Financial Services Commission

Press Release

February 21, 2024

FSC APPROVES REGULATORY CHANGE TO IMPROVE PRUDENTIAL MANAGEMENT ON MUTUAL FINANCE BUSINESSES

- Mutual finance businesses' loan loss provision requirement to be increased by 30 percent for their exposures to the construction and real estate sectors to help improve their loss absorbing capacity.

The Financial Services Commission approved a partial revision proposal for the supervisory regulation on mutual finance businesses at its third regularly scheduled meeting held on February 21. The regulatory change is aimed at improving prudential management on mutual finance businesses by bolstering their loss absorbing capacity against exposures to the construction and real estate sectors.

Mutual finance businesses are currently required to set aside higher levels of loss provisions for their loans extended to the construction and real estate sectors, more so than the level of loss provisions required for ordinary business loans.

This revision to the supervisory regulation will subject them to a 30 percent higher loss provisioning requirement for their exposures to the construction and real estate sectors, which is on a par with the loss provisioning requirement currently applied to savings banks and specialized credit finance companies for their real estate project finance loans.

< LOAN LOSS PROVISION RATIO FOR PROPERTY-RELATED LENDING IN THE NON-BANKING SECTOR (IN %)>

Loan classification	Mutual Finance Business			Savings banks, Specialized credit companies
	Corporate loans	Construction and property loans		PF loans
		Current	Revised	
Normal	0.85	1	1.3	2~3
Special mention	7	10	13	10
Substandard	20	20	26	30
Doubtful	50	55	71.5	75
Estimated loss	100	100	100	100

This regulatory change will take effect immediately at the time of promulgation. However, considering market conditions and industry concerns, the authorities will gradually phase in the additional loss provisioning requirement by 10 percent each time beginning in June 2024. Thus, the mutual finance businesses' loss provisioning requirement for exposure to the construction and real estate sectors will be increased to 110 percent of the current level by the end of June 2024, to 120 percent by the end of December 2024, and to 130 percent by the end of June 2025.

# # #

For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.