RESPONSE TO FEEDBACK RECEIVED

December 2017

Public Consultation on Proposed Change to the Industry-Wide Borrowing Limit for Unsecured Credit

Monetary Authority of Singapore

Contents

1 Preface

1.1 On 30 September 2016, the Monetary Authority of Singapore ("MAS") sought feedback on its proposal to enhance industry-wide measures to limit unsecured credit to help individuals to avoid over-indebtedness.

1.2 Specifically, MAS proposed to prohibit FIs from granting (i) new unsecured credit facilities; or (ii) credit limit increases, to individuals whose outstanding interest-bearing unsecured debts already exceed 12 times their monthly income[1] at point of application (the "Credit Limit Management Measure" (CLMM)). This aims to further promote prudent lending and borrowing practices, and help individuals manage their debts early before they are affected by the industry-wide borrowing limit – which will be lowered to 12 times of a borrower's monthly income from 1 June 2019.

1.3 The consultation closed on 31 October 2016. MAS thanks all respondents for their feedback. MAS has considered carefully the feedback received, and has revised the proposals where appropriate.

1.4 **After considering further information obtained from the credit bureaus, MAS will lower the threshold of the CLMM from 12 times to 6 times of an individual's monthly income** so as to prevent debt creep earlier. This new rule will take effect on 1 January 2018.

1.5 The list of respondents is detailed in Annex A and the submissions with the names of respondents[2] can be found in Annex B. Comments that are of wider interest, together with MAS' responses, are set out in this response paper.

[1] This would be equivalent to the last phase of the industry-wide borrowing limit, effective 1 June 2019. The current exclusions for needs based loans (e.g. education, medical) will continue to apply under the proposed CLMM.

[2] Submissions from respondents who requested confidentiality would not be reflected in Annex B.

2 General comments

2.1 Some respondents commented that they had not observed an increase in the indebtedness of their borrowers with outstanding unsecured balances exceeding 12 times their monthly income. Given that the industry-wide borrowing limit will continue to be tightened over the next two years and individual financial institutions (FIs) have taken action to manage debt creep for their borrowers, these respondents asked what the underlying policy intent of implementing the CLMM was. Other respondents asked for the enhanced measure to be implemented at a later stage to allow FIs more time to make the necessary system and process changes.

MAS' Response

2.2 MAS recognises and appreciates FIs' proactive efforts to tighten credit policies in support of promoting financial prudence. On the whole, the unsecured debt situation in Singapore remains healthy. Since the implementation of the industry-wide borrowing limit in June 2015, the total number of borrowers with Balance to Income (BTI) ratios exceeding 12 times has fallen by about 21,000. This represents a reduction from 5 percent to below 4 percent of total unsecured borrowers.

2.3 However, even as a significant number of highly indebted borrowers are paying down their debts, we observe that some borrowers continue to increase their outstanding unsecured debts to BTI levels above 12 times. Since January 2017, an average of 4,000 borrowers have increased their unsecured debts to above 12 times their monthly income every month.

2.4 Based on data obtained from the credit bureaus, a borrower with BTI ratio of 6 times is estimated to have, on average, a total approved credit limit of slightly over 12 times his monthly income. As such, to more effectively manage borrowers' debt creep, we will set the CLMM threshold at a lower BTI ratio of 6 times.

2.5 Specifically, under the new measure, where an individual's outstanding unsecured debts exceeds six times his monthly income, an FI will not be allowed to grant:

i) any increase in credit limit; or
ii) any new unsecured credit facilities

that will cause the individual's total approved credit limit to exceed 12 times his monthly income. Borrowers can continue to draw on their existing unutilised unsecured credit limit and facilities.

2.6 With regard to the implementation timeline, MAS has taken into account the operational challenges raised by FIs and has accordingly delayed the implementation timeline from the earlier proposed 1 June 2017 to 1 January 2018.

3 Application of the proposed enhancement

3.1 Broadly, the scope of the types of individuals and credit facilities covered by the CLMM would be the same as the scope of the existing industry-wide borrowing limit. However, whereas the industry-wide borrowing limit seeks to manage the unsecured debts of the stock of borrowers whose unsecured debts already exceed 12 times their monthly income, the new CLMM is intended to manage the flow of borrowers into that group by limiting their ability to accumulate unsecured debts exceeding 12 times their monthly income. We have addressed specific questions on the scope of application of the new measure below.

Types of individuals impacted by the new measure

3.2 Some respondents highlighted that the industry-wide borrowing limit applies only to Singapore citizens and permanent residents. Others noted that the industry-wide borrowing limit does not apply to individuals with annual income of at least S$120,000 (or its equivalent in foreign currency) or total net personal assets exceeding S$2 million (or its equivalent in foreign currency). Respondents sought clarification on whether the proposed CLMM would impact these individuals.

MAS’ Response

3.3 As in the case of the industry-wide borrowing limit, the CLMM will only apply to individuals who are Singapore citizens or permanent residents. Similarly, the CLMM will not apply to borrowers with annual income of at least S$120,000 (or its equivalent in foreign currency) or total net personal assets exceeding S$2 million (or its equivalent in foreign currency).

Temporary credit limit increases

3.4 A few respondents sought clarification on whether they may continue to grant temporary credit limit increases for specific purposes as approved by MAS for individuals whose unsecured debts exceed the CLMM threshold.

MAS' Response

3.5 FIs will be allowed to grant temporary credit limit increases to borrowers whose outstanding interest-bearing unsecured debts exceed the CLMM threshold at point of application. However, as per current process, FIs will need to seek MAS' approval on the specific categories of purposes for which they may grant temporary credit limit increases. These would generally be circumstances where there is a genuine temporary urgent need.

Granting of excluded loans

3.6 A few respondents sought confirmation that they would still be able to grant excluded loans to borrowers whose outstanding interest-bearing unsecured debts exceed the CLMM threshold at point of application.

MAS' Response

3.7 FIs will be able to grant excluded loans such as loans for education or medical purposes (as set out in regulation 6(9) of the Banking (Credit Card and Charge Card) Regulations ("Credit Card Regulations") and paragraph 7(1) of MAS Notice 635) to these borrowers.

Corporate and business cards

3.8 One respondent noted that corporate cards and business cards are currently excluded from the application of the industry-wide borrowing limit, and asked if these cards would continue to be excluded under the CLMM.

MAS' Response

3.9 MAS' rules on unsecured credit are aimed at encouraging prudent borrowing behaviour on the part of individuals and therefore do not apply to businesses or corporates. Accordingly, corporate and business cards will not be subject to the CLMM.

4 Technical Details of Implementation

Reference time frame

4.1 One respondent sought clarification on which point of reference they should take to determine whether a borrower is caught by the CLMM. Specifically, the respondent highlighted that under the rule on industry wide borrowing limit, the FI will be required to suspend an individual's credit facilities only if his outstanding unsecured debts exceed the prevailing borrowing limit for three consecutive months. The respondent would like to know if the three-month period would similarly apply in respect of the CLMM.

MAS' Response

4.2 FIs will only need to look at the latest and most representative outstanding unsecured balances of the borrower at point of application for any (i) new credit facilities; or (ii) credit limit increases. FIs need not reference the borrower's outstanding unsecured balances over the past 3 months.

Borrowers with outstanding debts equivalent to CLMM threshold

4.3 In relation to the proposed legislative amendments, one respondent sought clarification on whether borrowers with outstanding debts exactly equivalent to the CLMM threshold would be subject to the measure.

MAS' Response

4.4 The CLMM will only affect borrowers whose total outstanding unsecured debts exceed 6 times their monthly incomes.

Reliance on credit bureau reports and other information supplied by borrowers

4.5 One respondent sought confirmation that FIs would be able to rely on the credit bureau report to determine whether a borrower's outstanding balances has exceeded the CLMM threshold at point of application for (i) new unsecured credit facilities; or (ii) credit limit increase. This is notwithstanding the fact that the unsecured interest bearing outstanding amounts on the credit bureau report may not be up to date at the point of reference.

4.6 Another respondent sought confirmation that FIs would be able to rely on documentation supplied by the borrower if that contains more updated information on his unsecured balances.

MAS' Response

4.7 FIs should obtain the best and most accurate snapshot of a borrower's credit health at point of application. In this regard, FIs should look to the most recent complete upload from credit bureaus. That said, FIs can also rely on updated balance information provided by the borrower so long as the FI is satisfied that the documentation comes from official sources and the appropriate records are retained. This should be similar to the current process that FIs undertake when processing applications for new facilities or credit limit increases and when checking for compliance with the industry-wide borrowing limit.

Limit apportionment

4.8 One respondent sought confirmation that FIs would still be able to transfer credit limits between a borrower's unsecured credit facilities and his credit cards even if the borrower has outstanding balances exceeding the CLMM threshold at the point of his request. This transfer aims to change the split of his approved credit limit across his unsecured credit facilities.

MAS' Response

4.9 FIs will be allowed to change the apportionment of a borrower's approved credit limit across his unsecured credit facilities and credit cards, even if his total outstanding unsecured balance exceeds 6 times his monthly income. This is provided that he is not granted any new unsecured credit facilities or increase in credit limits that would result in his total credit limit across all FIs exceeding 12 times his monthly income.

4.10 To illustrate this, we assume that a borrower has a monthly income of $4,000 and an unsecured credit facility with a $9,000 credit limit and a credit card with a $5,000 credit limit. We also assume that his total outstanding unsecured balances and total approved credit limit across all creditor FIs exceed 6 times and 12 times his monthly income respectively. If this borrower requests to transfer $5,000 credit limit from his unsecured credit facility to his credit card, his unsecured credit facility's new credit limit will be $4,000 and his credit card's new credit limit will be $10,000. This transfer of credit limit is permissible since there have been (i) no new unsecured credit facilities granted; and (ii) no increase in total approved credit limit for the borrower. If the borrower's total approved credit limit, aggregated across all his creditor FIs, is less than or equal to 12 times his monthly income, FIs will be able to grant him new credit facilities or credit limit increases. The new facilities and credit limit increases, when aggregated with his existing credit limits, will be capped at a total of 12 times his monthly income.

New credit card with no increase in credit limit

4.11 One respondent sought clarification on whether FIs would be able to issue new credit cards to a borrower with outstanding balances exceeding the CLMM threshold, if that does not result in any credit limit increase.

MAS' Response

4.12 Additional credit cards from an FI whom a borrower has an existing unsecured credit relationship with are not deemed to be new unsecured credit facilities, as long as there is no increase in the aggregate credit limit (as defined in the Credit Card Regulations).

4.13 To clarify, if the FI has no existing unsecured credit relationship with the borrower, that FI will not be able to offer new unsecured credit facilities to that borrower. This is unless the borrower has total approved credit limit of less than 12 times, in which case, new facilities can be granted to the borrower subject to the condition that the new facilities, when aggregated with his existing credit facilities and limits, are capped at a total of 12 times his monthly income.

Reinstatement of a borrower's unsecured credit facilities

4.14 One respondent sought clarification on whether FIs would be able to re-instate a borrower's suspended unsecured credit facilities or credit cards if his outstanding balances are less than the prevailing industry-wide borrowing limit but higher than the CLMM threshold.

MAS' Response

4.15 The intent of the CLMM is to prevent an increase in indebtedness for borrowers who already have a high level of unsecured debts. This will minimise the potential impact of the final phase of the industry-wide borrowing limit, which will come into effect on 1 June 2019. Accordingly, we have highlighted in the consultation paper that the CLMM would apply to (i) new unsecured credit facilities; and (ii) credit limit increases. However, borrowers remain able to draw down on their existing facilities and lines.

4.16 For the purposes of implementing the CLMM, MAS will not treat suspended unsecured credit facilities or credit cards that are under consideration for reinstatement as new unsecured credit facilities. Therefore, for a borrower who was suspended (for example as a result of the industry-wide borrowing limit or the 60 days past due rule), FIs will be allowed to lift that suspension and reinstate the borrower's facilities, even if his

BTI ratio and total approved credit limit have exceeded 6 times and 12 times his monthly income respectively. Before re-instating his suspended unsecured credit facilities, FIs must ensure that the borrower meets the necessary income and credit bureau checks in Regulation 16(4) or Regulation 17(6) of the credit card regulations or their equivalent in Notice 635.

4.17 However, if the reinstatement of a borrower's unsecured credit facilities also involves an increase in the borrower's credit limit, the CLMM will apply.

Eligibility for Debt Consolidation Plan (DCP)

4.18 One respondent sought clarification on whether borrowers with outstanding unsecured debts exceeding the CLMM threshold would be eligible for DCPs. This is because DCPs have a concessionary credit component (capped at the borrower's monthly income) and a 5% debt buffer to account for any late fees or interest charges incurred.

MAS' Response

4.19 MAS encourages borrowers who require assistance in gradually paying down their unsecured debts to apply for a debt repayment plan that best suits their situation. Borrowers who are affected by the CLMM can apply for DCPs if they meet the FIs' specified criteria.

Annex A

LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED CHANGE TO THE INDUSTRY-WIDE BORROWING LIMIT FOR UNSECURED CREDIT

1. Australia and New Zealand Banking Group Limited, Singapore Branch
2. Bank of China Limited, Singapore Branch
3. Citibank Singapore Limited
4. Royal Bank of Canada, Singapore Branch
5. United Overseas Bank Limited
6. Respondent A who requested confidentiality of identity
7. Respondent B who requested confidentiality of identity
8. Respondent C who requested confidentiality of identity

Please refer to Annex B for the full submissions from respondents.

Annex B

SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED CHANGE TO THE INDUSTRY-WIDE BORROWING LIMIT FOR UNSECURED CREDIT

S/N	Respondent	Full Responses from Respondent
1	Australia and New Zealand Banking Group Limited, Singapore Branch	How should banks treat individuals whose BTI is at exactly 12 times monthly income? We note that paragraph 1.3 of the consultation paper makes reference to “individuals whose outstanding unsecured debt already exceed 12 times their monthly income” while the proposed amendments to the Banking (Credit Card and Charge Card) Regulations 2013 make reference to individuals whose cumulative total outstanding unsecured amount is “less than 12 times his monthly income.
2	Bank of China Limited, Singapore Branch	The bank is of the view that the overall debt of our unsecured customers is on the declining trend. Moreover, borrowing limit is already in place and set at 24 times monthly income currently; 18 times monthly income from 1 June 2017; and 12 times monthly income from 1 June 2019. Thus, there is no urgency to restrict the granting of new unsecured credit facilities / credit limit increases to those borrowers with outstanding unsecured debts exceeding 12 times their monthly income at this juncture. Nevertheless, the bank would like to highlight that if the proposed change to the industry-wide borrowing limit for unsecured credit is implemented, the bank will be able to comply with the new requirement.
3	Citibank Singapore Limited	However, for the group of customers who stand to be impacted by the proposed changes, we respectfully submit that an early implementation of the 12X regulation is likely to inconvenience customers ahead of the regulation timelines originally proposed (12x only being implemented in 2019), and likely cause their credit performance to worsen. We would like to request for the timeline for the proposal to be moved from 1 June 2017 to January 2018 for the following reasons: ➢ Banks are already in the midst of implementing system changes to comply with the 18x BTI requirement coming into force in June 2017. We therefore request MAS to consider delaying the implementation of this consulted

S/N	Respondent	Full Responses from Respondent
		proposal to January 2018 so that banks can dedicate the necessary resources and focus. ➢ It provides adequate time for banks to prepare for process changes required, i.e. adequate capacity for Collections, customer communication, monitoring & tracking process etc. In footnote 4 of MAS' Consultation Paper, MAS indicates that the "current exclusions for need based loans (e.g. education, medical) will continue to apply" notwithstanding that the MAS is proposing to disallow FIs from granting (i) new unsecured credit facilities; or (iii) credit limit increases to individuals whose outstanding unsecured debt already exceeds 12 times their monthly income. In this regard, we would like to confirm that Banks may continue to perform temporary credit limit increases on both the main and supplementary cardholders' cards (at the written request of the main cardholder only) and notwithstanding that the cardholders' cumulative total outstanding unsecured amount is equal to or more than 12 times his monthly income.
4	Royal Bank of Canada, Singapore Branch	Paragraph 17(3)(a) of the MAS Notice 635 allows banks to grant any unsecured non-card credit facility to the individual, or increase the individual's aggregate credit limit by any amount if the individual has an annual income of at least $120,000 (or its equivalent in foreign currency) or his total net personal assets exceed $2 million (or its equivalent in foreign currency), even where his cumulative total outstanding unsecured amount exceeds his specified income for 3 consecutive months. We would like to clarify if the exemption in Paragraph 17(3)(a) with respect to the granting of unsecured credit facilities and increasing of aggregate credit limit to the above group of borrowers would extend to the proposed amendments to the unsecured credit legislation to prohibit FIs from granting new unsecured credit facilities or credit limit increases to borrowers with outstanding debts exceeding 12 months their monthly income.
5	United Overseas Bank Limited	1) The term "unsecured credit limit" has not been defined in MAS Notice 635. We would suggest for the definition to be prescribed in the Notice. 2) We understand the intention of the regulatory change is an attempt to control the number of individuals who increase their overall indebtedness to beyond their annual income through applying for new unsecured facilities or increasing their existing unsecured credit limit. Currently, the industry wide borrowing limit only prohibits financial institutions ("FIs") from granting further

S/N	Respondent	Full Responses from Respondent
		unsecured credit to individuals whose outstanding unsecured debts exceed the industry-wide borrowing limit for three consecutive months. However the above proposal appears to prohibit FIs from granting (i) new unsecured credit facilities; or (ii) credit limit increases to borrowers with outstanding unsecured debts exceeding 12 times their monthly income at time of application. It appears that this proposal is more stringent than the industry wide borrowing limit. The bank has a robust credit system which takes into account customers' overall indebtedness. Since the introduction of the Balance-To-Income ("BTI") 2 years ago, we have tightened our credit policies to ensure that the bank does not approve unsecured facilities applications / credit limit increases of customers with high risk profile and behaviour. Therefore, we are of the view that there is no need for this regulatory change, as we may end up penalizing consumers who are financially healthy (but with a BTI more than 12x for only 1 or 2 months). The overall unsecured credit should also be retained to 18x and dispense with the 2019 implementation of 12x. Alternatively, the restriction of 12x should be imposed on only new credit extension (ie new applications and limit increase) and not limiting usage of existing limits that have been granted (as was done last year at 24x). 3) Business loans granted to Sole Proprietorship and Partnership are currently excluded from the industrywide borrowing limit. We note the primary objective of MAS's proposed revision is to reduce individual's unsecured borrowing for personal consumption. As such, we understand that business loans would continue to be excluded. In addition, we would suggest for this exclusion to be clearly stated in the legislative amendments. 4) Similarly, corporate cards and business cards are currently exempted from the requirement to limit borrowing limit of BTI to 24x. We understand that corporate cards and business cards would continue to be exempted in the proposed change. We would suggest for this exclusion to be clearly stated in the legislative amendments. 5a) Is limit apportionment allowable if a customer's BTI is more than 12x? For example, a customer having both Credit Card ("CC") and CashPlus ("CP") facilities may have a $5K CC limit and a $9K CP limit. The total exposure would be $14K. The customer could request for a transfer of $5K CP limit to his CC limit. After the

S/N	Respondent	Full Responses from Respondent
		apportionment, his CC limit would be $10K and CP limit would be $4K. Total exposure remains at $14K. 5b) In a scenario where an additional card is requested and the bank has verified (from the income documents submitted) that BTI exceeded 12x for this application, is the bank allowed to issue the credit card without any credit limit increase? 5c) For reinstatement, if a customer's BTI is less than the industry borrowing limit BTI (i.e. less than 18x by June 2017) but BTI is still above 12x, is the bank allowed to reinstate the card? 5d) As we are aware, information (i.e. unsecured interest-bearing outstanding) on the credit bureau reports may not be up to date (e.g. at the beginning of the month where data has yet to be uploaded). For scenarios where BTI did not exceed 12x as reflected on the credit bureau reports, is the bank allowed to rely on such status when performing our assessment for credit card applications? 5e) Would the proposed change be applicable to temporary credit limit increase?

Monetary Authority of Singapore