

CONSULTATION PAPER

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Proposed Exemption from Maximum Credit Card Limit

MAS

Monetary Authority of Singapore

PREFACE

MAS' rules on credit cards were put in place to implement the Government's social policy of discouraging individuals from spending beyond their means by curbing the easy availability of credit. As part of the process of updating these rules to ensure that they continue to be appropriate and relevant in meeting the Government's social policy, MAS proposes to exempt card issuers from the maximum credit limit when issuing credit or charge cards to individuals with greater financial means.

2 MAS invites interested parties to forward their views and comments on the proposals made in this paper. Electronic submission is encouraged. Please submit your written comments by 1 November 2007 to:

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3 Please note that all submissions received may be made public unless confidentiality is specifically requested for whole or part of the submission.

1. BACKGROUND

1.1 The rules on credit cards were put in place to implement the Government's social policy of discouraging individuals from spending beyond their means by curbing the easy availability of credit. This policy is enacted by requiring card issuers to ensure that cardholders have a minimum annual income of \$30,000. The maximum credit limit that can be granted to an individual through credit or charge cards is capped at twice the cardholder's monthly income.

1.2 Earlier last year, MAS together with the Ministry of Law conducted a review of Government's policy towards unsecured credit and in August 2006 issued a joint consultation paper. In the August 2006 consultation paper, we proposed to allow individuals earning at least \$20,000 annually access to unsecured credit facilities of up to 2 times monthly income, but not credit cards, on the basis that this group of individuals may have a legitimate need for unsecured credit, which at modest levels they would be able to afford. The qualifying annual income threshold for a credit card remained at \$30,000. For the \$30,000 and above income group, it was further proposed that the separate credit card limit and the unsecured credit facility limit of 2 times monthly income each be combined into an aggregate unsecured credit limit of 4 times monthly income. The drafting of the legal instruments to implement these policy changes are now in progress.

2 PROPOSED EXEMPTION FROM THE MAXIMUM CREDIT LIMIT

2.1 MAS has further reviewed if the credit card limit needed to be applied equally to all cardholders without regard for their financial means. Our view is that the policy to protect individuals from spending beyond their means and incurring unsustainable debt should best be aimed at individuals that most need this protection. The \$30,000 threshold already excludes 50% of Singaporeans and Permanent Residents¹ from qualifying for a credit card. The credit card limit therefore applies to the remaining 50% of income earners in Singapore. MAS now proposes to exempt card issuers from the maximum credit limit when issuing credit or charge cards to individuals with an annual income of at least \$120,000 or net personal assets exceeding \$2 million, both

¹ Source: General Household Survey, 2005

to be applied on an ongoing basis, in recognition that such individuals form the top 5% of income earners². We consider that this group of individuals with greater financial means should not require the same level of protection under Government's social policy rules on credit. From the historical default data of major card issuers in Singapore, we observed that the percentage of serious defaults among cardholders in this income group is generally very low. With the proposed exemption, card issuers may determine the appropriate credit limits for individuals with an annual income of at least \$120,000 or net personal assets exceeding \$2 million in line with their assessment of the credit worthiness of these individuals.

2.2 The proposed exemption from all credit card limit restrictions will not apply to individuals who are also directors of the issuing bank. MAS considers it appropriate to limit all forms of unsecured credit granted by a bank to its directors and entities related to the directors. This is aimed at limiting the potential conflicts of interest and the risk of non-arms length transactions that may arise from dealings between related parties. Instead of an exemption from all credit card limit restrictions, we propose that a maximum credit card limit of eight times the director's monthly income be applied.

Proposal: An exemption from the maximum credit limit for card issuers when issuing credit or charge cards to individuals with an annual income of at least \$120,000 or net personal assets exceeding \$2 million, both to be applied on an ongoing basis. For cards issued to such individuals that are also directors of the issuing bank, a maximum credit limit of eight times their monthly income would be imposed. The other rules on credit cards will continue to apply.

2.3 MAS expects card issuers, when issuing cards at a higher credit limit to this higher income group, to adhere to stringent lending standards, including adopting rigorous credit evaluation criteria and robust credit risk management systems to effectively monitor and manage the risks and defaults of this group of cardholders.

² Source: General Household Survey, 2005

3 IMPLEMENTATION

3.1 MAS proposes to implement the exemption from the maximum credit limit for credit and charge cards proposed above at the same time as the other proposed changes³ to the credit card and charge card regulations. Amendments will be made to the Banking (Credit Card and Charge Card) Regulations.

³ On 7 August 2006, MAS and the Ministry of Law issued a joint consultation paper proposing certain changes to the unsecured credit rules. Response to the consultation together with the final proposals were issued on 1 February 2007.



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