

POLICY HIGHLIGHTS SHEET:¹

Proposed change to the industry-wide borrowing limit for unsecured credit

WHAT IS MAS PROPOSING?

Currently, financial institutions may not grant further unsecured credit to an individual whose Balance-to-Income (“BTI”) ratio exceeds the industry-wide borrowing limit for three consecutive months. This means that the FI cannot allow further drawdown of existing credit limits, approve credit limit increases, or grant new credit facilities to such a borrower. The BTI is calculated by dividing the borrower’s outstanding unsecured debt² by his or her monthly income. This borrowing limit is being phased-in from a BTI of 24 times from 1 June 2015, to a BTI of 12 times from 1 June 2019.

To augment the above measures, MAS proposes to disallow FIs from granting (i) new unsecured credit facilities; or (ii) credit limit increases to an individual whose outstanding unsecured debt across all financial institutions has already exceeded 12 times his or her monthly income.

WHY IS MAS PROPOSING THE CHANGE?

Why is there a need for this change when MAS announced in 2015 that the borrowing limit would be phased in to give indebted borrowers more time to adjust?

MAS has observed that some borrowers with BTI above the eventual borrowing limit of 12 times of a borrower’s monthly income are continuing to add to their debts. This will make it more difficult for them to adjust to the eventual borrowing limit when it comes into effect on 1 June 2019. As such, we are proposing this change to help borrowers better manage their outstanding unsecured debts with the final borrowing limit in mind.

The current exclusions for needs based loans (e.g. education, medical) will continue to apply. Borrowers may still apply to FIs for such loans.

WHAT DOES THIS MEAN FOR ME?

The main impact of MAS’ proposals will be on borrowers who are below the prevailing borrowing limit of 24 times but already have a BTI exceeding 12 times.

Under the proposal, if you are such a borrower you will no longer be able to apply for:

- New unsecured credit facilities (such as credit cards, personal loans, etc)³; or
- Credit limit increases on your existing unsecured credit facilities,

until you reduce your BTI to below 12 times.

¹ This PHS is intended to provide an overview, highlight key proposals and issues which MAS would like to seek feedback from the public on. Consumers should read this in conjunction with MAS’ consultation paper, accessible at <http://www.mas.gov.sg/News-and-Publications/Consultation-Paper.aspx>

² This means any interest bearing balances incurred on unsecured credit facilities such as credit cards and unsecured personal loans. Interest bearing balances include amounts rolled over on credit cards and balances outstanding on unsecured loans that accrue interest.

³ Individuals can still apply for needs based loans (e.g. education and medical).

The industry-wide borrowing limit restricts the amount of outstanding unsecured debt and does not impact your credit limit. Therefore, if you have credit limits exceeding 12 times your monthly income but have no outstanding unsecured debts, you will not be affected.

EXPECTED TIMELINE

MAS plans to make legislative amendments to effect the proposals from **1 June 2017**.

We would like to hear from you!

MAS welcomes your feedback, which should be sent by **31 October 2016** to prudential_policy_dept@mas.gov.sg.

In particular, we would like to know:

- Your experiences with applying for new unsecured credit facilities since the implementation of the BTI limit in June 2015; and
- Your thoughts on MAS' proposals to enhance the BTI limit through prohibiting FIs from granting (i) new unsecured credit facilities; or (ii) credit limit increase to borrowers with more than 12 times BTI.