

## Current Status of Lending Business and the Tasks Ahead

While the imposition of high interest rates on loans and illegal collection by loan service firms have become a social issue in line with the recent expansion in the use of private finance by the general public, loan service firms are facing a sea change in their business environment with foreign financial capital entering the market and the reintroduction of 「The Anti-usury Act」 under consideration. The purpose of this paper is to examine the current status of the Korean lending market and the anticipated effects of changes in its business environment and to explore ways in which lending industry can contribute to the facilitation of personal finance for the general public.

The number of loan service firms registered with cities and provinces nationwide stood at 16,367 as of the end of June 2006, accounting for approximately 40 percent of the all private finance businesses, and the industry itself estimates the market volume at approximately 40 trillion won. Loan service firms mostly raise funds through borrowings and offer micro credit services to the self-employed and workers, with the majority of such loans carrying a high annual interest of more than 50 percent. Meanwhile, large loan service firms have shifted strongly into surplus since 2005, and Japanese firms are outpacing domestic firms in terms of market value, growth and cost efficiency.

Recently, there are increasing instances of domestic and foreign financial capital entering the market, due to rapid growth in the consumer credit market, loose regulations and the small scale of existing loan service firms. In addition, with the stiffer Loan-To-Value(LTV) and Debt-To-Income(DTI) ratios imposed on organized financial institutions, large foreign loan service firms have begun entering into the Korean housing finance loan market. Furthermore, as many people are suffering from the high interest rate burden, there are movements of reintroduction of 「The Anti-usury Act」 or the lowering of loan interest rate cap(66 percent annually) stipulated by 「Loan Service Firms and Financial Consumers Protection Act」.

Taking these changes in circumstances into consideration, it is necessary to clarify the range of businesses of loan service firms and encourage them

to enter the organized financial market by heightening their management transparency and increasing their market value in a bid to galvanize their central function of private small loan services. Furthermore, it is advisable to make gradual adjustments to loan interest rates, bringing them down to the level of major countries in order to ease the negative effects of high interest rates, and to carry out systematic supervision of loan service firms to improve the soundness of personal finance for the general public.

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