

January 28, 2014



Proposed Presidential Decree to the Covered Bonds Act

On January 16, 2014, the Financial Services Commission of Korea (the “FSC”) issued a proposed draft of the presidential decree to the recently enacted Covered Bonds Act of Korea (the “Act”; and such decree, the “Proposed Presidential Decree”). The Proposed Presidential Decree prescribes detailed requirements with respect to covered bond issuances, and will be open to public comment until April 25, 2014. This newsletter outlines the major provisions of the Proposed Presidential Decree.

1. Additional Requirements for Eligibility as Cover Pool Assets

As discussed in our previous newsletter introducing the Covered Bonds Act, covered bonds are collateralized by a pool of investment assets (a “Cover Pool”) such as mortgage and public sector loans. The Proposed Presidential Decree provides detailed requirements for the types of assets eligible for inclusion in a Cover Pool, in addition to those prescribed by the Act.

Mortgage Loans

In order for mortgage loans to be included in a Cover Pool, the debt-to-income (DTI) ratio of each of the mortgage loans must not exceed 70 percent. In addition, each such mortgage loan must be secured by first priority residential mortgages and a certain portion of such mortgage loans must be fixed-interest rate loans.

The FSC is expected to promulgate a more detailed regulation setting forth the minimum percentage of fixed-rate loans that must comprise the mortgage loan assets in a Cover Pool.

Loan Receivables Secured by Ships or Aircraft

In order for a loan receivable secured by a ship or aircraft to be included in a Cover Pool, the loan-to-value (LTV) ratio of such loan receivable must not exceed 70 percent. In addition, such loan receivable must also be secured by ships or aircraft that are properly insured. The relevant insurance policies for the ships or aircraft need to provide coverage in amounts equivalent to at least 110 percent of the sum of (i) the outstanding principal amount of the relevant loan receivable and (ii) the aggregate outstanding principal amounts of those loan receivables having the same or higher priority than the relevant loan receivable included in the Cover Pool.

2. Limit on Aggregate Issuance Amount

Under the Proposed Presidential Decree, the aggregate outstanding principal amount of all covered bonds issued by a single issuer must not exceed four percent of such issuer's total asset value as of the end of the immediately preceding fiscal year.

3. Program Issuance

Under the Proposed Presidential Decree, an issuer may establish a covered bond issuance program. With such program, the issuer may issue a series of covered bonds on a roll over basis, subject to the terms and conditions of the program documents. To set up a covered bond issuance program, the issuer must register with the FSC an issuance plan describing the terms and conditions of such program prior to an initial issuance of the covered bonds under the program. For subsequent issuances, the issuer will only be required to register an amended issuance plan describing the details of the additional issuance.

4. Use of Bond Proceeds and Repayment

In addition to the requirements described above, the Proposed Presidential Decree includes several provisions relating to the use of funds raised through covered bond issuances and the repayment of covered bonds. For example, the Proposed Presidential Decree requires that the covered bonds may only be issued for purposes of a stable long-term supply of funds or a structure improvement of household loans held by the issuer. The issuer also needs to have specific plans for the repayment of the covered bonds and the use of the funds raised with such bonds.

Should you have any questions regarding any of the foregoing, please feel free to contact us at any time.

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| ● Young-Hee Jo | TEL : +82 2 316 4236 | E-Mail: yhjo@shinkim.com |
| ● Jong-Uk Lee | TEL : +82 2 316 4642 | E-Mail: julee@shinkim.com |
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