

CONSULTATION PAPER

P005 - 2011
June 2011

Proposed Residential Property Loans Fact Sheet

MAS

Monetary Authority of Singapore

PREFACE

MAS proposes to require financial institutions (FIs) to provide a fact sheet (“Fact Sheet”), in a standardised format, when marketing residential property loans to consumers. The Fact Sheet will provide information that is essential to the consumer’s decision to take up a loan, including information on how loan repayments may change under different interest rate scenarios.

2 MAS invites interested parties to provide their views and comments on the proposal. Electronic submission is encouraged. Please submit your written comments by 22 Jul 2011 to:

Prudential Policy Department
Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079117

Fax: (65) 6220 3973
Email: policy@mas.gov.sg

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

A PURPOSE OF THE FACT SHEET

1 MAS proposes to require financial institutions (FIs) to provide a fact sheet (“Fact Sheet”), in a standardised format, when marketing residential property loans to consumers. The Fact Sheet is aimed at providing, in an accessible form, the information that is essential to the consumer’s decision on whether to take up a residential property loan.

2 A residential property loan is a long-term financial commitment. In Singapore, it is typical for such loans to have interest rates pegged to a variable benchmark rate such as SIBOR/SOR¹ or the FI’s internal rate, or to have interest rates fixed only for the first few years. As such, it is important that consumers are informed of how their loan repayments may change under different interest rate scenarios. The Fact Sheet provides this information to the consumer, as well as highlights the fees and charges associated with the loan. Consumers may then make an informed decision as to whether they have the capacity to service the repayments over the loan tenor before committing to the property purchase and the loan.

3 The Fact Sheet format has been kept concise and reader-friendly, with the key information critical to the consumer’s loan decision summarised within one page. MAS is mindful that, while it is possible to include more details in the Fact Sheet, a more exhaustive Fact Sheet will be less reader-friendly. The Fact Sheet therefore serves to complement, but does not replace, the consumer’s own due diligence and understanding of the loan’s terms and conditions.

B FEATURES OF THE FACT SHEET

What Information Should Be Provided

4 The Fact Sheet is attached to the accompanying draft Notice at Annex A. While the format of the Fact Sheet will be the same across all FIs, each Fact Sheet will contain information that is specific to the individual consumer. Key information required in the Fact Sheet is summarised below:

Item	Purpose
Tenor of loan, loan amount, lock-in period (if any), whether the FI has the right to vary the interest rate further	Provides basic information on the features of the loan.
Repayment amounts (monthly and annually), comprising interest and principal	Provides consumers with information on expected repayment amounts.

¹ SIBOR refers to the Singapore Interbank Offered Rate and SOR refers to the Swap Offer Rate.

Item	Purpose
Monthly instalments at different interest rate levels; and past trends in the benchmark rate of the loan	Gives consumers a sense of how interest rates on their loan may change, and what the resulting instalment amounts will be. The highest and lowest applicable interest rates over the past 20 years are provided as a reference.
Other fees payable	Informs consumers of other applicable fees that the FI may charge, as well as of stamp duties applicable upon selling the property.
Links to MoneySENSE-Association of Banks in Singapore (ABS) "About Home Loans – Key Questions to Ask the Bank Before taking a Home Loan" online guide, other consumer education messages and CPF websites	Guides consumers to online resources for information relevant to their home loan decisions. They can: (i) read the MoneySENSE guide on key questions to ask the FIs; (ii) visit CPF's website to work out their withdrawal limit for residential property loans and use CPF's home loan calculators; and (iii) be alerted to other considerations (such as implications of loan default, fall in property price on outstanding loan value, understanding terms and conditions, etc.) before deciding to take a residential property loan.

5 The notes accompanying the Fact Sheet make it clear that actual repayment amounts may differ eventually from those shown in the Fact Sheet. For example, in loans with floating interest rates, the actual interest rate charged over the tenor of the loan may differ from the interest rate assumption provided by the FI on this Fact Sheet at the beginning of the loan period. The FI is therefore encouraged to provide more detailed information, such as loan amortization tables under different interest rate scenarios, so that consumers are informed about their loan repayments under these scenarios.

Who Should Provide the Fact Sheet

6 All MAS-regulated FIs will be required to provide the Fact Sheet to consumers for loans to purchase residential properties (both private properties and HDB flats) in Singapore.

When Should the Fact Sheet Be Provided

7 The FI should provide the Fact Sheet when it first enters into a discussion with the consumer on the key features of the loan for his residential property purchase. This may include a discussion on the loan tenor, loan amount, or repayment schedule, applicable to the consumer. To illustrate, the FI should provide this Fact Sheet to consumers at show-flats of property launches for uncompleted property when the FI enters into discussion with the consumer on the loan, regardless of who initiates the discussion. Another scenario is where an FI loan officer meets a consumer, at the FI premises or elsewhere, to discuss terms of the loan for the consumer's property purchase.

8 It is essential that FIs provide this Fact Sheet at the first initiation of loan discussions with the consumer, so that the consumer can make an informed decision on whether to commit to the property purchase and take up the loan. If there are changes to the key features of the loan at any subsequent discussion, the FI is to also provide the consumer with an updated Fact Sheet at the time of the change. Prior to issuing the Letter of Offer for the loan, the FI should have therefore provided a finalised Fact Sheet to the consumer and allowed him time to consider the terms of the loan.

9 The FI shall ensure that its representatives comply with the requirements that are stated in the Notice.

C IMPLEMENTATION TIMELINE

10 MAS will consider comments received in this consultation carefully in finalising the proposal. Once finalised, MAS will issue the Notice and prescribed Fact Sheet format. FIs will be required to comply with the requirements shortly thereafter.

NOTE: Corresponding Notices 825A (to finance companies), 1106A (to merchant banks) and 115A (to direct insurers) will be issued.

MAS 632A

[date]

NOTICE TO BANKS
BANKING ACT, CAP 19

RESIDENTIAL PROPERTY LOANS – FACT SHEET

1. This Notice is issued pursuant to section 55 of the Banking Act (Cap. 19) (the “Act”) and applies to all banks in Singapore.

Interpretation

2. In this Notice, “Representative” in relation to a bank, means a person, by whatever named called, in the direct employment of, or acting for, or by arrangement with, the bank, who recommends, introduces or markets credit facilities offered by the bank for the purchase of Residential Property, whether or not he is remunerated and whether his remuneration, if any, is by way of salary, wages, commission or otherwise, and includes an officer of the bank.
3. “Borrower” means any person who expresses interest in applying for a credit facility for the purchase of Residential Property.
4. 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 MAS Notice 632.

Fact Sheet

5. A bank shall provide the Borrower with a fact sheet setting out the key facts of any proposed credit facility offered in the form attached at Annex 1 (“Fact Sheet”), when the bank initiates discussions with the Borrower on the key features of the credit facility, which shall include –
 - (a) the tenor of the credit facility;
 - (b) the amount of credit extended under the facility; or
 - (c) the repayment schedule of the credit facility.

An illustrative example of how Annex 1 is to be completed is attached at Annex 2.

6. A bank shall also provide the Borrower with a Fact Sheet at each subsequent discussion where there are changes to the key features of the proposed credit facility and in every case, the bank shall provide the Borrower with a fact sheet setting out the finalised key features, before the bank issues to the Borrower a document setting out the terms and conditions of the credit facility for acceptance by the Borrower.
7. A bank shall ensure that every Representative of the bank complies with every requirement imposed on the bank in this Notice when the Representative acts on behalf of the bank.

Effective Date

8. This Notice shall take effect on [date].

ANNEX 1 - FACT SHEET

Name of Borrower Date Produced

General information

Name of Financial Institution (FI)	<input type="text"/>	Name of Staff and Branch	<input type="text"/>
Product	<input type="text"/>		
Loan Amount	\$ <input type="text"/>	Loan Tenor	<input type="text"/> years
Description of interest rate for loan	1 st year: <input type="text"/> ¹ + <input type="text"/> %	Lock-in Period (if any)	<input type="text"/> years
	2 nd year: <input type="text"/> + <input type="text"/> %	Does the FI reserve the right to make further changes to the interest rate?	Yes/No
3 rd year: <input type="text"/> ¹ + <input type="text"/> %			
4 th year and onwards: <input type="text"/> + <input type="text"/> %			

Repayment details

Year ²	Interest rate	Principal + Interest = Repayment (per month)	Principal + Interest = Repayment (per year)
Year 1	<input type="text"/> %	$\$P_1 + \$I_1 = \$$ <input type="text"/>	$\$P_5 + \$I_5 = \$$ <input type="text"/>
Year 2	<input type="text"/> %	$\$P_2 + \$I_2 = \$$ <input type="text"/>	$\$P_6 + \$I_6 = \$$ <input type="text"/>
Year 3	<input type="text"/> %	$\$P_3 + \$I_3 = \$$ <input type="text"/>	$\$P_7 + \$I_7 = \$$ <input type="text"/>
Year 4 and onward ³	<input type="text"/> %	$\$P_4 + \$I_4 = \$$ <input type="text"/>	$\$P_8 + \$I_8 = \$$ <input type="text"/>

Estimated total repayment (principal plus interest) during entire loan tenor of years⁴

\$

This means you will pay back \$ for every \$1 borrowed.

Monthly Loan Repayment Based on Different Interest Rate Scenarios

NOTE: The interest rate on your loan can change during the period of your loan.

Current <input type="text"/> is:	<input type="text"/> %				
If <input type="text"/> changes by ⁵ :	+1%	+2%	+3%	+4%	+5%
The interest rate on the loan (from <input type="text"/> year) will be:	<input type="text"/> %	<input type="text"/> %	<input type="text"/> %	<input type="text"/> %	<input type="text"/> %
Your Repayment (per month) will be:	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>

- Your loan will have an effective interest rate of 5% when reaches %.

Over the past 20 years:

- The highest was % which occurred in .
- The lowest was % which occurred in .

Note: These past trends are not necessarily indicative of future trends of rate movements⁶.

All Fees/Charges payable

The following fees/charges will be charged in the event of (check those which apply):

Loan processing	<input type="checkbox"/>
Rejection of loan after accepting letter of offer	<input type="checkbox"/>
Late payment	<input type="checkbox"/>
Changing loan terms (e.g. tenor)	<input type="checkbox"/>
Switching to a different loan package during tenor of an existing loan	<input type="checkbox"/>
Prepaying a portion or the full loan during the lock-in period	<input type="checkbox"/>
Restructuring the loan	<input type="checkbox"/>
Any other fees/charges (e.g. external legal fees, recovery of subsidies)	<input type="checkbox"/>

If any of the above are checked, you should discuss the details with your loan officer.

[Note: FIs should specify the basis on which the penalties will be levied – e.g. x% of prepaid amount.]

ANNEX 1 - FACT SHEET

Important Notes

1. If you sell the property within four years of the purchase of the property, you will have to pay Seller's Stamp Duty (SSD) of 16%, 12%, 8% and 4% of consideration for property sold in the first, second, third and fourth year of purchase respectively. (**Note:** Rules on SSD are subject to change.)
2. The interest rates used in this factsheet are mostly based on estimation. Actual interest rates may vary, and may be higher than what is illustrated here.
3. This Fact Sheet serves to complement, but does not replace, your own due diligence and understanding of the loan's terms and conditions. Before you commit to a loan, please read the consumer guide "About Home Loans – Key Questions to Ask the Bank Before Taking a Home Loan" produced by MoneySENSE, the national financial education programme for Singapore, and the Association of Banks in Singapore. You can ask your bank for a copy of the guide or you can view and download it at MoneySENSE's website www.moneysense.gov.sg. Besides the key questions and home loan basics, the guide contains a list of things you should note and consider before you commit to a home loan. This includes affordability of loan; fees and charges applicable; asking the bank to explain the applicability of certain terms like the bank's rights under the loan or when the property value is less than the outstanding loan; reminder to compare loan packages and not be enticed by headline rates or free gifts.
4. Visit the CPF Board's website at www.cpf.gov.sg to find out the CPF Withdrawal Limit if CPF savings are used in the purchase and to use CPF Board's calculators for home loans.
5. If you default on your monthly repayment, the bank can:
 - a) Declare "an event of default" and recall the loan;
 - b) Charge you a higher rate of interest;
 - c) Initiate legal action to recover the outstanding amount or sell your property (or both) to recover the outstanding loan balance and unpaid interest; or
 - d) Bring bankruptcy proceedings against you.To avoid such situations, you should :
 - Not commit yourself to a loan package that you cannot afford;
 - Contact your bank immediately for help when you face an unforeseen financial situation (e.g. sudden job loss) and find it difficult to meet your monthly repayment; and
 - Not wait until you default on your repayments before taking appropriate actions.

Legal Disclaimers

[Bank may insert legal disclaimers]

Footnotes

¹ SOR refers to Singapore Swap Offer Rate for SGD.

[NOTE: To be replaced with the respective base fixed or variable interest rates that the bank is using - e.g. Board rate, SIBOR]

² For illustrative purposes, the loan is assumed to be fully disbursed in Year 0, with repayments commencing in Year 1. For loans on uncompleted properties, where the loan may not be fully disbursed at the beginning of the loan period, Year 1 refers to the first year after the TOP of the property.

³ If the loan offers promotional rates for Y years, then illustrations of up to Y+1 years must be provided.

⁴ This figure is computed based on the assumption that: (i) there are no changes to the loan tenor; and (ii) there are no further changes in the interest rate.

⁵ Rates used are for illustrative purposes only and do not represent the upper and lower limits of the benchmark interest rate.

⁶ The rates in the table do not represent the upper and lower bounds of potential changes to the interest rates.

ANNEX 2 – ILLUSTRATIVE EXAMPLE

Name of Borrower	Peter Tan	Date Produced	5 May 2012
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General information

Name of Financial Institution (FI)	United Development Bank	Name of Staff and Branch	Penny Tay (Hougang branch)
Product	Easy Credit Housing Package		
Loan Amount	\$800,000	Loan Tenor	30 years
Description of interest rate for loan	1 st year: 3M SOR ¹	Lock-in Period (if any)	3 years
	2 nd year: 3M SOR + 0.1% 3 rd year: 3M SOR + 2.5% 4 th year and onwards: 3M SOR + 2.5%	Does the FI reserve the right to make further changes to the interest rate?	Yes/No

Repayment details

Year ²	Interest rate	Principal + Interest = Repayment (per month)	Principal + Interest = Repayment (per year)
Year 1	0.243%	$\$P_1 + \$I_1 = \$2,304$	$\$P_5 + \$I_5 = \$27,653$
Year 2	0.343%	$\$P_2 + \$I_2 = \$2,338$	$\$P_6 + \$I_6 = \$28,052$
Year 3	2.743%	$\$P_3 + \$I_3 = \$3,195$	$\$P_7 + \$I_7 = \$38,345$
Year 4 and onward ³	2.743%	$\$P_4 + \$I_4 = \$3,195$	$\$P_8 + \$I_8 = \$38,345$

Estimated total repayment (principal plus interest) during entire loan tenor of 30 years⁴

\$1,129,363

This means you will pay back **\$1.41** for every \$1 borrowed.

Monthly Loan Repayment Based on Different Interest Rate Scenarios

NOTE: The interest rate on your loan can change during the period of your loan.

Current 3M SOR is:	0.243%				
If 3M SOR changes by ⁵ :	+1%	+2%	+3%	+4%	+5%
The interest rate on the loan (from 3 rd year) will be:	3.743%	4.743%	5.743%	6.743%	7.743%
Your Repayment (per month) will be:	\$3,600	\$4,031	\$4,486	\$4,963	\$5,461

- Your loan will have an effective interest rate of 5% when 3M SOR reaches 2.5%.

Over the past 20 years:

- The highest 3M SOR was 9.567% which occurred in Jan 1998.
- The lowest 3M SOR was 0.136% which occurred in Feb 2011.

Note: These past trends are not necessarily indicative of future trends of rate movements⁶.

All Fees/Charges payable	The following fees/charges will be charged in the event of (check those which apply):	
	Loan processing	
	Rejection of loan after accepting letter of offer	
	Late payment	
	Changing loan terms (e.g. tenor)	
	Switching to a different loan package during tenor of an existing loan	
	Prepaying a portion or the full loan during the lock-in period	
	Restructuring the loan	
	Any other fees/charges (e.g. external legal fees, recovery of subsidies)	
	If any of the above are checked, you should discuss the details with your loan officer.	
	<small>[Note: FIs should specify the basis on which the penalties will be levied – e.g. x% of prepaid amount.]</small>	

ANNEX 2 – ILLUSTRATIVE EXAMPLE

Important Notes

1. If you sell the property within four years of the purchase of the property, you will have to pay Seller's Stamp Duty (SSD) of 16%, 12%, 8% and 4% of consideration for property sold in the first, second, third and fourth year of purchase respectively. (**Note:** Rules on SSD are subject to change.)
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