



## CONSULTATION PAPER

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# Unsecured Credit Rules

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## 1. INTRODUCTION

1.1 Currently, financial institutions granting unsecured credit facilities or issuing unsecured credit cards to individuals are required by MAS to ensure that these individuals have a minimum annual income of \$30,000. In addition, a maximum credit limit of twice the individual's monthly income for credit cards and an additional and separate credit limit of the same amount for other unsecured credit facilities are also imposed. These rules were put in place to implement the Government's social policy of discouraging individuals from spending beyond their means by curbing the easy access to credit through financial institutions.

1.2 The moneylenders regime supervised by the Ministry of Law does not have similar rules for both licensed moneylenders and exempted moneylenders that grant unsecured personal loans to the public.

1.3 Industry developments suggest a need to review the unsecured credit rules administered by MAS to ensure that they continue to be appropriate and relevant. MAS and the Ministry of Law are also considering applying these revised rules with appropriate modifications to the moneylenders regime. The common application of unsecured credit rules to both financial institutions and moneylenders is in line with the Government's goal of ensuring a more consistent regime for granting of unsecured credit in Singapore.

1.4 The key changes which MAS is proposing to the existing set of unsecured credit rules that financial institutions have to abide by are set out in paragraph 2 of this Consultation Paper. The proposals to introduce appropriate unsecured credit rules into the moneylenders regime are set out in paragraph 3. The proposed exclusion of certain types of loans from these unsecured credit rules are set out in paragraph 4.

## **2. PROPOSED AMENDMENTS TO UNSECURED CREDIT RULES FOR FINANCIAL INSTITUTIONS**

### **2.1 Minimum annual income threshold for unsecured credit facilities**

2.1.1 The minimum annual income threshold restricted access to unsecured credit and credit cards to borrowers with an annual income of \$30,000 and above. Setting the minimum annual income at \$30,000, however, denies a substantial majority of the working population (i.e. 64%)<sup>1</sup> from access to unsecured credit granted by financial institutions. This group of individuals may have a legitimate need for unsecured credit which at modest levels they would be able to afford.

2.1.2 Advances in risk management practices and infrastructure in the industry have rendered it less likely today that a significant proportion of borrowers in any income bracket would be able to take on unsustainable levels of debt. The establishment of the consumer credit bureau in 2002 has allowed participating banks to share information on each borrower's credit facilities and repayment record. Other lenders may also require borrowers to provide their credit report together with the loan application. Hence lenders in Singapore now have better information, prior to granting a new loan, to identify borrowers that are potentially taking on debt that may become unsustainably large, or are attempting to take out new credit to repay existing delinquent loans.

2.1.3 Banks' risk assessment processes have also improved through the use of credit scoring models that take into account factors other than income such as the stability of employment and loan repayment to disposable income ratios. These practices have strengthened banks' ability to screen out potential borrowers who are unable to service their loans.

2.1.4 With greater assurance of prudent risk management and robust credit assessment by financial institutions, MAS proposes to lower the minimum annual income for unsecured credit facilities from \$30,000 to \$20,000. Even at this lower threshold, approximately 44% of the full-time

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<sup>1</sup> Source: Report on Labour Force in Singapore, 2004 – Ministry of Manpower

employed<sup>2</sup> will continue to be restricted from access to unsecured credit as they earn less than \$20,000 a year.

2.1.5 The minimum annual income requirement for credit card facilities will be retained at \$30,000. Individuals with income below this threshold can use debit cards as a convenient form of payment.

Proposal 1: A moderate lowering of the minimum annual income threshold for unsecured credit facilities from \$30,000 to \$20,000. The minimum annual income threshold for credit card facilities will remain at \$30,000.

## 2.2 Unsecured credit limit

2.2.1 Currently, the credit limits for unsecured credit facilities and credit cards are each capped at 2 times monthly income. MAS proposes to merge the credit limit for unsecured credit facilities and credit cards for individuals with access to both unsecured credit facilities and credit cards (income group with annual income of \$30,000 and above) into an aggregate of 4 times monthly income.<sup>3</sup> Developments in the market have blurred the difference between credit cards and unsecured credit facilities. For example, borrowers may be given ATM cards to access their unsecured credit facilities easily, or borrowers may take out an unsecured credit facility to pay down their credit card balances. Combining the separate credit limits will give individuals the flexibility to choose the mode of financing based on their needs, while preserving the cap on aggregate credit limit at 4 times the monthly income of the individual.

2.2.2 For individuals with annual income of at least \$20,000 but below \$30,000, the maximum aggregate unsecured personal credit limit will be 2 times their monthly income, with no access to credit cards.

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<sup>2</sup> This is calculated based on figures obtained from the Report on Labour Force in Singapore, 2004 – Ministry of Manpower

<sup>3</sup> Related entities separately granting unsecured credit facilities or issuing credit cards to the same individual will have their limits aggregated for compliance with the new aggregate limit of 4 times monthly income.

Proposal 2A: For individuals with at least \$30,000 annual income, the maximum aggregate credit limit of all unsecured personal credit facilities and credit cards granted by a financial institution will be set at 4 times monthly income.

Proposal 2B: For individuals with annual income of at least \$20,000 but below \$30,000, the maximum aggregate credit limit of unsecured personal credit facilities granted by a financial institution will be set at 2 times monthly income.

### **2.3 Compulsory credit checks**

2.3.1 Financial institutions are expected to uphold and continually enhance the robustness of their credit assessment processes. In tandem with a lowering of the minimum income threshold, MAS proposes that checks with a credit bureau be made mandatory for financial institutions granting unsecured personal loans or issuing credit cards.

Proposal 3: Credit checks with a credit bureau will be made mandatory for financial institutions granting unsecured personal loans or issuing credit cards.

### **2.4 Solicitation regulations for credit cards**

2.4.1 Several banks have recently conducted credit card upgrading exercises for their cardholders. In such exercises, the bank would typically discontinue and replace an existing card with a new card (“upgraded card”) that carries different characteristics (such as different branding, privileges, rewards, fees and charges, or terms and conditions). MAS has received feedback that there is a lack of clarity as to whether such cards may be deemed to be “replacement” or “additional” cards under the solicitation regulations (i.e. regulation 7 of the Banking (Credit Card and Charge Card) Regulations 2004).

2.4.2 The solicitation regulations currently prohibit a card issuer from sending or giving a credit or charge card to an individual unless the

individual has requested for the card in a document signed by him. Exceptions to this prohibition are made when the card sent or given is a “replacement” card or an “additional” card (as defined in the solicitation regulations) issued by the card issuer. However, the sending or giving of “additional” cards is subject to further conditions, including the condition that the individual is not liable for any amount charged to the additional card until he has communicated his acceptance of the additional card; and that the card issuer has to disclose to the individual the fees, charges, terms and conditions of use associated with the additional card.

2.4.3 The rationale for the further conditions in respect of “additional” cards is that since the cardholder has not requested for the card and is not even aware that the card has been despatched to him, he should not be made to bear the risk of loss of the card in transit or held liable for expenses incurred under the card until he has had an opportunity to consider its terms and decide whether he wishes to accept it. In contrast, a “replacement” card is intended only to cover situations where it is issued in substitution for an existing card that is nearing expiry, or if the existing card has been reported as lost or damaged. In such situations, the cardholder will be expecting the issuance of the card to replace his existing card, rendering it unnecessary for the card to be subject to the further conditions that are attached to the issuance of “additional” cards.

2.4.4 In MAS’ view, in the case of upgraded cards that are not anticipated by the recipient cardholders, the recipient cardholder should not be subject to the risks mentioned in the preceding paragraph. These cards should therefore be subject to the further conditions applicable to additional cards. In light of industry’s feedback that there is a lack of clarity in the regulations that upgraded cards are “additional cards”, MAS proposes to amend the solicitation regulations to clarify this intent.

Proposal 4: An upgraded card will be deemed as an “additional” card under the solicitation regulations. A card will be deemed as a “replacement” card only if it is in substitution for an existing card that is nearing expiry, or has been reported as lost or damaged.
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## 2.5 Solicitation regulations for unsecured credit facilities

2.5.1 In recent years, developments in the market have blurred the difference between credit cards and unsecured credit facilities. With the convergence of the characteristics of these credit instruments, MAS



considers it important that lenders extending unsecured credit facilities be similarly subject to rules prohibiting the granting of unsecured credit facilities to individuals in Singapore unless the individual has requested for it in writing.

2.5.2 However, as articles used to access unsecured credit facilities are typically items such as ATM cards and cheques, the risks of fraud and non-disclosure of fees, charges and terms and conditions associated with these articles are generally considered to be lower as compared to that of credit cards. As such, MAS proposes not to impose restrictions on the sending of such articles for existing unsecured credit facilities that an individual already has with the bank or financial institution.

Proposal 5: Banks and financial institutions will not be allowed to grant unsecured credit facilities, or send any articles that allow drawdown on such credit facilities to individuals, unless that individual has requested for it in writing. This restriction does not apply, however, in respect of unsecured credit facilities that the individual already has with the bank or financial institution.

## **2.6 Disclosure of finance and late payment charges for credit and charge cards, and unsecured credit facilities**

2.6.1 Under regulation 9 of the Banking (Credit Card and Charge Card) Regulations 2004, credit and charge card issuers are currently required to disclose finance and late payment charges. Under MAS Notice 635, however, there are currently no such requirements for lenders of unsecured credit facilities.

2.6.2 To harmonize the disclosure requirements for credit and charge card issuers and lenders who extend unsecured credit facilities, MAS proposes to subject both to a requirement to disclose, clearly and prominently on bills and statements sent to card holders and unsecured credit facilities borrowers, all finance charges; late payment charges; their rates of computation; the consequences of late payment; and a notice to encourage prompt settlement. As card issuers and lenders best understand the features of the cards and unsecured credit facilities they offer, the regulations will not prescribe the contents of the disclosure statement but will set out the matters for which disclosure is required. This will enable card issuers and lenders to customize the disclosure statement,

having regard to the particular features of the card or unsecured credit facilities.

2.6.3 As the current finance and late payment disclosure regulations for credit and charge cards prescribe the form and content of the disclosure statement, MAS proposes to make the relevant amendments to dovetail the disclosure regulations for credit and charge card issuers with those of unsecured credit facilities lenders.

Proposal 6: Both issuers of credit and charge cards and lenders of unsecured credit facilities will be required to disclose, clearly and prominently on bills and statements sent to card holders and unsecured credit facilities borrowers, all finance charges; late payment charges; their rates of computation; the consequences of late payment; and a notice to encourage prompt settlement.

### **3. PROPOSED INTRODUCTION OF UNSECURED CREDIT RULES FOR MONEYLENDERS**

#### **3.1 Rationale for introducing unsecured credit rules for moneylenders**

3.1.1 Moneylenders are not subject to similar unsecured credit rules that the Government's social policy imposes on financial institutions. In the past, moneylenders used to be small operators with limited lending capacity giving out only small loans. However, in recent years, some moneylenders have grown in size and capacity, and some individuals have been able to borrow larger sums from moneylenders. As such, if the social policy of the Government is to be preserved, it will no longer be sufficient that unsecured credit rules be solely observed by financial institutions. Moneylenders should also play their part in meeting the social policy objective by complying with the unsecured credit rules.

3.1.2 It is thus proposed that the unsecured credit rules proposed by MAS also be applied to the moneylenders regime with appropriate modifications. The proposed rules will apply to licensed moneylenders and exempted moneylenders that grant unsecured personal loans to the public. The introduction of unsecured credit rules for the moneylenders is in line with

the Government's goal of ensuring a more consistent regulatory regime on unsecured personal loans.

### **3.2 Unsecured personal loans exceeding \$3,000**

3.2.1 For unsecured personal loans exceeding \$3,000, moneylenders will be required to conduct mandatory checks on the income of the borrowers. Unless the loan falls under a list of excluded loans discussed in paragraph 4 below, no moneylender shall grant an unsecured personal loan exceeding \$3,000 to an applicant who has an annual income of less than \$20,000.

3.2.2 Where an applicant has an annual income of at least \$20,000 but less than \$30,000, the maximum amount of unsecured loan that can be granted by a moneylender shall not exceed 2 times of the applicant's monthly income.

3.2.3 Where an applicant has an annual income of at least \$30,000, the maximum amount of unsecured loan that can be granted by a moneylender shall not exceed 4 times of the applicant's monthly income.

3.2.4 Moneylenders who grant unsecured loans of more than \$3,000 will not be subject to a statutory cap on the interest rates that they can charge. Moneylenders will have to determine what would be the appropriate interest rate, taking into account for example their own risk assessment and the competitiveness of the unsecured loans market. In determining the interest rate, moneylenders should note that if they commence proceedings in court to recover money from the borrower, the Moneylenders Act empowers the court to review whether the interest rate charged on a loan is excessive and to order an adjustment to be made.

3.2.5 In making a risk assessment, moneylenders are free to decide if they would require an applicant to produce a credit report obtained from the Credit Bureau.

3.2.6 If a moneylender fails to comply with the loan limits set out in paragraphs 3.2.2 and 3.2.3 and the loans do not fall within the excluded loans in paragraph 4, the moneylender is liable to face prosecution for an offence, as is the current case for financial institutions.

Proposal 7: For unsecured loans exceeding \$3,000,

- (i) Moneylenders must ensure that the applicant has an annual income of at least \$20,000.
- (ii) Moneylenders must ensure the unsecured credit limit does not exceed (a) 2 times of monthly income for applicants earning at least \$20,000 per annum but less than \$30,000 per annum, and (b) 4 times of monthly income for applicants earning at least \$30,000 per annum.
- (iii) There will be no statutory cap on interest rate. Moneylenders are free to determine the appropriate interest rate, but should note that the interest rate if found to be excessive could be revised by the court as provided in the Moneylenders Act.
- (iv) Moneylenders who lend beyond the stipulated unsecured credit limit are liable to prosecution.

### **3.3 Unsecured personal loans not exceeding \$3,000**

3.3.1 The Ministry of Law understands that at times, borrowers with low or no immediate income may need to have access to credit to deal with family emergencies etc. As such, moneylenders can provide unsecured loans not exceeding \$3,000 to an applicant without having to carry out mandatory checks on the applicant's income. This exception will allow legitimate borrowers who are in urgent need of small loans to borrow from legitimate moneylenders.

3.3.2 For such loans, moneylenders will not be permitted to charge interest rates beyond the prescribed cap of 18% per annum, as is the present case. Maintaining the interest rate cap is to ensure that such borrowers, who may be in dire financial needs, are not taken advantage of by having to pay higher interests on their loans. This interest rate policy will be monitored and adjustments will be made, if required.

Proposal 8: For unsecured loans not exceeding \$3,000, income checks are not mandatory. Moneylenders disbursing such loans cannot charge interest rates that exceed 18% per annum.

### **3.4 Rules against solicitation for unsecured credit facilities**

3.4.1 MAS is proposing that rules against solicitation be introduced for financial institutions that wish to grant unsecured credit facilities.

3.4.2. The Ministry of Law is proposing to follow MAS' approach and to introduce appropriate rules against solicitation.

Proposal 9: Moneylenders will not be allowed to send any materials to individuals to solicit unsecured credit facilities, or to allow drawdown on such credit facilities.

### **3.5 Disclosure of charges for unsecured credit facilities**

3.5.1 To ensure greater transparency and to enable borrowers to be fully aware of the charges they are paying, it is proposed that moneylenders be required to disclose these charges to the borrowers, including how they are computed.

3.5.2 In addition, moneylenders would be required to advise borrowers of the consequences of late payment and to encourage them to make prompt settlement.

Proposal 10: Moneylenders will be required to disclose, clearly and prominently on bills and statements sent to borrowers, all charges including their rates of computation; the consequences of late payment; and a notice to encourage prompt settlement.

## **4 EXCLUDED LOANS**

4.4.1 It is not the intent of the Government's social policy to restrict access to all forms of unsecured lending. The Government recognises that certain types of loans granted by both financial institutions and moneylenders should be excluded from the application of the unsecured credit rules.

4.4.2 Excluded loans include (i) business loans; (ii) education loans; (iii) renovation loans, (iv) National Service bonds for the deferment of National

Service liability, (v) security bonds for the employment of foreign domestic workers, and (vi) any unsecured refinancing facility used to repay an unsecured amount owing under an existing credit facility (which has become unsecured as a result of a fall in the value of the collateral given for the facility).

4.4.3 Excluded loans would not be subject to any form of unsecured credit rules except for renovation loans. For renovation loans, in order to ensure that applicants do not over borrow, the unsecured credit loan will not be permitted to exceed 6 times the applicant's monthly income or \$30,000, whichever is lower.

4.4.4 For all these excluded loans, financial institutions and moneylenders will have to satisfy themselves, through documentary proof or otherwise, that the purpose of the loan is genuine. Moneylenders are free to determine the appropriate interest rate bearing in mind the considerations mentioned in paragraph 3.2.4 above.

Proposal 11: The unsecured credit rules will not apply to the following:

- (i) Business loans to sole proprietorships and partnerships;
- (ii) Education loans;
- (iii) Renovation loans, provided that the amount of financing does not exceed 6 times the applicant's monthly income or \$30,000, whichever is lower;
- (iv) National Service bonds for the deferment of National Service liability;
- (v) Security bonds for the employment of foreign domestic workers; and
- (vi) Any unsecured refinancing facility used to repay an unsecured amount owing under an existing credit facility (which has become unsecured as a result of a fall in the value of the collateral given for the facility).

Moneylenders are free to determine the appropriate interest rate for these excluded loans, but should note that the interest rate if found to be excessive could be revised by the court as provided in the Moneylenders Act.

## **5. IMPLEMENTATION**

### **5.1 Rules applicable to financial institutions**

5.1.1 The existing Banking (Credit Card and Charge Card) Regulations and MAS Notice 635 on Unsecured Credit Facilities to Individuals will be combined into a single piece of subsidiary legislation under the Banking Act. Other existing Notices governing the granting of unsecured credit facilities to individuals by merchant banks, finance companies and insurers will be revised to reflect the proposed changes, taking into account feedback during the consultation period.

### **5.2 Rules applicable to moneylenders**

5.2.1 The proposed revised credit rules for moneylenders will be incorporated into the existing Moneylenders Rules.

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