

RESPONSE TO FEEDBACK RECEIVED – RESIDENTIAL PROPERTY LOANS FACT SHEET

1 Introduction

1.1 In June 2011, the Monetary Authority of Singapore (“MAS”) conducted a public consultation on the proposed residential property loans fact sheet (“Fact Sheet”). The Fact Sheet aims to provide, in an accessible form, information essential to a consumer’s decision to take up a residential property loan. This includes information on how loan repayments may change under different interest rate scenarios. It serves to help consumers understand that higher interest rates could have severe implications if they overextend themselves.

1.2 After receiving a round of written responses, MAS further engaged some of the respondents individually to clarify their responses and obtain additional information. A list of respondents is attached at Annex 1. MAS carefully considered the feedback received in finalising the proposals. The issues and responses that are of wider interest are set out below.

2 Applicability of the Fact Sheet

Non-Individual Borrowers

2.1 Some respondents asked if financial institutions (FIs) are required to provide the Fact Sheet to non-individual borrowers (for example, corporates) buying residential property.

MAS’ Response

2.2 The aim of the Fact Sheet is to provide consumers with the essential information to guide their decision in purchasing a residential property. Non-individuals, such as corporates, are in a better position to identify and gather the necessary information on their own and have less need for information to be presented in the Fact Sheet format. **FIs will**

therefore be required to provide the Fact Sheet to individual borrowers only¹.

Exclusion of Certain Individual Borrowers

2.3 Some respondents commented that Private Banking (“PB”) customers and other High Net Worth Individuals (“HNWIs”) may not require the information to be presented in the Fact Sheet format when taking a residential property loan, as these individuals may possess greater financial knowledge and investment experience. Moreover, FIs may customise loan structures for these customers, which may be difficult to illustrate in a standardised format. These respondents suggested that FIs need not be required to provide their PB and HNWI customers with the Fact Sheet.

MAS’ Response

2.4 The Fact Sheet contains information essential to a consumer’s decision to take up a loan to purchase residential property, and this information would be useful to all individual consumers, whether or not they are PB or HNWI customers. Nevertheless, FIs do structure customised loan packages for PB and HNWI customers to purchase residential property, which may include loan structures that are revolving in nature or bundled together with other credit facilities not for the purchase of residential property.

2.5 In such **non-standard customised structures**, where it is difficult to illustrate the residential property loan terms on a standalone basis in the Fact Sheet format, the FI will not be required to provide the Fact Sheet to its PB and HNWI customers. **However, where the loan to the PB and HNWI customer is a standard loan to purchase residential property without the features mentioned above, the FI should still provide the customer with the Fact Sheet.**

Borrower’s Purpose in Purchasing Property

2.6 One respondent asked if the Fact Sheet should be provided only to individuals who purchase property for their own occupation, and not where the property is purchased for investment.

¹ Consistent with the definition of “individuals” in MAS housing loan rules, “individuals” will include a borrower who is a natural person owning a sole proprietorship.

MAS' Response

2.7 FIs are required to provide individual borrowers with the Fact Sheet regardless of the individual's purpose in purchasing the residential property. The information in the Fact Sheet should be taken into account by individual borrowers whether or not the property is purchased for own occupation.

3 Fact Sheet Content

Fact Sheet Format

3.1 Some respondents asked if they could modify the Fact Sheet format, or use their existing templates instead of the MAS-prescribed Fact Sheet format for disclosing residential property loan terms to borrowers.

MAS' Response

3.2 As the Fact Sheet is intended to provide consumers with information in an accessible and comparable format, **FIs are required to provide the Fact Sheet in the standardised format prescribed in Notice 632A**. FIs can nevertheless provide more information to their customers using different formats in other documents. Where fees, charges or penalties may be incurred, MAS also expects FIs to provide further details, including the estimated amounts, in a separate document to consumers.

Reference Period for Interest Rates

3.3 Some respondents proposed that a shorter timeframe of 5 to 7 years be allowed for interest rates rather than the 20-year timeframe, or that the timeframe be based on when the product was created. Respondents cited difficulties with obtaining information on the highest and lowest interest rates over the past 20 years, especially where the FI has operated in Singapore for less than 20 years.

MAS' Response

3.4 The Fact Sheet aims to illustrate how interest rates can vary over time, with the 20-year reference period reflecting the potential tenor of a housing loan. A shorter reference period may understate the variation in

interest rates over the loan period. **FIs are therefore required to use a 20-year reference period in stating the highest and lowest interest rates.** Where the interest rate on the loan is based on an FI's internal interest rate and the FI has not been in Singapore for at least 20 years, the FI is allowed to set the reference period based on when local operations commenced.

Inclusion of Additional Information

3.5 Some respondents requested that more information be included in the Fact Sheet. One respondent, for example, asked for scenarios of reductions in property prices to be incorporated. Others commented that information on fees, penalties, and subsidy claw-backs should be specified more clearly, with detailed timelines of when payments are due. One respondent also suggested that borrowers include information on their other outstanding loans, such as car loans and credit card debt, in the Fact Sheet. Another respondent, however, commented that the proposed Fact Sheet already contained too many details and may be confusing to consumers.

MAS' Response

3.6 MAS carefully considered the suggestions provided, and **incorporated suggestions for improving the Fact Sheet where practicable.** For instance, more information on the use of CPF for property purchases has been included, as well as a warning that banks may call for a loan top-up if the value of the borrower's property falls. We have not added other items in order to keep the Fact Sheet concise, and easy to understand by consumers. MAS has also taken care to seek independent advice on the user-friendly nature of the Fact Sheet format.

4 Implementation and Processes

Timing of Provision of Fact Sheet

4.1 Respondents commented it may be more practical if FIs were allowed to provide the Fact Sheet to borrowers together with the Letter of Offer or at a stipulated time before this.

MAS' Response

4.2 The Fact Sheet is intended to help consumers in their decision-making and should be provided at the earliest possible stage. It would not be as helpful to provide the Fact Sheet to the borrower together with or shortly before the Letter of Offer, as the borrower is likely to have already committed to the property purchase at that point, including paying for an Option to Purchase for that property. Therefore, **FIs will be required to provide the Fact Sheet when either the FI or the borrower initiates discussions with the other on a residential property loan.**

Provision of Fact Sheet via Fax and Electronic Means

4.3 Some respondents asked whether FIs must provide the Fact Sheet in hardcopy, or whether the Fact Sheet can be sent via email or fax.

MAS' Response

4.4 **FIs will be allowed to provide the Fact Sheet to the borrower in hardcopy, fax, or by electronic means.** This will allow FIs to respond quickly to consumers, and is in line with MAS' policy intent of making the Fact Sheet available to the consumers as early as possible, so that they can make an informed decision. FIs are required to provide the Fact Sheet regardless of whether the initial contact between the FI and borrower is face-to-face or otherwise. FIs should maintain an audit trail evidencing that the Fact Sheet has been sent to borrowers.

Refinanced and Restructured Loans

4.5 Some respondents asked if FIs are required to provide the Fact Sheet where the borrower is refinancing or restructuring an existing loan for the purchase of residential property.

MAS' Response

4.6 As the Fact Sheet shows how loan repayments may change under different interest rate scenarios, the information will be useful to borrowers who intend to refinance or restructure existing loans. **FIs are required to provide the Fact Sheet to borrowers who are refinancing or restructuring an existing loan.**

Mortgage-equity withdrawal loans

4.7 Some respondents asked if FIs are required to provide the Fact Sheet where the borrower is taking up a mortgage-equity withdrawal loans (“MWLs”).

MAS’ Response

4.8 Interest rate changes may not be a key determinant in whether a borrower takes up an MWL, compared to other considerations such as the borrower’s equity in the residential property and the current value of the property. **FIs are therefore not required to provide the Fact Sheet to borrowers taking up an MWL.**

Acknowledgement of Receipt

4.9 One respondent suggested that a declaration clause be included in the Letter of Offer, so that consumers acknowledge that they have received a copy of the Fact Sheet.

MAS’ Response

4.10 MAS will require FIs to obtain a signed declaration from the borrower that he has obtained the final version of the Fact Sheet. This clause will be included in the Fact Sheet template. FIs are to retain a copy of the signed Fact Sheet for their record.

FI Representatives

4.11 One respondent suggested that “introducers” be exempted from providing the Fact Sheet, as they may not be employees of the bank.

MAS’ Response

4.12 Exempting introducers would not accord with the aim of providing the Fact Sheet at the earliest possible stage of a borrower’s decision-making. **FIs are therefore to ensure that representatives, including introducers, provide the Fact Sheet to borrowers, whether or not the representatives are remunerated by the FI.** This will apply when the representative discusses features of the loan product with the borrower.

Timeline for Implementation

4.13 One respondent requested that two to three months be given to comply with the new rules, while another requested for a minimum of three months. This is to ensure sufficient time to put in place the proper systems and processes.

MAS' Response

4.14 MAS will allow FIs up to three months from issuance of Notice 632A to implement the Notice.

MONETARY AUTHORITY OF SINGAPORE
30 November 2011

RESPONDENTS TO THE CONSULTATION

Individual Respondents:

- (1) Mr Nicholas Koh
- (2) Mr James Chin
- (3) Ms Renee Sim
- (4) Mr Moh Leng Tan
- (5) Ms Ching Lien Chew
- (6) Ms Adelene Soh
- (7) Mr Michael Chin
- (8) Mr David See
- (9) Mr Poon Wei-Ching

Institutional Respondents:

- (1) Australia & New Zealand Banking Group Limited
- (2) Barclays Bank PLC
- (3) BNP Paribas
- (4) Bank of Singapore Limited
- (5) Citibank Singapore Limited
- (6) DBS Bank Ltd
- (7) Hong Leong Finance Limited
- (8) The Hongkong and Shanghai Banking Corporation Limited
- (9) Lloyds TSB Bank PLC
- (10) National Australia Bank Ltd
- (11) Oversea-Chinese Banking Corporation Ltd
- (12) Standard Chartered Bank
- (13) United Overseas Bank Limited
- (14) Allen & Gledhill LLP
- (15) Consumers Association of Singapore (CASE)