

FAQS ON MAS' TOTAL DEBT SERVICING FRAMEWORK FOR PROPERTY LOANS AND REFINEMENTS TO HOUSING LOAN RULES

Overview

Q1 Do MAS' new rules constitute a new round of property cooling measures?

A1 The rules introduced by MAS, namely, the Total Debt Servicing Ratio (TDSR) framework and refinements to MAS' existing housing loan rules, are structural in nature and meant for the long-term. They are aimed at strengthening the credit underwriting practices of financial institutions (FIs) and serve to encourage financial prudence as they help ensure that borrowers do not take on excessive leverage in their property purchases. While the rules are not targeted to address the current property cycle, they are consistent with previous measures aimed at promoting sustainable conditions in the property market, as the rules will require FIs to enhance their credit underwriting standards and processes.

Q2 Why is there a need to introduce a TDSR framework and refinements to MAS' housing loan rules?

A2 MAS introduced the TDSR framework and refinements to MAS' housing loan rules to strengthen credit underwriting practices among FIs. The framework will also help ensure that borrowers do not take on excessive leverage in property purchases, which involve a relatively large and long-term financial commitment for borrowers. The TDSR is a useful additional macro-prudential tool to complement the existing loan-to-value (LTV) limits for property purchases as it takes a more holistic account of the debt obligations of the borrower. While the LTV framework helps to control the loss exposure of FIs if a borrower defaults, the TDSR serves to calibrate the size of the loan to the borrower's repayment ability.

Thematic supervisory inspections and surveys carried out by MAS on FIs in 2012 revealed that the methodologies and practices used to compute TDSR as well as the threshold TDSRs used to approve property loans varied widely

across FIs. MAS' inspection also highlighted other areas for improvement. For instance, FIs did not always include or verify the total debt obligations facing a borrower when assessing his repayment capability of his property loan. In cases where the borrower was unable to meet FIs' internal TDSR thresholds, some FIs would base their assessments only on evidence provided by the borrower on his holdings of liquid assets, as an indication of his ability to meet his loan obligations over the next one to two years. The new measures introduced by MAS will therefore help standardise and strengthen FI's credit underwriting practices.

Total Debt Servicing Ratio Framework (MAS Notices 645, 1115, 831 and 128)

Q1 When are FIs required to compute the TDSR of a borrower?

- A1 FIs are required to compute the TDSR of a borrower for:
- (i) any loan for the purchase of a property;
 - (ii) any loan otherwise secured by property; and
 - (iii) any re-financing loan in respect of a loan in (i) and (ii).

The property in relation to the loan applied for will include both residential and non-residential property (e.g. industrial and commercial property), and will cover property both in and outside of Singapore.

The TDSR rules will apply to loans where the application date is on or after 29 June 2013.

Q2 Why is the TDSR framework not applicable to FIs' loans to corporates?

- A2 Corporates are generally subject to a different set of credit assessment criteria. However, in cases where the borrower is a sole proprietor or an individual sets up a company solely to purchase property, FIs are required to apply the TDSR rules to the relevant individual.

Q3 Do MAS' TDSR rules apply to re-financed loans? If so, would this prevent borrowers from re-financing their loans at lower interest rates, resulting in financial hardship?

- A3 In general, the TDSR rules apply to re-financed loans, but MAS will exempt existing borrowers that are seeking to re-finance their mortgages if they are owner-occupiers, and where –
- (i) the option to purchase (OTP) the residential property was granted prior to 29 June 2013;
 - (ii) the residential property is the only property owned by the borrower (either by himself or jointly);
 - (iii) the borrower is one of the occupiers of the residential property;

- (iv) the borrower does not have any outstanding loan for the purchase of any other property or the re-financing of such a loan, apart from the residential property being re-financed; and
- (v) the borrower does not have any outstanding loan (either in his own name or jointly with another borrower) otherwise secured on any property, including the residential property being re-financed, or the re-financing of such a loan.

An FI should obtain documentary evidence to verify (i) to (v).¹

MAS recognises that if the TDSR rules were applied strictly to this group of borrowers and if they are unable to meet the requirements, they would not be able to re-finance and enjoy any lower interest rates. This could have the perverse effect of putting them at greater financial risk.

This exemption will also apply to borrowers who are owner-occupiers and are unable to meet the existing 30% Mortgage Servicing Ratio (MSR) limit on re-financing loans extended by FIs in relation to HDB flats.

Q4 Are there any other exemptions from the TDSR rules?

A4 The TDSR rules apply to all individuals applying for loans for the purchase of property or loans otherwise secured on property. However, where the market value of the property comprises less than 50% of the value

¹ Such documentary evidence should minimally include –

- (i) a copy of the OTP in respect of the residential property being re-financed, where the OTP was granted prior to 29 June 2013;
- (ii) a written declaration from the borrower that:
 - (A) the residential property is the only property that he owns, either by himself or jointly;
 - (B) the residential property is for the occupation of one or more persons which includes the borrower;
 - (C) he has no outstanding loan (either in his own name or jointly with another borrower) for the purchase of any property or the re-financing of such a loan, other than the residential property being re-financed; and
 - (D) he has no loan (either in his own name or jointly with another borrower) that is otherwise secured on any property (including the residential property being re-financed), or the re-financing of such a loan;
- (iii) a printout of the borrower's Account Summary page in myTax Portal at www.iras.gov.sg, listing the number of properties held by the borrower;
- (iv) a front and back copy of the National Registration Identification Card (NRIC) of the borrower, where the address reflected on the NRIC is the same as the address of the residential property being re-financed; and
- (v) a credit report from one or more credit bureaus showing the number of outstanding loans for the purchase of or otherwise secured by property, or the re-financing of such loans, which are held by the borrower (either in his own name or jointly with another borrower).

of the total collateral pool on which a loan is secured, the loan will be exempted from the TDSR rules.

In addition, bridging loans, under which any balance outstanding shall be repaid within six months, are exempted from the TDSR requirements.

Q5 Why are TDSR rules not applied when borrowers take up non-property loans?

A5 FIs are not required to compute the TDSR of borrowers who apply for loans that are not for the purchase of property or otherwise secured by property (e.g. credit cards, study loans and car loans), as such loans currently comprise a much smaller proportion of overall liabilities of a household or an individual. Nevertheless, MAS will closely monitor the lending practices of FIs and data trends for non-property loans, and may consider applying TDSR rules if the need arises.

Q6 FIs are expected to take into account total debt obligations in computing the numerator of the TDSR of a borrower. What is included in the numerator of the TDSR?

A6 All outstanding debt obligations should be taken into account when calculating the TDSR. Debt obligations include all property-related loans and non-property related loans such as car loans, renovation loans, student loans, credit card loans and other secured or unsecured loans. The FI is expected to check with the credit bureau to ascertain the types of credit lines a borrower has. The FI should then request for the necessary supporting documents from the borrower to compute the debt obligations arising from each of these loans.

The TDSR will be computed as –

$$\frac{\text{monthly total debt obligations}}{\text{gross monthly income}} \times 100\%$$

Q7 How are monthly debt obligations arising from revolving loans included in the TDSR computation?

A7 To determine the monthly repayment in relation to a secured revolving loan, FIs will apply the applicable monthly interest rate on the amount that is drawn down by the borrower under the loan.

To determine the monthly repayment in relation to an unsecured revolving loan, FIs will apply the minimum amount that is due from the borrower.

The amount that is drawn down under a secured revolving loan and the minimum amount that is due on an unsecured revolving loan will be based on that which is stated in the latest available statement for that loan at the time of application for the property loan. If the borrower is unable to provide a copy of the statement, the FIs will apply the applicable monthly interest rate of the loan on the total credit limit instead.

Q8 The computation of the TDSR should aggregate the monthly repayments of total debt obligations. Are there any exceptions to this rule?

A8 In the case of a borrower applying for a loan for the purchase of a HDB flat or an Executive Condominium (EC) purchased directly from a property developer, an FI may exclude the monthly repayment in respect of the borrower's outstanding loan for an existing residential property, in computing the TDSR for the HDB flat or EC. This exemption takes into account HDB's current rules on ownership, which require buyers of HDB flats or ECs purchased directly from a property developer to sell their existing properties within six months of TOP/CSC of the EC or taking possession of the HDB flat. In such cases, the existing residential property and loan for the property, would be sold off and discharged within six months.

This exemption will only apply where the borrower has, at the time of applying for such a loan –

- (i) only one existing residential property that he owns, either by himself or jointly, and which he will be taking steps to sell;
- (ii) an outstanding loan for the purchase of the existing residential property or the re-financing of such a loan;
- (iii) no outstanding loan (either in his own name or jointly with another borrower) for the purchase of property or the re-financing of such a loan, apart from the loan in (ii);
- (iv) no outstanding loan (either in his own name or jointly with another borrower) otherwise secured on any property, including

- the property referred to in (i), or the re-financing of such a loan;
and
- (v) no property other than the property referred to in (i) that he owns, either by himself or jointly.

An FI should obtain documentary evidence to verify (i) to (v).²

This exemption will also apply to the computation for the MSR of 30%, of borrowers applying for a loan for the purchase of a HDB flat.

Q9 What is the rationale for using medium-term interest rates, rather than current interest rates, in the TDSR computation? Why is the medium-term interest rate set at a floor of 3.5% for residential property loans and 4.5% for non-residential property loans?

A9 Given the long-term nature of housing loans, FIs should use medium-term interest rates in assessing borrowers' debt repayment ability. The use of the medium-term interest rate will also help ensure that borrowers are not overextended in their property purchases and are able to continue servicing their monthly repayments even when interest rates increase.

Medium-term interest rates specified by MAS take into account the historical interest rate trends and incorporate an assessment of forward-looking trends, including projections of interest rates under stressed conditions. The medium-term interest rates applied to different types of properties reflect the differing risk premium associated with the types of properties.

² Such documentary evidence should minimally include –

- (i) a copy of the borrower's signed undertaking to the HDB committing to complete the sale of his existing residential property within the period stipulated in the undertaking;
- (ii) a written declaration from the borrower that:
 - (A) he shall take steps, in accordance with the signed undertaking to the HDB, to sell his existing residential property;
 - (B) he has no outstanding loan for the purchase of property or the re-financing of such a loan, apart from that for the existing residential property;
 - (C) he has no outstanding loan otherwise secured on any property, including the existing residential property, or the re-financing of such a loan;
 - (D) he does not own, either by himself or jointly, any other property other than the existing residential property for which he shall take steps to sell;
- (iii) a printout of the borrower's Account Summary page in myTax Portal at www.iras.gov.sg, listing the number of properties owned by the borrower; and
- (iv) a credit report from one or more credit bureaus showing the number of outstanding loans for the purchase of or otherwise secured by property, or the re-financing of such loans, which are held by the borrower (either in his own name or jointly with another borrower).

Q10 How is “gross monthly income” (denominator of TDSR) computed?

A10 The “gross monthly income” of the borrower refers to that before tax, and excludes any contributions made to the borrower’s CPF account by his employer. FIs will be required to apply a 30% haircut to (i) any variable income (e.g. commission, bonus and allowance) from the employer; and (ii) rental income. In the case of variable income, FIs will be required to take the average of the monthly variable income earned in the preceding 12 months. FIs will also be required to verify the rental income by obtaining a copy of the stamped tenancy agreement signed by the borrower (as the landlord) and the party to whom he has leased the property. The agreement should also have a remaining rental period of at least six months.

In addition, FIs will be allowed to include certain eligible financial assets, subject to haircuts and an amortisation schedule over 48 months for conversion into “income streams”, into the denominator.

Q11 Why is a haircut applied on variable income?

A11 This is to reflect the uncertainty of such income, which can fluctuate over time.

Q12 Why is the minimum haircut for variable income set at 30%?

A12 This is in line with the general industry practice. The purpose of specifying a minimum ratio is to standardise the computation of TDSR across FIs. FIs may apply higher haircuts where appropriate, such as for incomes that they assess to be highly variable or unsustainable over the loan period.

Q13 What are the eligible financial assets that FIs can include in the TDSR computation?

A13 “Income streams” arising from assets that can be included in FIs’ TDSR computations are confined to those related to liquid financial assets (i.e. Singapore dollar and coins, including deposits), and a specified list of other assets, namely collective investment schemes, business trusts, debentures or

stocks, structured deposits, foreign currency notes and coins (including deposits) and gold, which have a secondary market or reasonable basis for valuation and to the extent that the asset is unencumbered.

Q14 Why does MAS set the amortisation period for eligible financial assets used in the TDSR computation at four years?

A14 The stipulated duration of four years is based on the duration typically taken for borrowers to redeem or re-finance their housing loans.

Q15 Why does MAS not require eligible financial assets to be pledged with the FI before they can be included in the TDSR computation?

A15 Requiring a borrower to pledge his eligible assets provides greater assurance on the borrower’s ability to repay his loan. However, this can also be restrictive as it prevents borrowers from using the pledged assets in contingencies. As such, to address the higher risks of unpledged assets, FIs are required to apply higher haircuts to unpledged assets of assets that are pledged for less than four years; details are in the table below. FIs are also required to ensure that unpledged assets are still accounted for in the borrower’s bank account statements before the disbursement of funds under the property loan. This is to ensure that the unpledged assets used in the TDSR computation do not include funds used in making the down payment for the property loan under assessment.

Type of eligible financial asset	Haircut on eligible financial assets pledged for at least 4 years	Haircut on eligible financial assets are unpledged or pledged for less than 4 years
Liquid assets (SGD dollar notes and coins (including deposits))	0%	70%
Other assets (collective investment schemes, business trusts, debentures or stocks, structured deposits, foreign currency notes and coins (including deposits) and gold)	30%	70%

Q16 MAS’ rules result in the standardisation of TDSR practices across FIs. Can FIs choose to adopt more conservative practices than the stipulated requirements (e.g. apply higher haircuts to variable incomes)?

A16 Yes, MAS' rules set out the minimum requirements. FIs can adopt more conservative practices as long as they are compliant with MAS' rules.

Q17 Why did MAS not set a mandatory limit of 60%? Can FIs exceed the TDSR threshold of 60%?

A17 The coverage of the TDSR framework is more comprehensive than banks' current practices. The framework also includes detailed and prescriptive rules on the computation methodology of the TDSR.

(For example, FIs are required to apply appropriate haircuts (of at least 30%) for variable income and incorporate the medium-term interest rate (floored at 3.5% for residential properties and 4.5% for non-residential properties or the prevailing interest rates, whichever is higher) when computing the TDSR for a property loan. Where FIs take into account "income streams" arising from borrowers' holdings of eligible financial assets, they will be required to apply haircuts to account for flight and price risks (e.g. 70% haircut on eligible financial assets that are unpledged or pledged for less than four years) and amortise the value of the assets over 48 months into "income streams" for inclusion in the TDSR. In terms of coverage, FIs will be required to compute the TDSR for all properties, regardless of type (i.e. residential, industrial, commercial) and location (i.e. local or overseas).)

A 60% threshold under the prescribed TDSR framework would, in reality, be tighter than a 50% threshold applied under less stringent definitions with less coverage.

It should be highlighted that MAS expects property loans subject to the TDSR framework to not exceed the TDSR threshold of 60%. Loans in excess of the 60% threshold should only be granted on an exceptional basis and FIs should clearly document the basis for granting property loans in excess of the threshold. FIs are required to subject exceptional cases to enhanced credit evaluation and to report such cases to MAS.

MAS will assess the impact of the TDSR framework and may review at a later stage to assess the need to tighten the TDSR threshold or make it a mandatory limit.

Refinements to Housing Loan Rules (MAS Notices 632, 825, 1106 & 115)

Q1 Why has MAS required borrowers of housing loans to also be the mortgagors of the same residential property?

A1 MAS has received feedback that some property purchasers enter into proxy arrangements with other parties, for the proxy to obtain a housing loan on behalf of the actual property purchaser. This could be because the actual property purchaser has outstanding property loans, whereas the proxy has fewer or no outstanding housing loans, and can therefore obtain the new housing loan at a higher LTV limit. To protect its interests, the FI will typically require the owner to mortgage his property in favour of the FI, and will also enter into a contractual arrangement with the owner to seek recourse against the mortgaged property, in the event the borrower defaults.

To enhance the effectiveness of MAS' LTV limits and help ensure that borrowers do not circumvent the limits with proxy arrangements, MAS has therefore required the borrowers of housing loans to also be the mortgagors of the same property.^{3,4} Notwithstanding this, MAS expects FIs to continue exercising diligence in ascertaining that property purchasers are not using proxies to apply for housing loans, defeating the spirit of the rules.

Q2 How does MAS expect FIs to ascertain that the borrower of a housing loan is also the mortgagor of the residential property?

A2 An FI should check that the borrower is stated as one of the purchasers on the OTP, as well as that the borrower is subsequently listed as a mortgagor in the document titled "Land Titles Act Mortgage".

³ This approach is aligned with HDB's rules on HDB concessionary loans.

⁴ This requirement will apply to –

- (i) any loan for the purchase of residential property, the date on which the OTP was granted is on or after 29 June 2013;
- (ii) any re-financing loan of a loan referred to in sub-paragraph (i);
- (iii) any loan otherwise secured by residential property, the application date of which is on or after 29 June 2013; and
- (iv) any re-financing loan of a loan otherwise secured by residential property, the application date of the re-financing loan of which is on or after 29 June 2013.

Q3 Why has MAS required that a guarantor be brought in as a joint borrower of a housing loan, if the FI assesses at the point of loan application that the stated borrower would be unable to repay the loan?

A3 This is to take into account situations where an FI ascertains, at the point of loan application, that the borrower would be unable to service any part of the monthly repayments on his own, and would need the “guarantor’s” assistance in repaying the loan.⁵ As the “guarantor” would in fact be servicing the loan for that property purchase, if the “guarantor” were to apply for his own housing loan subsequently, it would be inaccurate and imprudent for the FI to regard him as a true guarantor on the first housing loan, and to treat his debt obligations of the first loan as a mere contingent liability. Rather, the “guarantor” should be brought in by the FI as a borrower of the first housing loan, and the FI should apply the lower LTV limits to the “guarantor’s” own housing loan when he applies for it.⁶

This rule will enhance the effectiveness of MAS’ LTV limits, in that a housing loan applicant cannot seek to circumvent the LTV limits by declaring himself simply as a guarantor in respect of an existing housing loan, the monthly instalments of which he actually services, so as to qualify for the higher LTV limits in his property purchase.

Q4 Has MAS not considered that there could be cases where the use of guarantors is for genuine reasons and requested by the FI purely for additional assurance of repayment?

A4 MAS recognises that guarantor arrangements may be useful in some cases, and has therefore not prohibited such arrangements in their entirety. Specifically, where the guarantor is a true guarantor, required by the FI to be brought into the arrangement for added assurance, and will only step in to make good the monthly repayment of the housing loan *if and when* the

⁵ The TDSR framework will facilitate FIs’ assessments of whether a borrower is able to service the monthly repayment on his own.

⁶ This requirement will apply to:

- (i) any loan for the purchase of residential property, the date on which the option to purchase was granted is on or after 29 June 2013;
- (ii) any re-financing loan of a loan referred to in sub-paragraph (i);
- (iii) any loan otherwise secured by residential property, the application date of which is on or after 29 June 2013; and
- (iv) any re-financing loan of a loan otherwise secured by residential property, the application date of the re-financing loan of which is on or after 29 June 2013.

borrower defaults, the guarantor will not be treated as a borrower of that loan. Consequently, in the event he applies for his own housing loan, he will also not be subject to the lower LTV limits, by virtue of the existence of the loan he is standing guarantee for.

Q5 Why has MAS mandated the use of the income-weighted average age of joint borrowers?

A5 MAS has required that the age of the borrower to be used when determining the applicable loan tenure for joint applicants be the average age of the borrowers, weighted by the borrowers' respective gross incomes. This rule strengthens FIs' credit underwriting practices, as the weighted average better reflects each borrower's ability to repay and the risk that this ability may be reduced as he reaches the age of retirement.

Thematic Inspection of Residential Property Loans Business

Q1 What was the impetus for conducting the thematic inspection on banks that are major players in the housing loans market?

A1 The continued income growth in Singapore and low interest rate environment globally contributed to a strong demand for residential properties in recent years. Given the corresponding growth in banks' housing loan portfolio, the purpose of the inspection was to assess banks' credit underwriting standards and lending practices for such loans.

Q2 Given the findings reported in the thematic inspection report,⁷ are there any concerns over the asset quality of banks' housing loan portfolios?

A2 The banks' housing loan portfolios remain healthy. Overall non-performing loan ratios across the major banks providing housing loans are low. Banks also subject their portfolios to regular monitoring and reviews as well as stress testing to ensure that any vulnerabilities or deterioration in asset quality is promptly detected and addressed.

Q3 Do the findings in the thematic inspection report present systemic concerns in the credit underwriting practices of the banking sector?

A3 On the whole, MAS observed that banks have sound policies and processes in place to manage their housing loans business. In addition, not all the deficiencies observed were prevalent across the banks. The purpose of our report is to highlight areas for improvement so that banks can further strengthen their underwriting standards. To this end, MAS has also introduced the TDSR framework to ensure standardised computation methodologies, as well as to strengthen credit underwriting practices across FIs.

Q4 Given the findings of MAS' thematic inspections, has MAS taken any action?

⁷ The report "Thematic Inspection of Residential Property Loans Business" was issued in Jun 2013 and can be accessed on the MAS' website.

A4 MAS has directed the banks to promptly rectify all the deficiencies observed. MAS has also held an industry briefing with the banks' senior management to convey the areas of concern, and to remind them to uphold prudent credit underwriting, sound risk management and strong compliance standards and practices.