



RESPONSE TO FEEDBACK RECEIVED – RULES ON RESIDENTIAL PROPERTY LOANS

1 Introduction

1.1 On 13 January 2011, the Monetary Authority of Singapore (“MAS”) issued a consultation paper on proposals to require financial institutions (“FIs”) to comply with loan-to-value (“LTV”) limits when granting mortgage equity withdrawal loans¹ (“MWLs”), and to aggregate loans from moneylenders that are used to pay for residential property purchases, for the purpose of LTV computation.

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. MAS carefully considered the feedback received in finalising the proposals. The issues that are of wider interest are set out below.

2 Proposal 1: Regulatory LTV limits on MWLs

2.1 50% LTV limit on MWLs to non-individuals

2.1.1 Respondents noted that apart from residential property purchases, MWLs may be used to finance other personal or commercial expenditure. Small and medium enterprises (“SMEs”) in particular may use the residential properties of their owners or shareholders as collateral to obtain loans used for working capital and other business purposes. Respondents were concerned that the 50% LTV limit on MWLs would limit credit supply to SMEs and increase their cost of borrowing.

2.1.2. Respondents also commented on the operational difficulty of applying the 50% LTV limit. This is because FIs often offer SMEs a package of credit facilities (for example, overdraft facilities, letters of credit, foreign exchange lines) which is secured on a pool of collateral. The collateral pool can include residential property and other types of

¹ MWLs are loans secured on the borrower’s equity in a residential property.

assets. The LTV limit that is applied by FIs on the borrower is based on the entire pool of collateral. In such loan structures, FIs do not apply a separate LTV limit on credit facilities secured solely on residential property.

MAS' Response

2.1.3 The proposed 50% LTV limit is intended to harmonize the LTV limits for loans used for the purchase of residential property (“housing loans”) and MWLs. Housing loans to non-individuals are currently subject to a 50% LTV limit. Both housing loans and MWLs pose similar underlying prudential risk to the FIs – the creditworthiness of the borrower and potential exposure due to fluctuations in the value of the residential property collateral. MWLs may carry higher risks to the FIs when the FI does not have first charge over the collateral.

2.1.4 Respondents raised two concerns in their feedback. These were the –

- (i) potential reduction in credit supply to SME borrowers; and
- (ii) difficulty of applying and enforcing separate LTV limits for loan structures with pooled collateral.

2.1.5 MAS explored with some respondents options for addressing these concerns. One option was to apply the 50% LTV limit only to those types of credit facilities that can be used for property purchases, and exempt other types (such as trade finance facilities) from the LTV limit. Respondents noted that some credit facilities, such as overdraft facilities, could be used for both legitimate business purposes and for property speculation, making it difficult to prescribe which credit facilities the 50% LTV limit should apply to. Leaving this segregation to each FI may also lead to inconsistent application of the rules in the industry. Another option would require loan structures to be split into two parts, with a loan collateralised on residential property only (that is, an MWL) on which the LTV limit would apply, and another loan collateralized on non-property assets on which the LTV limit would not apply. Such a requirement may be unduly prescriptive and would require significant changes to existing business practice.

2.1.6 Taking these considerations into account, MAS will **amend Proposal 1 to maintain the status quo for MWLs for non-individuals, i.e. MWLs to non-individuals will not be subject to a regulatory LTV limit.** However, MAS expects FIs to continue to exercise prudent credit

assessment in granting MWLs to non-individuals and to apply appropriate LTV limits on these MWLs based on their credit assessment.

2.2 80% / 60% LTV limit on MWLs to individuals

2.2.1 Similar to the comments on the 50% LTV limit on non-individuals, some respondents noted that MWLs by individuals may be used to finance personal expenditure other than for residential property purchases, though fewer comments were received than for the proposed limit on non-individuals.

MAS' Response

2.2.2 This feedback is not inconsistent with MAS' intent. The purpose of MAS' proposal is to ensure that FIs maintain prudent credit standards and to encourage financial prudence among borrowers. Individual borrowers who do not have any outstanding loans for the purchase of residential property will still be able to borrow up to 80% LTV on a MWL. The lower 60% LTV on MWLs to those borrowers with outstanding loans will help encourage greater financial prudence among these borrowers.

2.2.3 **MAS will therefore proceed to implement Proposal 1 to introduce regulatory LTV limits on MWLs to individuals.** Therefore, where the borrowers are individuals, a MWL on a residential property, together with the outstanding balance of any credit facilities secured on that property, will be subject to an LTV limit of:

- (i) 80%, if the borrower has no outstanding credit facility for the purchase of another property; or
- (ii) 60%, if the borrower has any outstanding credit facilities for the purchase of another property.

2.2.4 **MAS expects FIs to exercise due diligence and judgment on possible circumvention of these regulatory LTV limits on MWLs to individuals, for example, by individuals setting up vehicles to invest in property.** Where "shell companies" are set up by individuals solely to obtain a MWL, FIs should "look through" and apply the 80%/60% LTV limit on MWLs to such "shell companies" as if they were individuals. However, the 80%/60% LTV limit would not apply to companies that have substantive businesses with genuine commercial activities.

2.2.5 MAS will continue to monitor the trends in MWLs granted to individuals and non-individuals. MAS will consider implementing a regulatory limit on MWLs to non-individuals, if necessary to address circumvention of the regulatory limit on MWLs to individuals.

3 Proposal 2: Inclusion of Loans from Moneylenders in Computation for Compliance with Regulatory Limits

3.1 Ascertaining Source of Borrower's Funds

3.1.1 Some respondents commented that it would be difficult to ascertain whether a borrower's funds are from his own resources, or obtained from moneylenders. In borrowing from moneylenders, borrowers may not state that the purpose of his loan is for the purchase of residential property. Some respondents suggested that FIs be allowed to rely on the borrower's self-declaration on whether he has borrowed from moneylenders to make the property purchase.

MAS' response

3.1.2 MAS will allow an FI to rely on self-declaration by the borrower on whether he has borrowed from moneylenders or other sources to fund the property purchase.

3.2 Definition of moneylenders

3.2.1 Feedback was received that the proposed legal definition of moneylenders may be too wide. Concern was expressed that in order to comply with the requirement, it may have to provide a long and exhaustive list of these moneylenders to customers, in order for them to declare whether they have taken loans from these moneylenders.

MAS' response

3.2.2 The proposed definition of "moneylender" includes "licensed moneylenders", "excluded moneylenders" and "exempt moneylenders" as defined in the Moneylenders Act. Among the three categories, licensed moneylenders are the most common source of loans for the public. Taking the feedback into account, the definition of moneylenders in the rules will be amended to refer only to "licensed moneylenders".

3.2.3 FIs are nevertheless reminded of the policy intent in this proposal, which is to ensure that borrowers pay the minimum cash requirements with their own cash/CPF resources. Any loans that a borrower has taken should be aggregated for purpose of computation of the LTV limit. To comply with this intent, the FI should consider an appropriately-worded self-declaration by the borrower on whether he has borrowed from any other source other than the FI to pay towards the property purchase, and not restrict the content of the self-declaration to borrowing from licensed moneylenders only.

MONETARY AUTHORITY OF SINGAPORE
13 JULY 2011