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Policy Implications on User-Tailored Mortgage Loans to Promote Housing Stability

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Summary

1. Since household debt in Korea is soaring largely due to the proliferation of mortgage loans, expansion of housing finance support is needed through effective operation and management of the mortgage market.

- The amount of household debt increased 51.5 percent from KRW 916.2 trillion in 2011 to KRW 1.39 quadrillion in June 2017. During the same period, mortgages went up 56.7 percent in value from KRW 442.4 trillion to KRW 693.2 trillion.

- To better manage household debt risk and strengthen housing support via home finance, effective implementation of user-tailored mortgage loans is a must, based on a user’s characteristics such as age, income level, and assets.

2. Mortgage lenders mostly target borrowers in their 20s and 30s, who have mid-level income and third and fourth asset quintiles. The delinquency rate is high among households that purchased homes for non-residential purposes and those that arranged to repay loan principal at maturity.

- The mortgage usage rate has surged for people in their 40s and 50s and the first and second asset quintiles. The rate was low for low-income households (26.6 percent), and the increment was also negligible.

- The delinquency rate was 5.8 percent for households that bought homes for residential purposes and 9.8 percent for those who did the same for other purposes. The rate was lower (5.5 percent) for households opting to repay principal and interest in installments than that of households choosing other repayment methods (9.3 percent).

3. A tighter loan-to value (LTV) regulation makes it difficult for households to secure loans if they are in the 40-49 age range, middle to high income, low- to mid-level assets, homeowners/jeonse home residents, first-time homebuyers, or non-homeowners. Meanwhile, the debt-to-income (DTI) rule has more influence on 40- to 50-somethings, earners of low- to mid-level income, those with mid-level assets, first-time homebuyers, and non-homeowners.

- The regulation based on the debt service ratio (DSR) mostly affects people in their 30s and 40s, those with mid- to high-level income or mid-level assets, jeonse home residents, first-time homebuyers, and non-homeowners.

- While the number of households whose access to mortgages is limited by the LTV regulation largely fluctuates according to regulation level, the fluctuation is relatively moderate under the DTI rule. For the DSG, the loan restriction effect is huge when the ratio is set at 200 percent.

Policy implications

① A number of mortgage loan types with various interest rates, repayment methods and periods, and risk distribution among financial institutions and consumers should be designed based on household characteristics such as income level, asset, and age.

② The LTV regulation should be steadily employed to stabilize home prices. The DTI rule should be alleviated for the socially vulnerable but in a differentiated manner according to household type.

③ The DSR regulation is a crucial means to manage household debt and has a huge impact on household access to mortgages. The DSR should thus be carefully approached when calculating indicators and setting criteria.

④ The socially vulnerable often face more risk factors when the interest rate changes. This can be eased by placing a cap on the lending rate spread, lowering the interest rate on arrears, and employing other measures.

⑤ More support for home loans should go to help non-homeowners buy homes or single-home owners move to new homes. The LTV regulation should be eased to assist people trying to buy homes to live in.