

MORTGAGE LOANS FROM BANKS TO BE SUBJECT TO STRESSED DEBT SERVICE RATIO LIMITS FROM FEBRUARY 26

- Stressed debt service ratio (DSR) rule takes effect on mortgage loans from banks from Monday, February 26.
 - An additional stress rate of 0.38 percent to be applied until June 30.
 - Stressed DSR rule will help to improve the quantitative and qualitative structure of household debt.
-

The Financial Services Commission announced that home-backed mortgage loans issued by banks will be subject to the stressed debt service ratio (DSR) rule from Monday, February 26.

The stressed DSR system¹ imposes a certain level of additional stress rate when calculating the borrower's DSR as it takes into account the possibility of heavier repayment burdens with increases in future interest rates.

From February 26 to June 30, 2024, an additional stress rate of 0.38 percent will be applied to mortgage loans from banks. Accordingly, the maximum amount a borrower can take out for a mortgage loan will be lowered by a two to four percent depending on how the mortgage payment schedule is structured.

As the authorities plan to gradually phase in the stressed DSR system to help minimize shock to borrowers, its application will be expanded to credit loans issued by banks and home mortgage loans issued by nonbanks in the second half of this year. While closely monitoring how the market is adjusting to the system, the authorities will expand its application to all types of household loans subject to the DSR rule from 2025.

The FSC expects that the newly introduced stressed DSR rule will help lenders to more closely examine borrowers' repayment capability with a mid- to long-term perspective and help consumers to become more aware of the risk of interest rate volatility in the long term, thereby helping to improve the structure of household debt in qualitative terms.

#

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

¹ For more details on the stressed DSR system, please see the press release dated December 27, 2023.