



## **MAS Notice 1109**

**25 February 2009**

### **NOTICE TO MERCHANT BANKS**

**(MAS Notice 1109 dated 3 April 2003 is cancelled with effect from 1 March 2009)**

### **UNSECURED CREDIT FACILITIES TO INDIVIDUALS**

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#### **Introduction**

1 This Notice is issued pursuant to section 28(3) of the Monetary Authority of Singapore Act (Cap.186) [“the Act”] and applies to all merchant banks approved under section 28 of the Act.

2 It sets out the requirements that a merchant bank would have to comply with when granting unsecured credit facilities to an individual, whether as an individual or as a joint borrower with any other individual.

#### **Definitions**

3 In this Notice—

“affiliated corporation”, in relation to a merchant bank, means—

- (a) a related corporation, incorporated in Singapore, of the merchant bank; or
- (b) where the merchant bank has a related corporation incorporated outside Singapore, the branches and offices, located within Singapore, of the related corporation;

“overall credit limit”, in relation to a borrower, means 2 months’ income (if his annual income is less than \$30,000 or 4 months’ income (if his annual income is at least \$30,000) of the borrower;

“total outstanding unsecured amount” means the total amount of the following:

- (a) the aggregate of the outstanding balances of all unsecured credit facilities granted to the borrower by a merchant bank and its affiliated corporations;
- (b) the borrower’s share of the outstanding balance of every unsecured credit facility granted jointly to the borrower and one or more other persons by the merchant bank and its affiliated corporations; and
- (c) any amount of credit granted to the borrower by the merchant bank and its affiliated corporations under section 57G(b) of the Banking Act (Cap 19).

4 For the purposes of paragraph (b) of the definition of “total outstanding unsecured amount” in paragraph 3, a borrower’s share of the outstanding balance of an unsecured credit facility granted jointly to him and one or more persons shall be the amount derived by dividing the outstanding balance of the unsecured credit facility by the number of persons from whom the unsecured credit facility is outstanding.

5 The expressions used in this Notice shall, except where defined in this Notice or where the context otherwise requires, have the same meanings as in the Act and the Banking (Credit Card and Charge Card) Regulations, save that references to “a card issuer” in the various definitions should read as “a merchant bank” and references to “a cardholder” should read as “a borrower”.

6 Where an expression is used in the Act and the Banking (Credit Card and Charge Card) Regulations with different meanings, the expressions used in this Notice shall, except where defined in this Notice or where the context otherwise requires, have the same meanings as in the Banking (Credit Card and Charge Card) Regulations.

### **Minimum annual income requirement**

7 A merchant bank shall not grant any unsecured credit facilities to an individual who is a citizen of Singapore or a permanent resident unless he has an annual income of at least \$20,000 at the time of application for the unsecured credit facilities.

8 In the case of joint borrowers where at least one of the joint borrowers is a citizen of Singapore or a permanent resident, a merchant bank shall not grant any unsecured credit facilities to the joint borrowers unless every joint borrower has an annual income of at least \$20,000 at the time of application for the unsecured credit facilities.

## **Exclusion from unsecured credit facilities**

9 For the purposes of this Notice, an unsecured credit facility shall not include the following:

- (a) any credit extended on a credit card or charge card;
- (b) any bridging loan which complies with such requirements as may be specified by the Authority by notice in writing to the lender;
- (c) any loan for the furnishing of any security to the Government in connection with any application for the deferment of any liability under the Enlistment Act (Cap. 93);
- (d) any loan for the furnishing of any security to the Government in connection with the employment of a foreign domestic worker;
- (e) any loan for the defraying of expenses which are directly attributable to a course of education, including tuition fees and the costs of accommodation, textbooks and computer equipment, where the lender has taken reasonable steps to ascertain that the proceeds of the loan will be applied only towards the defraying of such expenses;
- (f) any loan to a sole proprietor or a partnership for a business purpose;
- (g) any loan for the repayment of any amount owing by the borrower under another credit facility which has become unsecured as a result of a fall in the value of the security given for that credit facility, where the lender has taken reasonable steps to ensure that the proceeds of the loan are paid to the person who granted that credit facility;
- (h) any renovation loan, where —
  - (i) the lender (being a merchant bank or any of its affiliated corporations) has taken reasonable steps to ascertain that the proceeds of the loan will be applied only towards the defraying of the costs of renovations which have been made or will be made;
  - (ii) the loan repayment period does not exceed 5 years;
  - (iii) in the case of a renovation loan granted jointly to the borrower and one or more other persons, that other person or each of those other persons is a spouse, child, parent or sibling of the borrower; and

- (iv) the total of the following when added together is not more than 6 months' income of the borrower or \$30,000, whichever is the lower:
  - (A) the renovation loan, or where the loan is granted jointly to the borrower and one or more other persons, the borrower's share of the loan; and
  - (B) the aggregate of the outstanding balances of all earlier renovation loans granted to the borrower by the merchant bank and any of its affiliated corporations, including the borrower's share of the outstanding balance of every renovation loan granted jointly to the borrower and one or more other persons by the merchant bank or its affiliated corporation;
- (j) any loan for defraying the costs of any medical treatment, where the lender has taken reasonable steps to ascertain that the proceeds of the loan will be applied only towards the defraying of such costs;
- (j) any share financing loan for the purpose of subscription of shares, where the lender is a financial institution and —
  - (i) the aggregate of the share financing loan and all other share financing loans obtained by the borrower from other persons for the subscription of those shares, together with all the discounts, rebates and other benefits granted to the borrower, in relation to the subscription of those shares, by the lender and other persons, do not exceed 80% of the amount to be paid by the borrower for the subscription of those shares; and
  - (ii) the lender takes reasonable steps to ensure that the aggregate of the share financing loan and all other share financing loans obtained by the borrower from other persons for the subscription of those same shares, together with all the discounts, rebates and other benefits granted to the borrower, in relation to the subscription of those shares, by the lender and the other persons, do not exceed 80% of the amount to be paid by the borrower for the subscription of those shares, including obtaining a written declaration from the borrower on —
    - (A) whether he has obtained any share financing loan from any person for the subscription of those shares, and the amount and other details of such loan; and

- (B) whether he has received any discount, rebate or other benefit from any person in relation to the subscription of those shares and the amount and other details of such discount, rebate or benefit; and
- (k) any loan to an officer (other than a director) or employee of the lender where the lender is a merchant bank and the total of the following when added together is not more than one year's emoluments of that officer or employee —
  - (A) the loan; and,
  - (B) the aggregate of the outstanding balances of all earlier loans granted by the lender to that officer or employee.

10 In determining whether the total referred to in paragraph 9(h)(iv) exceeds the amount referred to in that provision, any addition to a renovation loan (included in the aggregate) of any fee, interest, late payment charge or other charge by a lender shall be disregarded.

11 For the purposes of paragraph 9(h)(iv)(A), a borrower's share of a renovation loan granted jointly to him and one or more other persons shall be the amount derived by dividing the loan by the number of persons to whom the loan is granted.

12 For the purposes of paragraph 9(h)(iv)(B), a borrower's share of the outstanding balance of a renovation loan granted jointly to him and one or more other persons shall be the amount derived by dividing the outstanding balance of the loan by the number of persons from whom the loan is outstanding.

### **Maximum amount of unsecured credit facilities**

13 Subject to paragraphs 14 and 15, and regulation 6 of the Banking (Credit Card and Charge Card) Regulations, a merchant bank shall not permit any amount to be drawn down by a borrower who is a citizen of Singapore or a permanent resident if that would result in the total outstanding unsecured amount of the borrower to exceed the overall credit limit of the borrower.

14 A merchant bank may permit any amount to be drawn down by a borrower that would result in the borrower's total outstanding unsecured amount exceeding his overall credit limit if—

- (a) the borrower's income in the preceding 12 months is not less than \$120,000 (or its equivalent in foreign currency) or his total net personal assets exceed \$2 million (or its equivalent in foreign currency); and
- (b) the merchant bank satisfies the Authority that the merchant bank's credit evaluation and credit risk management practices are sufficiently robust to effectively monitor and manage credit risk.

15 A merchant bank may permit any amount to be drawn down by a borrower that would result in the borrower's total outstanding unsecured amount exceeding his overall credit limit if the amount by which that limit would be exceeded is represented only by fees, interests and charges (including late payment charges) relating to the use of the unsecured credit facility and included by the merchant bank or any of its affiliated corporations in the total outstanding unsecured amount.

**Merger or consolidation of, or acquisition by, merchant bank, etc.**

16 A merchant bank which has granted an unsecured credit facility to a borrower who is a citizen in Singapore or a permanent resident shall give written notice to the Authority before the merchant bank or any of its affiliated corporations—

- (a) merges or consolidates with another corporation which has granted an unsecured credit facility to the borrower;
- (b) acquires all the shares in another corporation which has granted an unsecured credit facility to the borrower; or
- (c) acquires the business of another person which has granted an unsecured credit facility to the borrower.

17 If, upon the merger, consolidation or acquisition, the total outstanding unsecured amount of the borrower exceeds the overall credit limit of the borrower, the merchant bank shall, within such period as may be specified by the Authority, take such steps as may be specified by the Authority to ensure that the total outstanding unsecured amount ceases to be in excess of the overall credit limit.

**Solicitation**

18 A merchant bank shall not grant any unsecured credit facilities to an individual unless he has requested for it in writing.

19 For the purposes of paragraph 18, "granting of any unsecured credit facilities" means—

- (a) the sending or giving of any article to an individual, the production of which allows access to, or drawdown on, any unsecured credit facilities, whether or not the article is valid for immediate use, e.g. a cheque book; or
- (b) allowing drawdown on any unsecured credit facilities,

but excludes the sending or giving of an article satisfying the criteria in subparagraph (a) by a merchant bank to an individual, in respect of any unsecured credit facilities which have been previously granted.

### **Disclosure of finance and late payment charges**

20 Any merchant bank which grants unsecured credit facilities shall include, in a clear and conspicuous manner, the following information in its statement of payment issued to a borrower:

- (a) any finance charge or late payment charge which is or will be imposed by the merchant bank and the method of computing such charges;
- (b) any other penalty or consequence for late payment which is or will be imposed by the merchant bank; and
- (c) a notice advising prompt settlement of the amount outstanding under the statement.

### **Credit checks with credit bureau**

21 A merchant bank shall, prior to granting any unsecured credit facilities to any individual, conduct or cause to be conducted comprehensive checks with one or more credit bureaus for the purpose of assessing the credit-worthiness of that individual.

22 This Notice does not affect the requirements of any other written law pertaining to unsecured credit facilities.

23 This Notice shall take effect from 1 March 2009. MAS Notice 1109 dated 3 April 2003 is cancelled with effect from 1 March 2009.