

# The Brief Overview of Korean R-Mortgage & Covered Bond Markets

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# Overview of the Korean Housing Market

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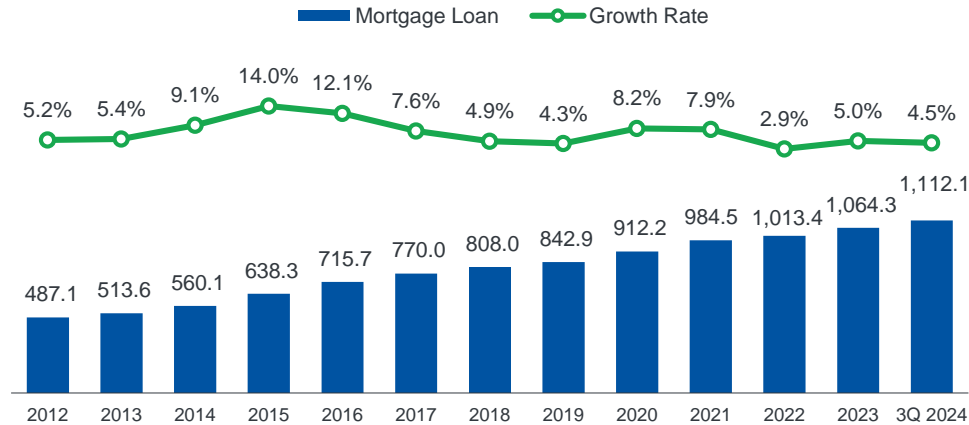




# Korean Housing Market Overview

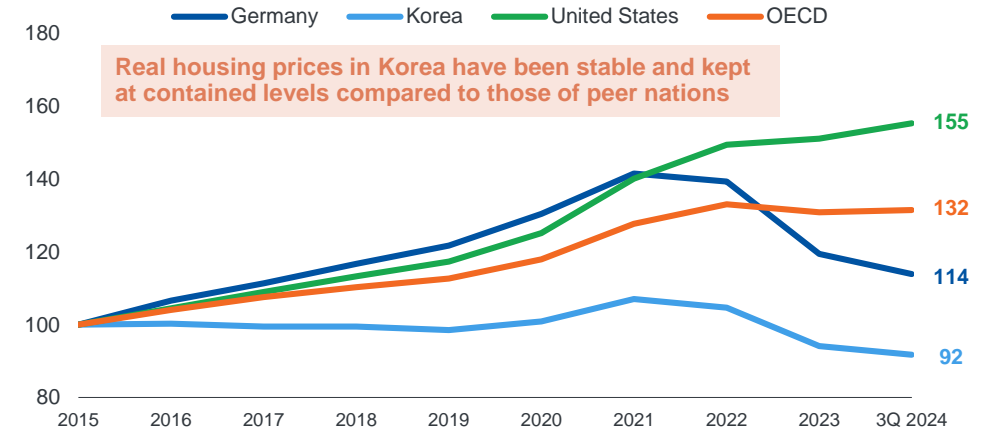
## Mortgage Growth Under Control

(KRW tn, YoY%)



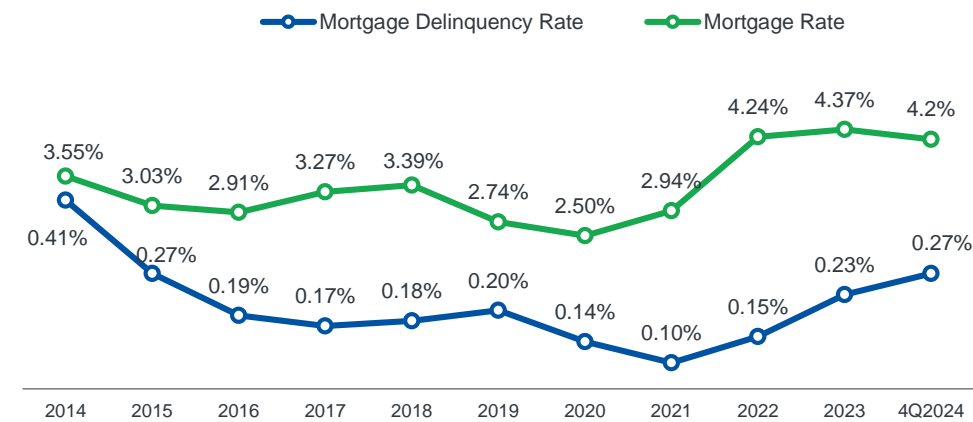
## Stable Real Housing Prices in Korea

(As of 3Q 2024, 2015=100)



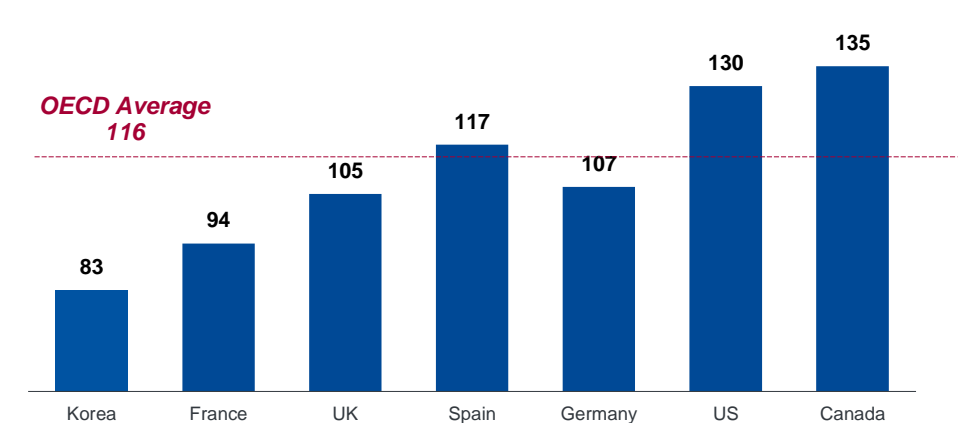
## Mortgage Rate and Delinquency Rate<sup>1</sup>

(Banks Avg.)



## House Price-to-Income Ratio

(As of 3Q 2024, 2015=100)



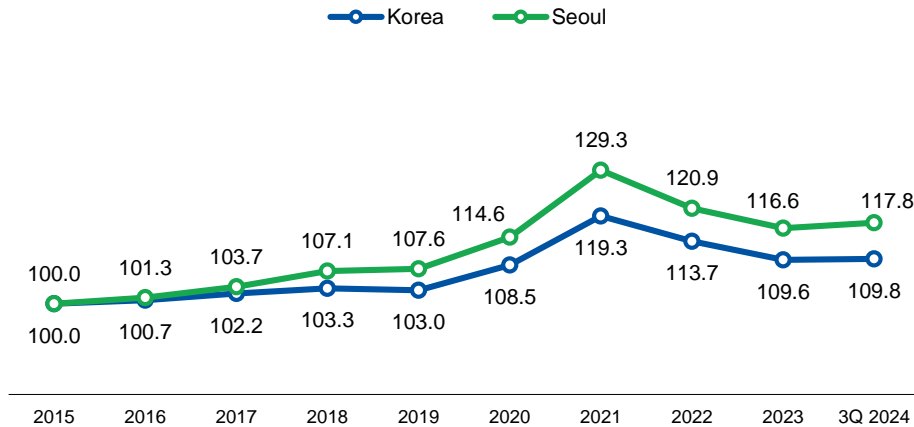
Source: Company data, Bank of Korea, Financial Supervisory Service, OECD

Note: 1. Delinquency Rate: Based on over 30 days past due

# Korean Housing Market Overview (Cont'd)

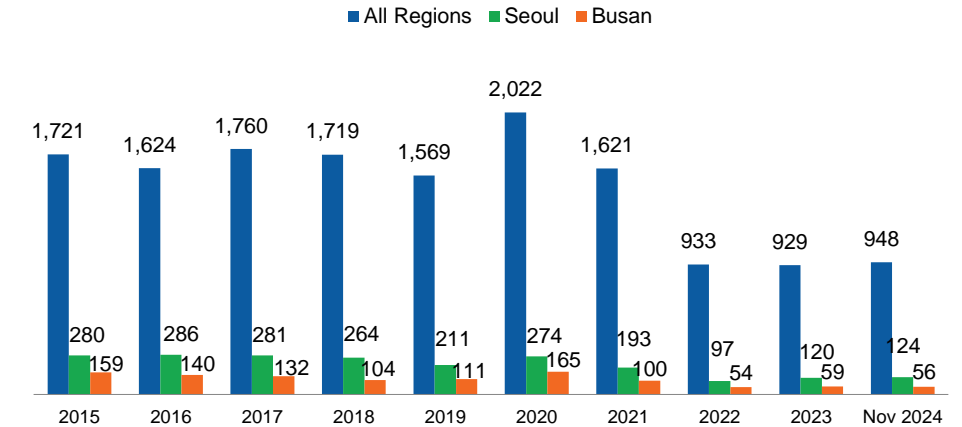
## House Price Indices in Korea

(As of September 2024, 2015=100)



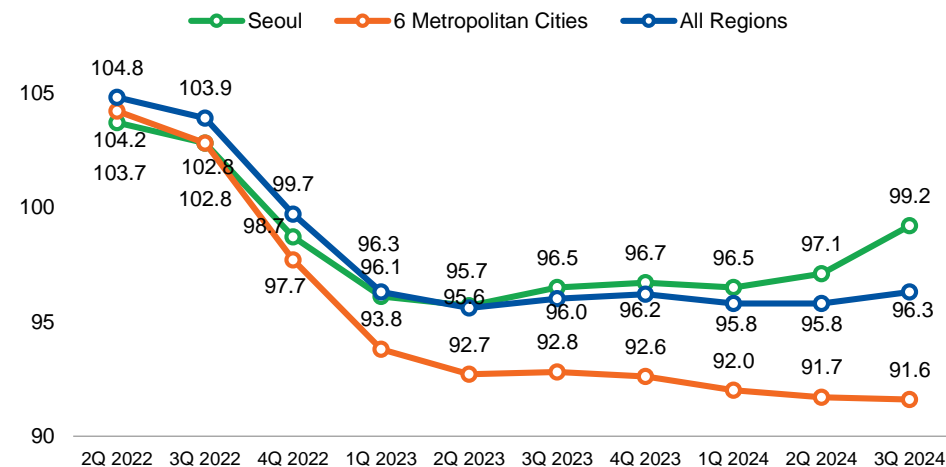
## Transaction Volume of Houses in Korea

(As of November 2024, Unit: 1,000 house/project)



## House Sales Price Indices

(As of September 2024, June 2021=100)

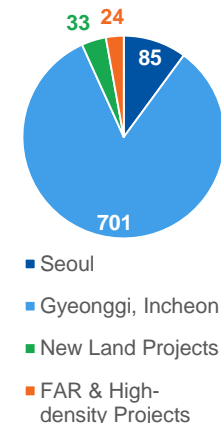


## Housing Supply Expansion Plan

(Unit: 1,000 houses/project)

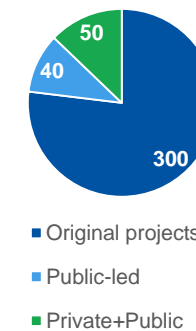
### Metropolitan Land Development Projects

Total: 840,000



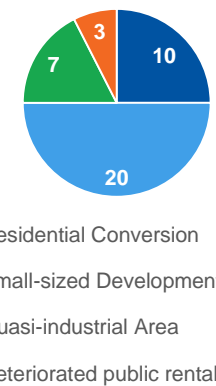
### Reconstruction / Renovation Projects

Total 390,000



### Projects under eased City Regulations

Total 40,000



# Housing Market Outlook in 2025



## Housing Prices to Grow Steadily in 2025 Despite Restrictions on Borrowing

### Keywords for 2025

#### Home Buyer's Borrowing Capacity

- Stricter regulation / management of household debt by the government / financial institutions
- Effects of interest rate cuts on real mortgage rates

#### Reduced Housing Supply

- Distinct decline in new construction start/completion since 2022
- Contraction in real estate project financing (PF) expected to put further pressure on supply

#### Increase in Regional Disparities

- Government's regulations on multiple home ownership encouraging buyers to purchase 'smart single-homes'
- Further bipolarization effects expected between Seoul and regional areas

Major Factors		Description	Effect on Price
Supply	Short-term	• Relative shortage of supply versus demand for Housing in prime locations	Positive
	Long-term	• Decline in new construction starts will further exacerbate the shortage in supply	Positive
Demand	Borrowing Capacity	• Stricter regulations on borrowing will reduce home buyer's borrowing capacity	Neutral
		• Further rate cuts by Bank of Korea may lead to lower mortgage loan rates	Positive
	Buyer Sentiment	• Buying sentiment to increase on the back of expected rate cuts and concerns over new supply	Positive
Policy	Regional Disparities	• Demand for 'smart-single homes' expected to bipolarize demand depending on location	Neutral
	Real Demand	• Policy to further align with supporting real-demand for housing (as opposed to investments)	Neutral
	Investment Demand	• Restrictive policy to continue towards multiple homeowners and corporates	Neutral



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# Korean R-Mortgage & Covered Bond Market

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# Background of the Provision of HF Mortgage

## Korean Residential Mortgage Market in transition

### 1 Lender

- ✓ Commercial Bank
- ✓ Non-bank financial institutions (insurance companies, securities firms, savings bank, credit unions, etc.)

### 2 Characteristics

- ✓ Floating rates
- ✓ Lump-sum repayment at Maturity

### 3 Impact

- ✓ High-interest rate risk borne by borrowers
- ✓ Cause asset price bubble risk
- ✓ Make economic structure vulnerable



To improve economic stability, Korea Housing Finance Corporation(HF), started to offer **long-term, fixed-rate, fully amortizing mortgage loans**


### Objectives

- Ease the interest payment burden for low-to-mid income households
- Provide low-cost, long-term, fixed-rate mortgages for first-time home buyers
- Support home purchases during rate-hiking period



# Mortgage Comparison btw HF and Banks

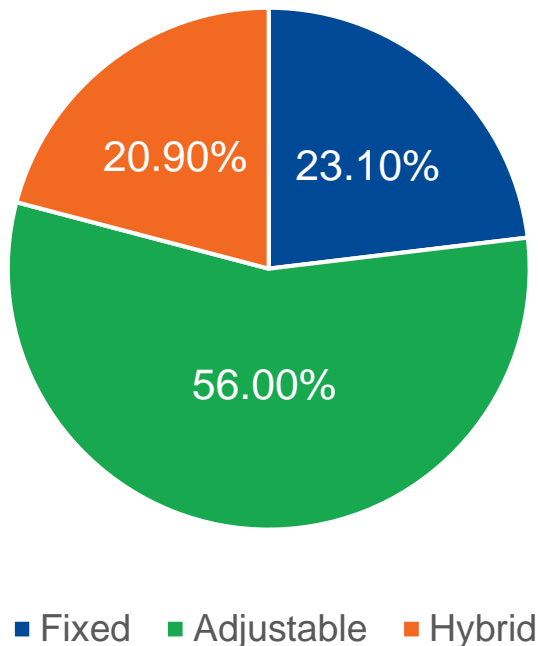


		Commercial Banks
Key Characteristics	<ul style="list-style-type: none"> <li>Fixed Rate and Fully Amortizing until Maturity</li> </ul>	<ul style="list-style-type: none"> <li>Adjustable Rate or Hybrid (every 5 year)</li> </ul>
Key Borrower Criteria	<ul style="list-style-type: none"> <li>Combined annual income of borrower and spouse less than KRW 70 million (≈ USD 53,070)</li> <li>Households owning no home or only one home</li> <li>Aged 19 or over with a CB score of 271 or better and not listed as a bad debtor on KFB database</li> </ul>	<ul style="list-style-type: none"> <li>A borrower applying for a loan by offering real estate as collateral, either for property they currently own or for the property they intend to purchase</li> </ul>
Loan Limit	Up to KRW 360 million (≈ USD 273 thousand)	Up to KRW 1,000 million (≈ USD 758 thousand)
LTV ratio	Up to 70%	Up to 70%
Tenor	10, 15, 20, 30, 40, 50 years	Up to 50 years (But typically shorter term)
Mortgage Interest Rate Decision	Set by KHFC Interest Rate Adjustment Committee	Linked to COFIX / bank bonds
Preferential Interest Rate	<ul style="list-style-type: none"> <li>Interest is 0.4%p lower for households with                             <ol style="list-style-type: none"> <li>three or more children</li> <li>single parent</li> <li>multicultural families</li> <li>a disabled family member</li> </ol> </li> <li>Interest is 0.2%p lower for a newly weds</li> <li>Applies to a maximum of 2 items, with a limit of 1%p</li> </ul>	Related to financial affiliates (ex. Credit card usage, deposits and savings account subscriptions, etc.)
Repayment Type	Equal P&I, Equal P, Graduated installment payment	Equal P&I, Equal P payment
Maximum House Price	KRW 600 million (≈USD 455 thousand)	None

# Policy Orientation of the Korean Residential Mortgage Market

In transition to long-term fixed-rate mortgage market

Outstanding Mortgage Share by coupon type  
(as of April.2024)



But, polarization of residential mortgage market

- **85.7%** of the total **Pure Fixed-rate** mortgage were provided by **KHFC**
- **87.9%** of the total **Adjustable-rate** mortgage were provided by **Banks**








The Korean financial regulator (FSC) wants to boost up the role of private sector by

- **Facilitating the banks' issuance of KRW-denominated covered bond** in the local market, leading to increased supply of fixed-rate mortgage
- **Incentivizing in calculation of banks' loan to deposit ratio** by assigning a zero-risk weight to the investment.
- **Providing payment guarantees by KHFC on Covered Bonds** issued by Korea's top five banks.

# Development of the Korean Covered Bonds Market

## Milestones of Korea's Covered Bond Issuances

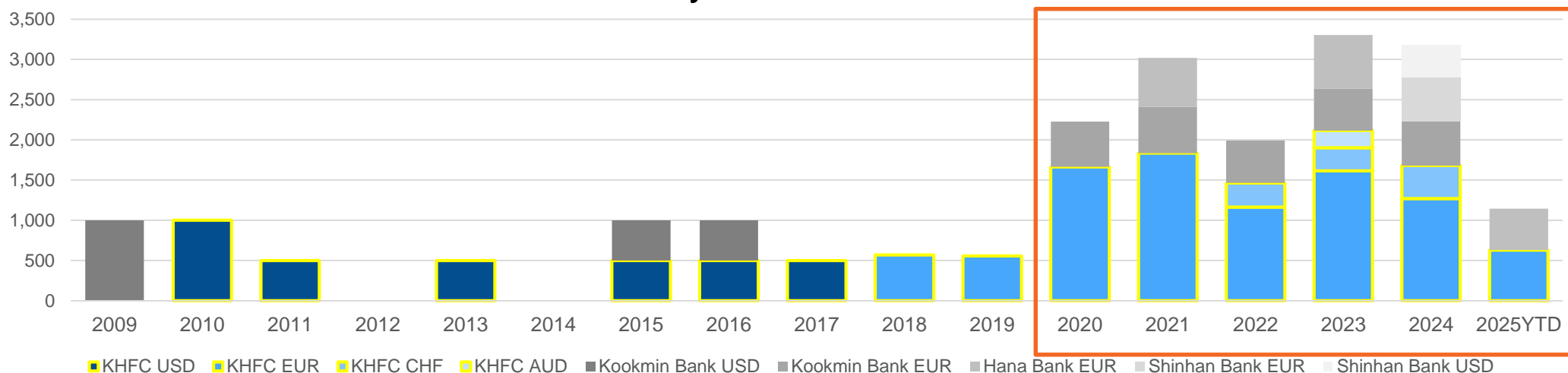
<b>May. 2009</b>	Structured Covered Bond Issuance by Kookmin Bank (in USD)
<b>Jul. 2010</b>	<b>Debut Issuance of KHFC (in USD) – 1<sup>st</sup> Statutory Covered Bond</b>
<b>Apr. 2014</b>	Covered Bond Act was implemented in Korea
<b>Oct. 2018</b>	<b>First EUR Covered Bond Issuance of KHFC</b>
<b>Jul. 2020</b>	First EUR Issuance of <a href="#">Kookmin Bank</a>
<b>Jan. 2021</b>	Debut Issuance of <a href="#">KEB Hana Bank</a> (in EUR)
<b>Jan. 2024</b>	Debut Issuance of <a href="#">Shinhan Bank</a> (in EUR)

Issuer	Currency	# of Tranches	Amount Issued (Local Currency)	ESG
	USD	10	3,610mn	Social
	EUR	15	8,650mn	Social
	CHF	6	915mn	Social
	AUD	2	320mn	Social
	HKD	1	193mn	Social
	USD	3	2,000mn	-
	EUR	5	2,500mn	Sustainable / Green
	EUR	3	1,600mn	Sustainable / Social
	USD	1	400mn	Green
	EUR	1	500mn	Green
	<b>Total</b>	<b>47</b>	<b>USD 20.7bn equiv.</b>	

Note: For KHFC, private placements are included

(USDmm equiv.)

## Covered Bonds issued by Korean Issuers in International Market





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# Korean ESG Bond Market

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# ESG Bond Issuance in Korea

## ESG Bonds listed in the domestic KRW market

Outstanding balance of ESG Bonds listed in domestic KRW market (2019 – 2024)

(unit: tn KRW)

Theme	2019	2020	2021	2022	2023	2024	2024 (%)
Green	2.1	3	14.8	20	25.6	27.3	10.5 %
Social	22.6	73.6	127.3	157.2	199.4	216.1	83.0 %
Sustainability	2.1	5.4	17.5	21.3	20.3	16.7	6.4 %
Sustainability-Linked	-	-	-	-	0.2	0.3	0.1 %
Grand Total	26.8	82	159.6	198.5	245.5	260.4	100 %

Annual new issuance of ESG Bonds listed in domestic KRW market (2019 – 2024)

(unit: tn KRW)

Theme	2019	2020	2021	2022	2023	2024	2024 (%)
Green	1.5	1	12.5	5.8	7.4	8.3	13.0 %
Social	22.5	54.2	61.8	45.7	64.6	53	82.8 %
Sustainability	1.7	3.7	12.5	6	3.3	2.6	4.1 %
Sustainability-Linked					0.2	0.1	0.2 %
Grand Total	25.7	58.9	86.8	57.5	75.5	64	100 %



# Green Certifications in Korea

- ◆ Korean government has developed environmental assessment and certification programs

## 1 G-SEED

- ✓ Green Standard for Energy and Environmental Design (launched in 2002)
- ✓ Set by Ministry of Environment, and handled by several agencies like Korea Environmental Industry & Tech Institute (KEITI)
- ✓ Government green building certification program
- ✓ Assess the eco-friendliness of building and detached single houses
- ✓ Evaluate 8 environmental areas with 54 sub-items
- ✓ May be eligible for government incentives, tax relief, and easing of floor area ratio (FAR) and height limits

## 2 BEEC

- ✓ Building Energy Efficient Certification (launched in 2001)
- ✓ Focus on carbon dioxide emission and energy consumption
- ✓ Korea Energy Agency (KEA) estimates carbon dioxide emission and energy consumption of building for heating, cooling, and hot water supply and rate by ten levels.
- ✓ Assess the annual primary energy use intensity (EUI, kWh/m<sup>2</sup>/yr) of a new or existing building
- ✓ Assigns ten certificate levels from 1+++ (most efficient) to 7 (least efficient)
- ✓ May be eligible for government incentives, tax relief, and easing of floor area ratio (FAR) etc.

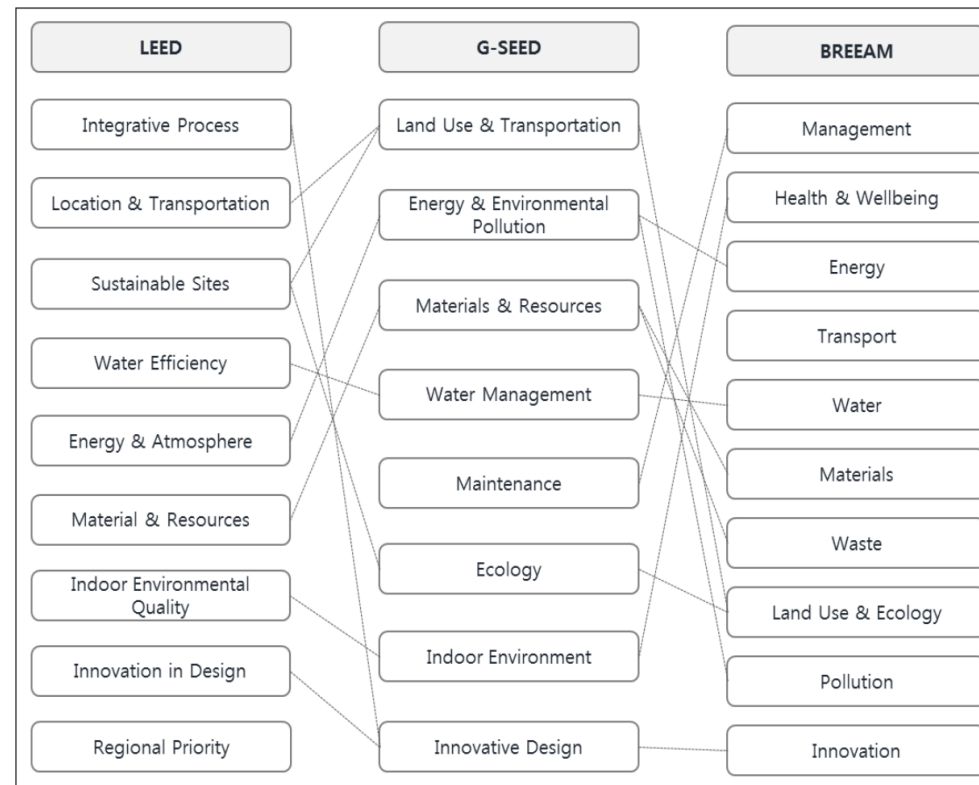
## 3 K- Taxonomy

South Korea's comprehensive directive released in 2021 and revised in Dec. 2024 benchmarking EU-Taxonomy

- 1) Voluntary framework, Aligned with EU Taxonomy, Supports Green bonds.
- 2) In addition to reducing greenhouse gas emissions, newly added green activities target water conservation, circular economy, pollution control, and biodiversity.

# Comparisons of Green certification systems

Features	G-SEED	LEED	BREEAM
Program	Green Standard for Energy and Environmental Design	Leadership in Energy and Environmental Design	Building Research Establishment Environmental Assessment Method
Launch	2002 (revised in 2016) (South Korea)	1998 (USA)	1990 (UK)
Certification levels	Best / Excellent / Good / General	Platinum / Gold / Silver / Certified	Outstanding / Excellent / Very Good / Good / Pass



Source: Yun et al.(2018)



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## KHFC at a glance

# Overview of KHFC

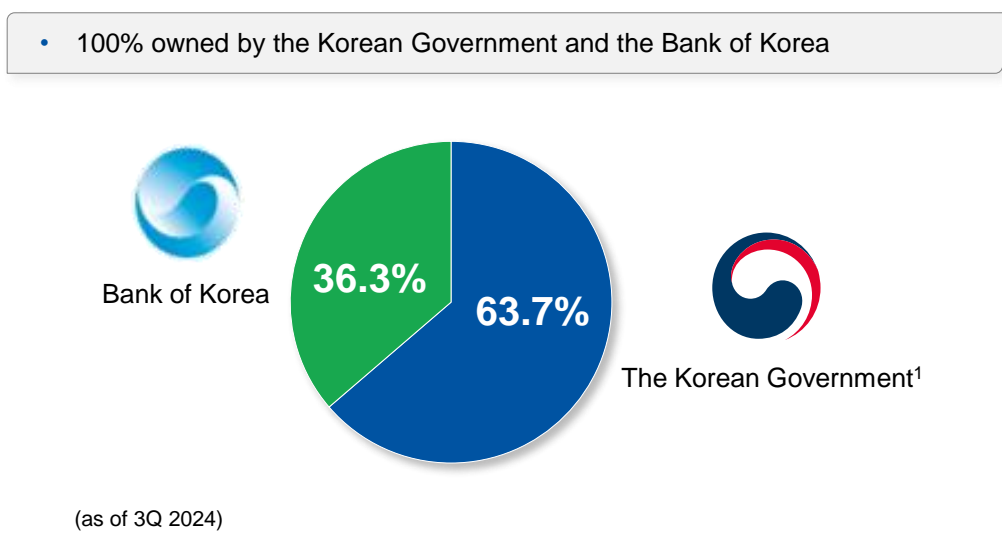
## Policy Arm of the Korean Government

<b>Classification</b>	<ul style="list-style-type: none"> <li>✓ <b>Government-controlled entity</b> established under the KHFC Act</li> <li>✓ <b>Quasi-governmental institution</b></li> <li>✓ Categorized as <b>Sovereign, Supranational and Agencies</b> ("SSA")</li> </ul>
<b>Establishment</b>	<ul style="list-style-type: none"> <li>✓ Established in 2004 with the goal of supporting the Korean Government's housing welfare policy</li> </ul>
<b>Mandate</b>	<ul style="list-style-type: none"> <li>✓ Policy mandate to promote the welfare of people in Korea by facilitating the long-term, stable supply of housing finance (KHFC Act)</li> </ul>
<b>Ratings</b>	<ul style="list-style-type: none"> <li>✓ Aa2 Stable (Moody's) / AA Stable (S&amp;P) / AA- Stable (Fitch)</li> <li>✓ <b>On par with Korea's rating as the sovereign</b></li> </ul>

## KHFC's Major Businesses

 <b>Mortgage</b>	 <b>Securitization</b>
<ul style="list-style-type: none"> <li>✓ Provide long-term, fixed-rate, and amortized mortgages to real demand driven households to allow stable access to housing finance</li> </ul>	<ul style="list-style-type: none"> <li>✓ Securitize mortgages which KHFC purchases from Korean commercial banks</li> </ul>
<b>Improve housing welfare</b>	<b>Improve Korea's household debt structure</b>

## Ownership Structure



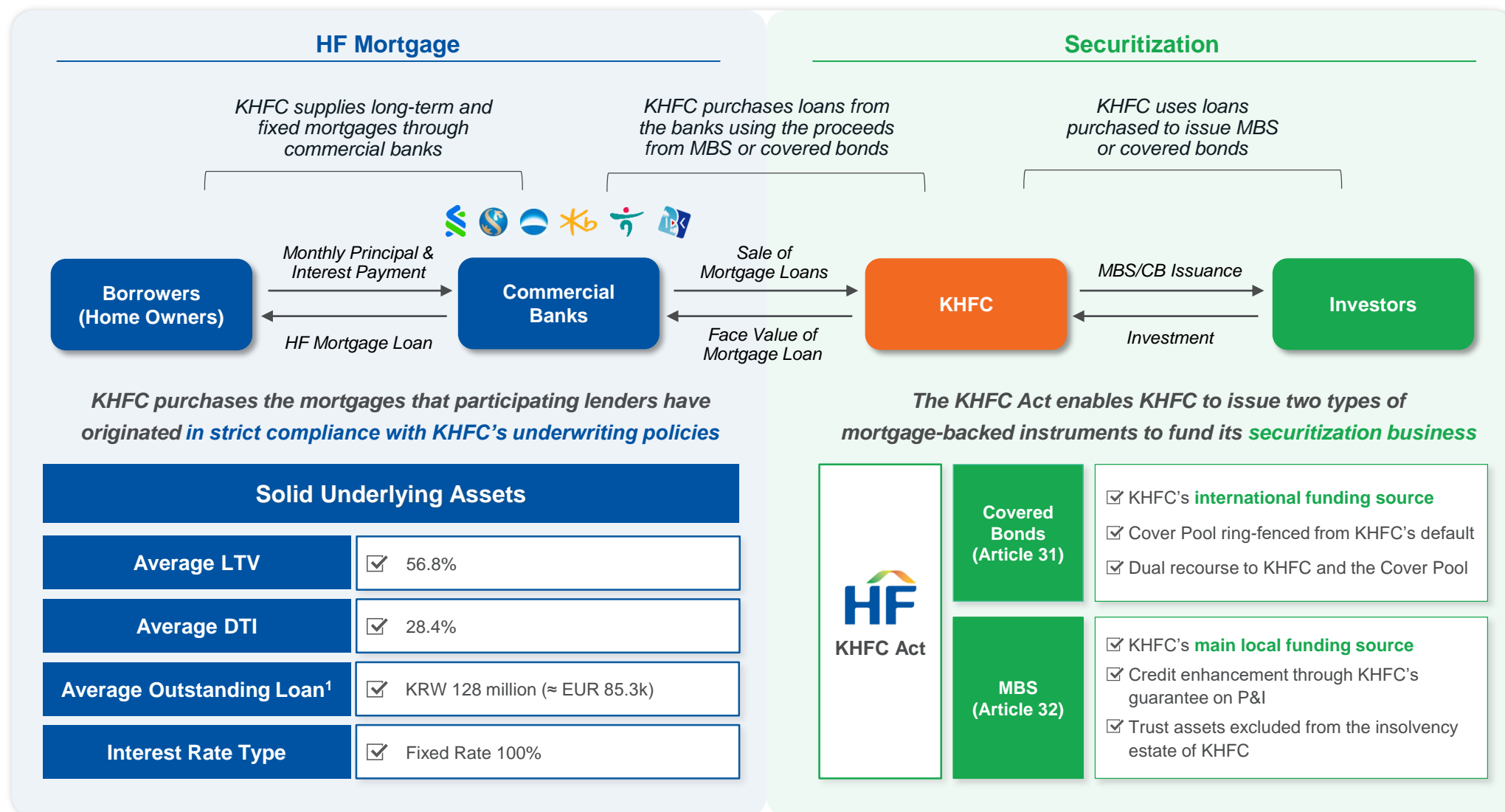
## Government Loss Compensation

*When any loss has arisen at the closing of books of the Corporation, it shall be covered by the financial resources reserved in accordance with the provisions of subparagraph 1 of Article 50, and when such reserve is insufficient, the Government shall cover it."*

- Article 51 of the KHFC Act

# KHFC's Securitization Businesses

## Introduction to 2 main pillars of KHFC's securitization business

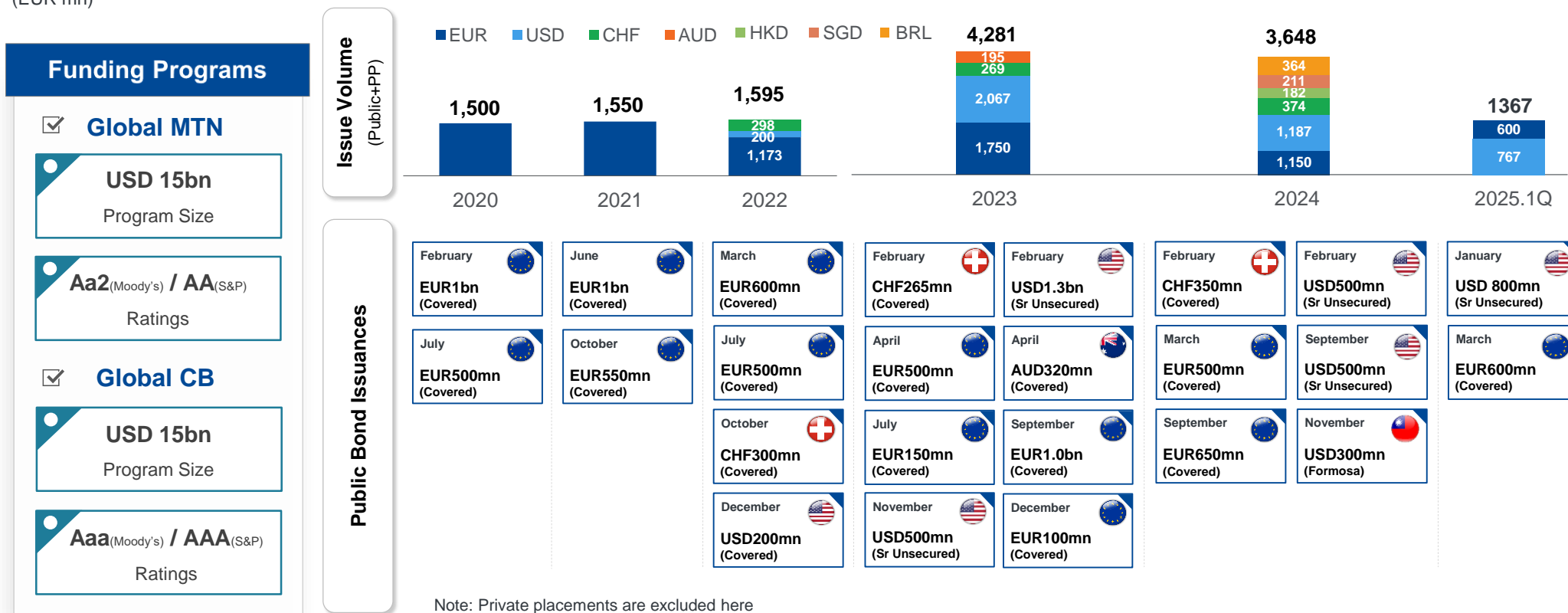




# Solid Access to Global Capital Markets

## Funding Programs and Track Records of KHFC's Foreign Currency Bond Issuances<sup>1</sup>

(EUR mn)



Note: Private placements are excluded here

### KHFC aims to establish a new benchmark across both the senior unsecured and the covered bond markets



Access a broader  
pool of investors



Diversify format and  
currency of financing



Become a regular issuer in the  
senior unsecured bond market



Solidify as the largest and  
regular issuer in the Korean  
covered bond market

Source: Company data, Bloomberg as of January 2025

Note: 1. EUR Foreign exchange rate as of date of issuance for each individual bond.

Dr. Ju-Hwa Jung  
Head of London Office, KHFC

# Opening of London Office

## Branch Name

Korea Housing Finance Corporation  
London Office (Officially opened in March 2025)

## Location

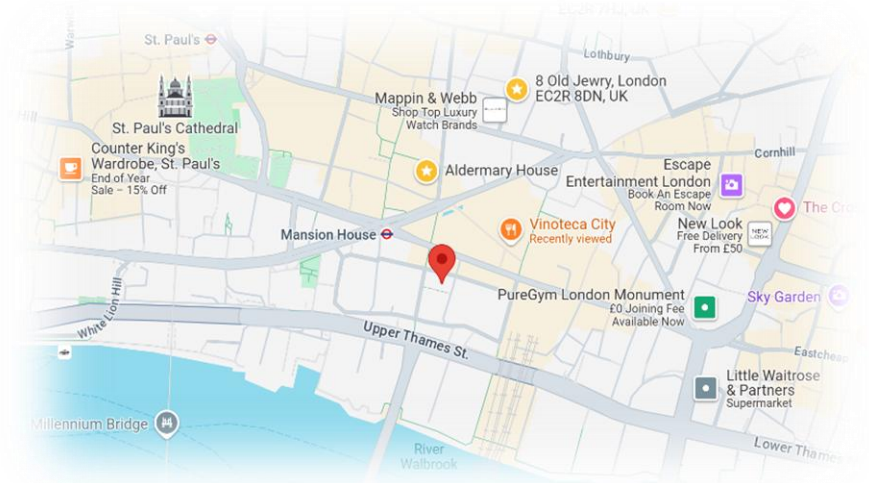
4th FL, East Office, 1-3 College Hill, London.  
EC4R 2RA, the U.K.  
(Near Cannon Street & Bank station)

## Personnel

Starts as skeleton crew  
- 2 Overseas assignees  
- 1 Local hire (Expected in 2H.2025)

## Main Business

- I. Securitization Business
- II. International Cooperation
- III. Global Market Research



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**Thank you**