



RESPONSE TO FEEDBACK RECEIVED – PROPOSED CHANGES TO NET PERSONAL ASSET TEST IN UNSECURED CREDIT RULES

1 Introduction

- 1.1 On 12 August 2014, MAS issued a consultation paper on proposed changes to the Net Personal Assets (“NPA”) test in the unsecured credit rules. The changes aim to align the test and definition of NPA with the proposed modified NPA eligibility test in the Securities and Futures Act (“SFA”) for Accredited Investors (“AIs”) ¹. The consultation paper also included proposed legislative amendments on refinements to the credit card and unsecured credit rules.
- 1.2 Consultation closed on 12 September 2014 and feedback was received from 12 Financial Institutions (“FIs”). MAS has carefully considered the feedback and comments that are of wider interest, together with MAS’ responses reflecting the finalised policies, are set out below. We would like to thank all respondents for their comments.

2 Response to feedback

Proposal 1: The \$2 million NPA test in the credit card and unsecured credit rules should be aligned with the proposed modified NPA eligibility test for Accredited Investors under the SFA such that the net equity in primary residence contributes only up to \$1 million of the minimum \$2m net asset threshold.

A 2-year transition period for FIs’ existing cardholders and unsecured credit borrowers will be provided.

Feedback

- 2.1 Two respondents noted that it was possible for the primary residence to have net equity substantially in excess of S\$1 million and suggested a percentage instead of an absolute dollar threshold to accord more flexibility to banks and customers. Some respondents sought clarification on whether assets held in Personal Investment Vehicles (“PIVs”) and joint accounts would be considered eligible assets for the purpose of the S\$2 million NPA test. Respondents also suggested that guidance be provided on definitions of “primary residence”, “estimated fair market value” and how the value of the primary residence should be determined for joint owners or

¹ Refer to MAS’ consultation paper issued on 21 July 2014 on “Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets”.

owners with multiple properties in different countries. Some respondents also requested that existing customers be exempted from the proposed changes.

MAS' Response

MAS is studying the feedback and suggestions received on the 21 July 2014 consultation paper "Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets" where the modified NPA eligibility test is proposed. MAS will take into account the feedback from the unsecured credit consultation for a holistic review of the proposed modified NPA eligibility test. Pending the completion of the overall review of the NPA eligibility test, the existing NPA definition of S\$2 million will remain unchanged for purposes of exemption from the unsecured credit rules

Proposal 2: Proposed legislative amendments to the Banking (Credit Card and Charge Card) Regulations 2013, MAS Notices 118, 635, 827 and 1109 to reflect refinements to the credit card and unsecured credit rules.

Requirement to obtain updated income documentation

Feedback

- 2.2 Respondents sought confirmation that FIs could continue to rely on Notices of Assessment ("NOA") dated more than three months ago for assessing applications for new credit cards and unsecured credit facilities. They also suggested that instead of checking for the validity of the income documents from point of issuance of the new facilities, the reference point should be three months prior to the receipt of the application by the card issuer. Similarly, for increases in aggregate credit limit, the relevant time frame should be three months from date of application or consent for an increase.

MAS' Response

- 2.3 MAS will amend Regulation 22 to clarify that FIs will be able to rely on the most recent NOA for the purpose of granting a new credit card or unsecured credit facility. However, this flexibility will only be applied to individuals with no fixed monthly incomes, in view that there may not be alternative reliable income documents for which the FIs can rely upon.
- 2.4 To facilitate implementation, MAS will amend the rules to change the point of determining the validity of income documentation from point of issuance of a new card (or increase in credit limit) to point of receipt of application or consent for new cards and credit limit increases.

Consent for temporary credit limit increases

Feedback

- 2.5 Two respondents proposed that the flexibility of not requiring written consent from supplementary cardholders for temporary credit limit increases be extended to permanent credit limit increases, where the party seeking an increase in credit limit is the principal cardholder and he or she is a parent or guardian of the

supplementary cardholder. In such an instance, it was also proposed that the principal cardholder should bear full liability for the credit that exceeds the credit limit previously consented to by the supplementary cardholder.

MAS' Response

- 2.6 Where the permanent credit limit increase is requested by the principal cardholder who is a parent or guardian of a dependent child, MAS is agreeable to provide the flexibility for FIs to not have to seek the supplementary cardholder's explicit written consent for such increases. This is to provide for instances where the principal cardholder requires a permanent credit limit increase for his own personal use but does not see the need to have to seek approval from his dependent child for the increase in limits. However, to protect the supplementary cardholder from any incremental risk and liability resulting from credit increases which have not been requested by himself, the card issuers will be required to waive their contractual right to recover amounts payable from the supplementary cardholder due to the increase in the limits which is in excess of the credit limit the supplementary cardholder previously consented to.

Deposits against which secured cards are issued

Feedback

- 2.7 Respondents highlighted that it may be difficult for a card issuer to monitor and track the deposits against which a card is secured against, if the deposit resides with other banks, merchant banks or finance companies in Singapore. This may translate into longer processing time for the issuance of secured card due to the need to conduct more extensive checks. It may also result in inadvertent breaches as there may not be sufficient information to assess that the deposit is being used to secure only that particular secured card.
- 2.8 Three respondents also sought MAS' clarification on what would be eligible instruments against which credit or charge cards could be secured against, in particular whether deposits must only be in the name of the cardholder, and whether joint deposits and deposits held under a PIC would be allowed.

MAS' Response

- 2.9 The policy intent of the proposed refinement to the rules is to accord flexibility to credit card issuers. The decision of whether to utilise this additional flexibility is up to the respective card issuers. A card-issuing bank can continue to accept only deposits placed with itself as security, if it wishes to.
- 2.10 MAS will not prescribe the types of legal instruments that credit or charge cards can be secured against, as the FIs are in the best position to perform the assessment. FIs will be allowed to take into account joint deposits, deposits placed by PICs or other instruments as eligible deposits for secured cards as long as they can be appropriately ring-fenced for the specific purpose of acting as security for secured cards.

Other issues

- 2.11 A respondent suggested that MAS allow individuals who are younger than 55 years old and with NPA exceeding S\$2 million to qualify for credit cards, even though they may not meet the requirement of minimum of S\$30,000 per annum income.

MAS' Response

- 2.12 MAS views that a minimum annual income requirement is important to ensure that a borrower has stable and regular income streams to meet his debt commitments. FIs are given the flexibility to take into account various income sources in their determination of whether an individual meets the minimum income requirement.
- 2.13 While MAS has allowed individuals above 55 years of age to qualify for an unsecured credit card if they have at least \$750,000 of NPA or annual income of \$15,000, these relaxed criteria are intended as a concession for retirees to be able to continue to access unsecured credit as a convenient mode of payment even after retirement. Secured credit cards are an alternative option which may be viable for such individuals.

MONETARY AUTHORITY OF SINGAPORE
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