

RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON CHANGES TO UNSECURED CREDIT RULES

1 Introduction

1.1 On 7 August 2006, Monetary Authority of Singapore (MAS) and the Ministry of Law (MinLaw) released a Joint Consultation Paper on the proposed changes to the Unsecured Credit Rules and their proposed application to the moneylenders regime. MAS and MinLaw thank all respondents for their comments.

1.2 MAS and MinLaw have carefully considered the feedback received, and where it agreed with the comments, will incorporate them into the revised Unsecured Credit Regulations and the Moneylenders Rules respectively. Comments that are of wider interest, together with MAS' and MinLaw's responses, are set out below.

2 Lowering of the minimum annual income threshold for unsecured credit facilities from \$30,000 to \$20,000, and retaining the minimum annual income threshold for credit card facilities at \$30,000 (Proposal 1)

Feedback

2.1 There was a wide range of responses to this Proposal – some were not supportive whilst others were in favour. Some respondents expressed concerns that there may potentially be significant numbers of borrowers in the \$20,000 to \$30,000 income group who may borrow beyond their means. These respondents were of the view that unsecured credit facilities should not be made easily available to borrowers earning less than \$30,000 a year. Some other respondents support the lower threshold of \$20,000 but suggested that more be done to educate Singaporeans to save for the future.

2.2 Some respondents proposed that the minimum annual income threshold for unsecured credit facilities be further lowered or even removed altogether, and that individuals be given more latitude to manage their own finances.

Others also suggested a lowering of the minimum income threshold for credit cards to match that for unsecured credit facilities.

Response

2.3 In laying down the regulations for unsecured credit facilities and credit cards, the Government has to balance one objective of discouraging individuals from over-borrowing and overspending against the other objective of allowing individuals with genuine needs, and the ability to repay, access to credit.

2.4 The proposed changes were first and foremost an effort to extend the unsecured credit rules to moneylenders in order to ensure that these rules continue to be appropriate and relevant in meeting the Government's social policy of discouraging individuals from spending beyond their means, and also to ensure a more consistent regime for granting of unsecured credit. However, applying the minimum annual income threshold of \$30,000 to both financial institutions and moneylenders would severely curtail the access to credit currently available to customers of moneylenders. MAS lowered the minimum annual income from \$30,000 to \$20,000 in recognition that individuals in this income bracket may have genuine need for unsecured credit from time to time which at modest levels they may be able to afford, and to minimise the risk of such individuals turning to unlicensed moneylenders. Consistent with this, we have not lowered the minimum annual income threshold for credit cards as these are typically used to finance consumption expenses and alternative payment instruments such as debit cards are available.

2.5 It is also important to educate consumers to manage their finances. To this end, MoneySENSE has been working, and will continue to work, with industry associations, such as the Association of Banks in Singapore (ABS), to educate consumers on the importance of saving and prudent borrowing. Financial institutions also have an important role to play in educating consumers on prudent credit management.

Feedback

2.6 One respondent suggested that individuals who do not have a regular flow of income but are asset rich, for instance retirees, should be allowed access to credit cards. Another felt that it was unfair that such individuals have to obtain secured credit cards, as the deposit used to secure the cards often pays lower interest than the ordinary fixed deposit.

Response

2.7 MAS appreciates the fact that retirees may not be able to meet the minimum annual income of \$30,000 to qualify for a credit card after they retire, and has thus allowed a lower minimum income threshold for individuals above 55 years of age, at \$15,000, which will remain under the current set of proposals. This income can arise from non-salaried sources, including interest, rental and investment income. The introduction of the secured credit card, which does not have a minimum income requirement, but requires the individual to place deposits of at least \$10,000 with the bank which may be used to secure the credit limit of the card, was an additional concession intended to cater to this group of individuals. MAS does not intervene in the interest paid on such deposits as this is a commercial decision. Individuals who do not wish to place deposits as security have the option of using debit cards, which are also convenient payment instruments.

Feedback

2.8 One respondent enquired how unsecured credit facilities linked to debit cards were to be treated under the new rules. Another further opined that revolving unsecured credit facilities linked to a debit card was essentially a credit card facility, and should not be allowed for individuals in the \$20,000 to \$30,000 income group.

Response

2.9 All unsecured credit facilities linked to debit cards that can be used to make payment at point-of-sale terminals are considered credit cards under the credit card regulations, and will not be allowed to be issued to individuals with annual incomes below \$30,000.

3 A maximum aggregate credit limit of all unsecured personal credit facilities and credit cards granted by a financial institution to be set at 4 times monthly income, for individuals with at least \$30,000 annual income; A maximum aggregate credit limit of unsecured personal credit facilities granted by a financial institution to be set at 2 times monthly income, for individuals with annual income of at least \$20,000 but below \$30,000 (Proposal 2A and 2B)

Feedback

3.1 Respondents sought clarity on the definition of the term “unsecured personal credit facilities”. They also queried how the maximum aggregate credit limit of 4 times’ monthly income is to be implemented in practice (for individuals earning \$30,000 and above), and if it is open to existing customers. They inquired if customer consent and fresh income documents are to be obtained before adjusting the credit limits.

Response

3.2 The term “unsecured personal credit facilities” encompasses all unsecured credit facilities granted to an individual, which include credit cards, other revolving credit facilities, and term loans. Financial institutions have the discretion to decide on the maximum credit limit to grant on each facility when granting credit to individuals earning \$30,000 and above annually, as long as the aggregate credit limit of all the facilities does not exceed 4 times the customer’s monthly income. This proposal is open to existing customers; however financial institutions should obtain fresh income documents before adjusting the credit limits of the customers’ credit facilities. In the case of individuals with an annual income of at least \$20,000 but below \$30,000, the maximum aggregate unsecured personal credit limit of 2 times’ monthly income includes only unsecured credit facilities, with no access to credit cards.

Feedback

3.3 Respondents suggested that MAS impose an overall cap on the credit an individual can have, for instance by restraining the number of unsecured credit lines an individual can obtain with different financial institutions. They noted that maximum credit limits imposed on individual financial institutions would not prevent an individual obtaining unsecured credit facilities from multiple banks while he or she still has a clean record with the credit bureau. One also expressed concern that financial institutions would seek to push more credit cards into the wallets of qualified individuals in the absence of an overall cap. Another opined that maximum credit limits imposed on individual financial

institutions may hinder individuals from consolidating all outstanding unsecured credit facilities into 1 or 2 term loans for better debt management.

Response

3.4 There is no present need for an overall cap on the credit an individual can have with multiple lenders. While we do not encourage individuals to take multiple unsecured credit facilities with different institutions, the vast majority of borrowers are able to manage their debt servicing.

3.5 MAS expects financial institutions to conduct rigorous credit assessments before granting credit to customers. MAS is requiring financial institutions to obtain a credit bureau report of their customer before granting unsecured credit facilities or issuing credit cards. Through the credit report, financial institutions will be apprised of the number of credit lines the applicant already has and his repayment record, and should take this into account in deciding whether to extend further credit.

Feedback

3.6 Some respondents suggested increasing the maximum credit limit for individuals in the \$20,000 to \$30,000 income bracket to 3 times' their monthly income. Another respondent suggested replacing the maximum credit limit for individuals in the \$20,000 to \$30,000 income band with a financial obligation to income ratio.

Response

3.7 The lowering of the minimum annual income threshold for unsecured credit facilities from \$30,000 to \$20,000 already represents a significant change. MAS therefore favours taking a more cautious approach by setting the maximum credit limit for individuals within this income bracket at twice their monthly income, and will monitor the situation before making appropriate policy adjustments, if necessary. MAS expects financial institutions to exercise prudence in extending unsecured loans and to use appropriate tools, which could include financial commitment to income ratios, in their credit assessments.

Feedback

3.8 A respondent observed that individuals of a lower income may still continue to enjoy credit limits based on their higher past incomes, and therefore resist making adjustments to their lifestyle. The respondent recommended

making it mandatory for financial institutions offering unsecured revolving credit facilities to do an annual income check, and adjust credit limits accordingly.

Response

3.9 Financial institutions should conduct periodic assessments of customers' incomes and update the maximum credit limit allowable to them accordingly.

Feedback

3.10 A respondent requested that MAS review restrictions in the Finance Companies Act that constrains individual finance companies to unsecured lending not exceeding \$5,000, in order to achieve a more consistent regime for finance companies in unsecured lending.

Response

3.11 MAS' policy is to allow well-run finance companies with risk management capabilities commensurate with the size and complexity of their operations to expand their scope of business progressively. Such finance companies may apply to MAS to conduct unsecured lending.

4 Mandatory credit checks with a credit bureau for financial institutions granting unsecured personal loans or issuing credit cards (Proposal 3)

Feedback

4.1 A respondent proposed that moneylenders too should be obliged to do credit checks with a credit bureau. The respondent felt that financial institutions' internal credit assessment should be sufficient for assessing a customer's credit risk profile or credit worthiness. Other respondents expressed concerns that while compulsory credit checks could enhance credit assessment processes, they were not cost effective for financial institutions that extend personal loans selectively and on a smaller scale to borrowers, as there would be incidental costs involved in taking up membership with the bureau, as well as costs for obtaining the reports, etc. The respondents requested that such compliance costs be kept as low as possible.

Response

4.2 Unlike moneylenders, financial institutions are currently not allowed to serve the market segment of those earning below \$30,000 a year. The lowering of the minimum income requirement for unsecured credit facilities from \$30,000 to \$20,000 represents a significant change, and it is important that financial institutions grant loans to individuals in this income group with care. Credit bureau checks is a good practice for banks when approving new loan applications and in managing the loan portfolio on an ongoing basis, and the compulsory credit bureau check for financial institutions represents a necessary safeguard that has to be in place with the lowering of the minimum annual income threshold. We agree with the view that it would similarly be good practice for moneylenders to require credit bureau reports from their borrowers. However, not all moneylenders have significant consumer lending operations and it may not be necessary to impose a similar requirement for credit report checks on moneylenders at this stage.

Feedback

4.3 Respondents sought to clarify if credit checks will be made compulsory only for initial credit applications, and if there was a validity period within which the bank could rely on the existing credit report when granting new credit facilities to existing customers. Some respondents also proposed that credit checks should not be required where fresh unsecured credit facilities are granted in replacement of existing unsecured credit facilities with no increase in credit limit.

Response

4.4 MAS will require credit bureau checks before granting each new unsecured credit facility to an individual. It would be prudent for financial institutions to require a new credit bureau report before converting an unsecured credit facility from one form to another, especially if additional credit is granted, or the new facility has a different usage characteristic that may result in different spending behaviour.

5 An upgraded card will be deemed as an “additional” card under the solicitation regulations. A card will be deemed as a “replacement” card only if it is in substitution for an existing card that is nearing expiry, or has been reported as lost or damaged. (Proposal 4)

Feedback

5.1 A respondent asked if an upgraded card that is issued in substitution for an existing card that is nearing expiry, or has been reported as lost or damaged, will be deemed as a replacement card. Another respondent inquired if the replacement of an existing credit card with a new credit card that bears a new feature and look but incurs the same fees, charges, terms and conditions of use, will be deemed as a replacement card.

Response

5.2 MAS will deem a card to be a “replacement” card only if it is issued in substitution for an existing card that is nearing expiry, or if the existing card has been reported as lost or damaged, where the replacement card is of the same kind as the existing card. Where the new credit card is an upgraded card or has a new feature and look, the new card would be considered an “additional” card, and not a “replacement” card.

Feedback

5.3 A respondent commented that the granting of an additional card is an extension of the existing relationship with the customer as opposed to the creation of a new relationship. As such, the respondent suggested that characteristics associated with the additional card, such as branding, rewards and privileges, are irrelevant for the purpose of determining the customer’s overall risk profile because the credit limit granted remains unchanged.

Response

5.4 MAS imposes differential treatment between a “replacement” card and an “additional” card not because of the customer’s overall risk profile or credit limit considerations. Rather, MAS imposes further conditions in respect of an “additional” card (vis-à-vis a “replacement” card) as the recipient cardholder would not be anticipating the card, and is therefore subject to the risk of loss of the card in transit, or the risk that he would be held liable for expenses incurred under the card until he has an opportunity to consider its terms and decide whether he wishes to accept it.

Feedback

5.5 One respondent suggested that usage of the card should already constitute a form of acceptance of the card's terms and conditions, and felt that the current requirement of verbal or written acceptance does not facilitate the acceptance process.

Response

5.6 Usage of the card would not necessarily indicate that it is rightfully used by the intended recipient. The card could be lost or stolen in transit, thereby subjecting the intended recipient to risk of fraud and liability for expenses that he or she did not incur.

6 Banks and financial institutions will not be allowed to grant unsecured credit facilities, or send any articles that allow drawdown on such credit facilities to individuals, unless that individual has requested for it in writing. This restriction does not apply, however, in respect of unsecured credit facilities that the individual already has with the bank or financial institution. (Proposal 5)

Feedback

6.1 A respondent felt that it was onerous to prescribe that the request from customers must be in writing, and asked if MAS would consider other modes of acceptance e.g. verbal or ATM.

Response

6.2 The rules on solicitation were intended to ensure that there is a deliberate act on the part of the customer to request for an unsecured credit facility. For better protection of consumers from the risk of fraud and liability for expenses that they did not incur, MAS is not prepared to allow other modes of acceptance.

Feedback

6.3 A respondent opined that the solicitation restriction may not be effective in limiting the offering of unsecured credit facilities as these products are typically marketed aggressively through roadshows.

Response

6.4 MAS has existing rules that prohibit banks from receiving applications for credit cards, charge cards or any unsecured credit facilities at temporary locations such as roadshows. These measures seek to prevent hard-selling of unsecured credit products where the customer may be pressured to submit an application form on the spot, and instead allows him time to consider his need for these facilities before applying for them.

Feedback

6.5 Respondents inquired if MAS will allow financial institutions to send additional credit cards or ATM cards for another unsecured personal credit limit to an existing customer who has currently either a credit card or unsecured credit facility with the bank. Some respondents also asked if product enhancements (e.g. ATM cards, promotional or top-up offers) and similar materials may be sent to existing customers.

Response

6.6 Banks are not allowed to send unsecured credit facilities (other than those currently allowed under the credit card regulations) to their existing credit card customers unless he has requested for it in a signed document. Product enhancements that offer additional ways to draw down on an existing unsecured credit facility (that is not a credit card) will be allowed to be sent, provided that no additional credit is granted. There will be no changes to solicitation rules for credit cards.

7 Both issuers of credit and charge cards and lenders of unsecured credit facilities will be required to disclose, clearly and prominently on bills and statements sent to card holders and unsecured credit facilities borrowers, all finance charges; late payment charges; their rates of computation; the consequences of late payment; and a notice to encourage prompt settlement. (Proposal 6)

Feedback

7.1 Some respondents felt that the emphasis should be on information which is material to the customer, without mandatory requirements for the various types of charges and rates of computation to be prominently displayed on bills and statements, and that these can be made available to the customer through other accessible means (for e.g. in a practice note for insurers) or upon customer

request. However, others preferred a more prescriptive approach, with one requesting that MAS provide a sample notice on what constitutes “encourage prompt settlement”.

Response

7.2 MAS considers finance and late payment charges, and their rates of computation, as relevant and material information to cardholders or unsecured credit facility borrowers. This consideration was also the intent behind the current finance and late payment disclosure regulations for credit and charge cards.

7.3 However, MAS does not intend to prescribe the contents of the disclosure statement as it considers financial institutions to be in the best position to customize their disclosure statements, having regard to the particular features of the card or unsecured credit facility. There is nothing to stop financial institutions from adopting and refining their current disclosure statements as long as the disclosure statements meet MAS’ proposed requirements.

Feedback

7.4 Some respondents sought clarity on the amount of time that financial institutions have to make the required system changes needed to comply with the proposed requirement, and requested that this be considered in the implementation timeline.

Response

7.5 MAS will take into consideration the time needed by financial institutions for system changes in implementing the new requirements.

8 For unsecured loans exceeding \$3,000, moneylenders must ensure that the applicant has an annual income of at least \$20,000 and the unsecured credit limit does not exceed 2 times of monthly income for applicants earning at least \$20,000 per annum but less than \$30,000 per annum and 4 times of monthly income for applicants earning at least \$30,000 per annum. Moneylenders are free to determine the appropriate interest rate, but should note that the interest rate if found to be excessive could be revised by the court as provided in the Moneylenders Act. (Proposal 7)

Feedback

8.1 Respondents have expressed concerns that the proposal to allow financial institutions to lend to those earning between \$20,000 to \$30,000 per annum as well as a cap on the amount a moneylender can lend, may lead to some moneylenders having to fold up their business due to competition and lack of profit and that in turn could cause borrowers who do not meet the lending criteria of financial institutions to turn to loan sharks and be subject to exorbitant interest charges.

Response

8.2 By allowing financial institutions to lend to those earning between \$20,000 and \$30,000 per annum, there will effectively be a greater pool of legitimate lenders that a borrower can choose from. These borrowers may still choose to take loans from moneylenders, in particular when they do not meet financial institutions' internal lending criteria. Those who earn less than \$20,000 or with no immediate income can still borrow from moneylenders up to a cap.

Feedback

8.3 A respondent wanted to know the rationale for the proposed removal of the interest rate cap for unsecured loans above \$3,000 when the original intent of the statutory cap on interest rates charged by moneylenders was set to protect the interest of the public.

Response

8.4 The existing interest rate cap of 18% for unsecured loans imposed on licensed moneylenders has been around for several years. The removal of the interest rate cap for loans above \$3,000 will ensure that there is a more consistent lending regime for moneylenders and financial institutions, which

will be allowed to provide unsecured loans to persons earning between \$20,000 and \$30,000 per annum in addition to those earning \$30,000 and above per annum without a cap on interest rate.

Feedback

8.5 Another respondent queried whether the Court, when asked to review the interest rate in a loan transaction, is likely to have different perspectives from moneylenders and place emphasis on different factors, in determining the applicable interest rate chargeable. The respondent further asked whether legislation would be in place requiring the Court to take into account specified factors.

Response

8.6 No guidelines need to be provided to the Courts as they are competent to hear commercial litigations on loan transactions. Litigants before the Court will have to present their case to the judge and the judge will determine if the interest rate charged is excessive or that the transaction is harsh or unconscionable or substantially unfair.

9 For unsecured loans not exceeding \$3,000, income checks are not mandatory. Moneylenders disbursing such loans cannot charge interest rates that exceed 18% per annum. (Proposal 8)

Feedback

9.1 Respondents commented on the fact that moneylenders, but not financial institutions, were allowed to disburse unsecured personal loans of up to \$3,000 without performing income checks. Some respondents requested that financial institutions similarly be allowed to grant loans of less than \$3,000 without income checks. They opined that financial institutions are in a better position to offer such loans in terms of capacity, infrastructure and network, and should be allowed to offer such loans as long as prudent lending measures are adhered to. Other respondents felt that both moneylenders and financial institutions should not be allowed to disburse such loans without meeting the minimum income requirements.

Response

9.2 Currently, moneylenders are allowed to disburse loans to individuals earning below \$20,000 a year. MinLaw understands that at times, borrowers

with low or no immediate income may need to have access to credit to deal with family exigencies, and has therefore decided to continue to allow such individuals access to unsecured credit, provided the amount of unsecured credit granted is restricted to \$3,000 and below.

9.3 Under the current proposals, financial institutions are not allowed to serve the market segment of those earning below \$20,000 a year. Given that the market segment of individuals earning below \$20,000 annually will already have access to credit (of less than \$3,000) from moneylenders, and that the lowering of the minimum income requirement from \$30,000 to \$20,000 already represents a significant change, we do not think such an exemption for financial institutions is appropriate at this point in time.

Feedback

9.4 A respondent has cautioned against an interest rate cap of 18% for unsecured loans not exceeding \$3,000 as borrowers in this segment may be more likely to default in repaying their loans and there was another who proposed that the interest rate cap be raised to 24% per annum. Another respondent has sought clarification on whether a moneylender can charge more than 18% interest for an unsecured loan not exceeding \$3,000 if the borrower earns at least \$20,000 per annum.

Response

9.5 The interest rate cap of 18% is retained for small loans not exceeding \$3,000 because these small loans are likely to be taken up by those with low income but who are in urgent need of money to meet family exigencies etc. The 18% interest rate cap is to prevent desperate borrowers from succumbing to high interest rates in return for receiving a loan that they badly need. Moneylenders who are concerned about delinquency in this segment will have to carefully evaluate their customers before deciding whether to grant a loan. The Government will continue to monitor the 18% interest rate cap and review it if and when necessary. The 18% interest cap will apply to unsecured loans not exceeding \$3,000, regardless of the income of the borrower.

Feedback

9.6 A respondent has proposed that for small loans not exceeding \$3,000, the repayment period be capped at 2 years so that borrowers would not be financially burdened by interest costs.

Response

9.7 While a short repayment period would help in not putting such borrowers in financial burden, this may not always be possible, especially when a borrower who needs to borrow money to meet family exigencies has a low income or has just lost his job and therefore may need a longer repayment period. It is best for a moneylender to work out a mutually acceptable repayment period with the borrower.

10 Moneylenders will not be allowed to send any materials to individuals to solicit unsecured credit facilities, or to allow drawdown on such credit facilities. (Proposal 9)

Feedback

10.1 Clarification was sought on whether moneylenders are subject to similar or stricter rules than financial institutions in relation to solicitation and whether advertisements issued by major moneylenders in Singapore are in line with the current provisions addressing restrictions on advertisements in the Moneylenders Act. Another supported the proposal that moneylenders would not be allowed to send any materials to individuals to allow drawdown on credit facilities but opined that not being allowed to send marketing information seems too restrictive.

Response

10.2 Currently, licensed moneylenders will have to abide by Section 13 of the Moneylenders Act. There must be a written request from a person (regardless of whether he is an existing customer) to request for an unsecured loan facility before solicitation materials can be sent to that person. We are reviewing this issue. Some moneylenders are currently operating under an exemption and are not subject to advertising restrictions in the Moneylenders Act.

11 The unsecured credit rules will not apply to (i) Business loans to sole proprietorships and partnerships; (ii) Education loans; (iii) Renovation loans, provided that the amount of financing does not exceed 6 times the applicant’s monthly income or \$30,000, whichever is lower; (iv) National Service bonds for the deferment of National Service liability; (v) Security bonds for the employment of foreign domestic workers; and (vi) Any unsecured refinancing facility used to repay an unsecured amount owing under an existing credit facility (which has become unsecured as a result of a fall in the value of the collateral given for the facility). (Proposal 11)

Feedback

11.1 Some respondents gave feedback that moneylenders serve a special group of people with dire needs. Loans granted by moneylenders are for specific purposes e.g. for business, medical needs etc. Moneylenders carefully evaluate loan applications including the purpose for the loan before granting them and are unlike others that grant credit via credit facilities for which no purpose need to be cited. Many have opined that the exemption for business loans should be extended to commercial loans and loans for cashflow/working capital requirements, and be made available to companies as well. A suggestion was also made that the categories of excluded loans be expanded to include staff loans.

Response

11.2 While moneylenders have been helping to fill a void by serving an underserved market, the Government remains mindful that borrowers should not borrow beyond their means. For specific purposes that fall within a prescribed list of “excluded loans”, the proposed unsecured lending rules will not apply so as to allow the borrower to take a loan that will cover his needs.

11.3 The Government will consider expanding the categories of “excluded loans” (based on the purpose of the loan) to cater to more need-based loans. MinLaw recognizes that in certain circumstances, a hawker-to-be or a budding entrepreneur may not have a registered business but will still need funds in preparation for going into business. MinLaw will consider allowing such loans sought by these individuals to be considered as business loans as well. The Government will also consider allowing loans to treat serious medical conditions. As a safeguard, the Government is likely to require the lender to retain a photocopy of the supporting documents submitted by the borrower to show that he is taking up the loan for business or to treat a serious medical condition.

11.4 In addition, the Government will consider expanding the categories of excluded loans to include staff loans.

Feedback

11.5 A respondent has asked whether there will be updating of the prescribed forms to be used by moneylenders and can moneylenders rely solely on the purpose declared by the loan applicant in the form.

Response

11.6 Prescribed forms will be updated and made available to moneylenders. It is for moneylenders to evaluate and be satisfied that the purpose of the loan cited by the applicant in the form is genuine. The Government is likely to only require that the moneylender, when processing “excluded loans”, retain a photocopy of the supporting documents submitted by the borrower to show that his loan application falls within the “excluded loans” categories.

Feedback

11.7 A respondent opined that excluded loans should not include revolving credit facilities, as these are loans for a purpose, which should therefore carry a fixed repayment schedule and be liquidated within a reasonable period. The respondent felt that debtors with revolving loans could end up paying high interest charges on their rollover balances for years. The respondent suggested that any borrower who has been rolling over his debt for a predetermined time period should be put on an instalment plan and his unsecured revolving credit facilities withdrawn.

Response

11.8 MAS will not restrict loans exempted from the unsecured credit rules to non-revolving credit facilities. Revolving credit facilities are useful for customers who need the flexibility to withdraw funds or make repayments in accordance with their cash flows. Term loans, while imposing financial discipline due to the monthly instalment repayment requirements, may attract penalties for prepayments. It may also be more costly for individuals to apply for a new term loan each time they require small amounts of credit.

11.9 MAS requires its regulated financial institutions to conduct rigorous checks on borrowers before lending. They should take into account the risks of revolving credit, and closely monitor potential bad credits from persistent revolvers. Ultimately, each individual is responsible for managing his or her

own finances. MoneySENSE will step up its work with industry associations, such as ABS, to educate consumers of the costs of taking out revolving credit.

Feedback

11.10 A respondent requested that loans that are currently excluded under existing unsecured credit rules but not specifically listed as such in the consultation paper continue to be excluded from the unsecured credit rules.

Response

11.11 Loans that are currently excluded from the unsecured credit rules will continue to remain as excluded loans.

Feedback

11.12 A respondent felt that the proposed limit of \$30,000 for financing of renovation loans was too low for loan applicants earning a high income, and proposed that the limit on renovation loans be increased to 12 times the applicant's monthly income or \$40,000 whichever is lower.

Response

11.13 The objective of the unsecured credit rules is to discourage individuals from spending beyond their means by curbing the easy access to credit through financial institutions. The exemption of renovation loans (subject to limits) from the unsecured credit rules is already a significant concession, and MAS would need to monitor the market situation before making further changes.

Feedback

11.14 A respondent sought to confirm that loans to remisers and SGX locals in the business of broking/trading in securities, for the purposes of placing deposits/margins with their principal securities/futures broking firms would be considered as loans for business purposes.

Response

11.15 Such loans to sole proprietorships and partnerships would be considered as loans for business purposes, and would be exempt from the requirements in Proposals 1 and 2. The lender should take all reasonable steps to ensure that the loans are indeed used for the purpose of placing deposits/margins with the principal securities/futures broking firms.

Feedback

11.16 A respondent asked for the rationale for exempting any unsecured refinancing facilities used to repay an unsecured amount owing under an existing credit facility which has become unsecured as a result in the fall of the value of the collateral given for the facility, given that the original loan to security ratio has been breached and the loan is in jeopardy. Another respondent welcomed this exemption, and observed that many individuals had been unable to downgrade or dispose off assets because it was impossible for them to obtain unsecured loans to meet the shortfall when properties and cars were sold.

Response

11.17 In the absence of this exemption, individuals who have such loans, yet are not able to meet either the minimum income requirement or the maximum credit limit will not be able to refinance them on more favourable terms available in the market thereby improving their financial state. As such refinancing packages would be exempted from the provisions in Proposals 1 and 2 of the unsecured credit rules only if no additional credit is granted to the borrower, they do not increase the overall debt level of individuals in the financial system. Financial institutions should observe prudent lending practices, and take into account the risks of extending such loans to individuals before granting such refinancing facilities.

12 Others

Feedback

12.1 Some respondents expressed concerns that individuals earning less than \$30,000 a year may be unable to repay their loans as they have less disposable income and lack credit management skills. Another respondent commented that high interest rates do not deter potential borrowers due to inelastic demand, resulting in borrowers being overburdened with debt. The respondents proposed that MAS set an interest rate cap for its regulated financial institutions. Other respondents recommended that financial institutions should not be allowed to fix their own charges, as they would then charge exorbitant rates for defaulters and institute an expensive legal process for debt recovery, with one suggesting that MAS should consider putting in place Guidelines for banks and financial institutions requiring prudent lending practices before granting unsecured loans.

Response

12.2 Whilst MAS does not intervene in the commercial decisions of financial institutions in the way that they charge their customers, financial institutions would be required to provide proper disclosure in relation to all finance and late payment charges, (as set out in Proposal 6 of the Consultation Paper) so that customers can be made aware of their loan obligations and make informed decisions.

Feedback

12.3 A respondent sought clarification on whether exempt credit cards with \$500 credit limit are to be aggregated together with a credit line for purposes of computing the maximum credit limit, or whether the \$500 credit card limit would be over and above this.

Response

12.4 The exemption for micro credit cards only applies if the aggregate credit limit that the issuer grants to the individual does not exceed \$500. If this limit is breached, the exemption from the unsecured lending rules for micro credit cards would no longer apply. Financial institutions should not issue non-exempted credit cards to individuals earning less than \$30,000 a year.

Feedback

12.5 Some respondents commented that moneylenders are unlike financial institutions some of which make use of depositors' money to lend to the general public. As such, moneylenders should be subject to lesser restrictions than financial institutions.

Response

12.6 With regards to the proposals on unsecured lending, the objective of the Government is to discourage individuals from spending beyond their means by curbing the easy access to credit, regardless of whether the lenders are financial institutions or moneylenders. Financial institutions are subject to other restrictions imposed by MAS on other aspects of their banking operations via MAS' regulations and notices.

Feedback

12.7 A respondent sought clarification on whether there is any difference intended in the use of the terms “unsecured credit facilities” for financial institutions and “unsecured personal loans” for moneylenders.

Response

12.8 “Unsecured personal loans” for moneylenders cover term loans and will also cover loans granted under a revolving credit, as with financial institutions. However, no revolving credit facility shall be extended to borrowers earning below \$20,000 per annum. For those earning between \$20,000 and \$30,000 per annum and at least \$30,000 per annum respectively, the maximum amount that may be extended under a revolving credit shall not exceed twice or four times the borrower’s monthly income respectively.

Feedback

12.9 A respondent sought clarification on whether moneylenders are prohibited from granting revolving credit.

Response

12.10 Like financial institutions, moneylenders will not be barred the granting of revolving credit. There are some instances where individuals taking loans from moneylenders may need a revolving credit facility. For instance, a student on overseas studies may need a standby revolving credit facility to pay for expenses relating to field trips, which may occur from time to time. Depending on his needs, a prudent borrower may find a revolving credit more useful than a term loan. However, no revolving credit facility shall be extended to borrowers earning below \$20,000 per annum. For those earning between \$20,000 and \$30,000 per annum and at least \$30,000 per annum respectively, the maximum amount that may be extended under a revolving credit shall not exceed twice or four times the borrower’s monthly income respectively.

Feedback

12.11 A respondent was of the view that more must be done to protect borrowers before credit is extended. The loan process and the default handling process must come under the jurisdiction of a tribunal similar to the small claims tribunal and not the expensive legal process and loan defaulters should not be subjected to bankruptcy or court proceedings outside the tribunal.

Response

12.12 This matter requires careful deliberation and we are looking into the matter.

Feedback

12.13 A respondent queried how to prevent abuse of credit by borrowers to gamble with the pending integrated resorts.

Response

12.14 Casino operators will generally not be allowed to accept credit payments via credit cards or extend credit to Singapore Residents (Citizens and PRs). These restrictions on credit are an important social safeguard to prevent persons from getting into gambling- related problems. Nevertheless, this does not stop a person from obtaining loans from legitimate lending sources by deceiving them on the purpose of the loan and then use the loan granted to gamble. Legitimate lending sources will have to evaluate their borrowers carefully before granting loans to them.

MONETARY AUTHORITY OF SINGAPORE and MINISTRY OF LAW
1 February 2007