their financial soundness. The key changes will require savings banks to: (a) set aside additional loan loss reserves for borrowers who have debt accounts with multiple lending institutions; (b) calculate their credit extension limits for real estate-related business category, which is regulated for asset quality control, based on de facto borrowers who have a duty to repay principal; and (c) exclude credit extension to nonoperational business branches (e.g., SPC branches) from the calculation of total credit extension within their operating localities.

Background

Savings banks have grown steadily since a major industry-wide restructuring in 2014, with total assets and net profits increasing year after year. So far, their financial indicators have been stable. However, as savings banks increasingly deal with vulnerable borrowers—debtors with multiple debt accounts—there is a growing need to strengthen savings banks' financial soundness management in preparation for future external shocks such as further interest rate hikes or a drop in housing prices. In order to preventively manage mutual savings banks' financial soundness, authorities prepared the revision proposal below for the supervisory regulation of those institutions.

Key Revision Details

a) Additional loan loss provisions will be required for borrowers with multiple debt accounts.

Most savings banks are currently maintaining higher-than-required loan loss provisions in accordance with the asset soundness categories established by supervisory regulation. However, unlike other financial sectors such as mutual finance and credit card companies, there is no rule requiring savings banks to set aside additional loan loss provisions to cover losses from borrowers with multiple debt accounts. As a result, the supervisory regulation will be amended to require savings banks to establish additional loan loss provisions for borrowers who have multiple debt accounts. Savings banks should make an additional 30 percent loss provision on top of the current level for borrowers with debt accounts at five to six different financial institutions, and an additional 50 percent loss provision will be required for borrowers with seven or more debt accounts.

b) Credit extension limits for companies involved in real estate will be determined based on de facto borrowers

Savings banks are currently required to adhere to credit extension limits for real estate-related businesses as a percentage of their total credit extension amount—(a) 30 percent for construction businesses, 30 percent for real estate businesses, 20 percent for PF (project financing), and 50 percent for (a)+(b)+(c). However, in real estate PF, if a borrower is a special purpose company (SPC)—SPCs are commonly registered as financial businesses—credit extension to that SPC could be excluded from the total real estate PF lending amount, thus circumventing the credit extension limit rule. As a result, authorities will revise the supervisory regulation to require savings banks to calculate their credit extension amount for real estate-related businesses based on the borrowers who are actually responsible for making loan payments.

c) Nonoperational business branches (e.g., SPC branches) will be excluded from total credit extension calculations within a savings bank's operating region.

Savings banks are currently required to comply with the regional credit extension rule within their operating localities—50 percent for the Seoul metropolitan area and 40 percent for other regions. Loans to a branch office of an SPC registered within a savings bank's operating region but with no physical presence could be classified as credit extension within the savings bank's operating region. However, this practice contradicts the goal of the regional credit extension rule, which is to encourage savings banks to lend within their operating regions. As a result, credit extension to nonoperational business branches (e.g., SPC branches) with no actual business presence within the operating region of the savings bank will be excluded from the calculation of total credit extension within that region.

FURTHER PLAN

Authorities will complete the revision process as soon as possible to alleviate concerns about the financial soundness of savings banks. The revision process is expected to begin with an advance notice on October 27, followed by regulatory review by the Regulatory Reform Committee and the Ministry of Government Legislation in November-December, and enforcement in early 2023.

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