Monetary Authority of Singapore

GUIDELINES ON THE APPLICATION OF TOTAL DEBT SERVICING RATIO FOR PROPERTY LOANS UNDER MAS NOTICES 645, 1115, 831 AND 128

June 2013

[Revised on 1 September 2016]

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1 INTRODUCTION

1.1 Financial Institutions ("FIs") are expected to maintain sound practices in managing their credit risk.[1] Prudent credit underwriting should entail careful and comprehensive assessment by FIs of borrowers' repayment capabilities. Where the borrower is an individual, MAS expects FIs to consider the income level and outstanding debt obligations of the borrower in assessing debt repayment capability.

1.2 MAS Notices 645, 1115, 831 and 128 (collectively, the "Notices") require FIs to compute the total debt servicing ratio ("TDSR") of a Borrower applying for any credit facility set out in paragraph 3 of the Notices ("property loan"). The TDSR will facilitate FIs' assessment of the Borrower's repayment ability. It will also encourage financial prudence, as it will help to ensure that borrowers are not overleveraged in their property purchases. MAS expects FIs to have internal policies and procedures in place to implement the Notices. These Guidelines set out MAS' further expectations regarding an FI's application of the TDSR.

1.3 The expressions used in these Guidelines have, except where expressly defined in these Guidelines or where the context otherwise requires, the same meanings as that in the Banking Act and the Notices.

1.4 These Guidelines take effect on 29 June 2013.

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[1] Please refer to MAS' Guidelines on Risk Management Practices – Credit Risk (http://www.mas.gov.sg/~/media/MAS/Regulations%20and%20Financial%20Stability/Regulatory%20and%20Supervisory%20Framework/Risk%20Management/Credit%20Risk.pdf).

2 TDSR THRESHOLD

2.1 FIs should incorporate the TDSR in their credit assessment frameworks for property loans. FIs should set appropriate and prudent TDSR thresholds in credit assessment, to ensure that property loans granted are commensurate with the institutions' risk appetite. FIs should also set out clearly the rationale behind any differentiated TDSR thresholds applied, taking into consideration factors such as the risk profile of the Borrower and purpose of the property loan. TDSR thresholds should be reviewed periodically to ensure their continued relevance.

2.2 MAS expects property loans granted by an FI to not exceed a TDSR threshold of 60%. Property loans in excess of the TDSR threshold of 60% should only be granted on an exceptional basis and FIs should clearly document the basis for granting property loans in excess of the TDSR threshold of 60%.

2.3 In addition, processes should be in place to subject such exceptional cases to:

- Enhanced credit evaluation, including:
  - approval for the policies and procedures from the board of directors of the FI[2]; and
  - approval of individual cases by the credit committee of the FI.

- Reporting to MAS. The report should minimally include information on the profile of the borrowers (e.g. age and income), details of the loan being granted (e.g. TDSR, loan-to value ratio and loan tenure), as well as the basis for the exceptional approval. MAS will inform FIs of the list of data items required.

[2] In the case of an FI incorporated outside Singapore, approval may be obtained from the senior management of the FI instead.

3 OWNER-OCCUPIED PROPERTIES[3]

3.1 In the case of a Borrower applying for a credit facility 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 instalment in respect of the Borrower's outstanding credit facility for an existing Residential Property, in computing the TDSR for the HDB Flat or the EC, as the case may be, provided that at the time of applying for such a credit facility, the Borrower has –

(a) only one existing Residential Property that he owns, either by himself or jointly, and for which he will be taking steps to sell;

(b) an outstanding credit facility (either in his own name or jointly with another Borrower) for the purchase of the existing Residential Property or the re-financing of such a credit facility;

(c) no outstanding credit facility (either in his own name or jointly with another Borrower) for the purchase of Property or the re-financing of such a credit facility, apart from the credit facility in paragraph 3.1(b);

(d) no outstanding credit facility (either in his own name or jointly with another Borrower) otherwise secured on any Property, including the Residential Property referred to in paragraph 3.1(a), or the re-financing of such a credit facility; and

(e) no Property other than the existing Residential Property referred to in paragraph 3.1(a) that he owns, either by himself or jointly.[4]

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[3] Under paragraph 3(b)(i) of the Notices, an FI is not required to compute the TDSR of a Borrower who applies for a re-financing facility in respect of a credit facility for the purchase of a Residential Property where the Residential Property is for the occupation of one or more persons which shall include the Borrower. Accordingly, the TDSR threshold of 60% need not apply in such a case. Nonetheless, the Borrower should satisfy the FI's credit assessment criteria.

[4] An FI should obtain documentary evidence to verify paragraphs 3.1(a) to (e), which 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 credit facility for the purchase of Property or the re-financing of such a credit facility, apart from that for the existing Residential Property;

  (C) he has no outstanding credit facility otherwise secured on any Property, including the existing Residential Property, or the re-financing of such a credit facility;

  (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 credit facilities for the purchase of or otherwise secured by Property, or the re-financing of such credit facilities, which are held by the Borrower (either in his own name or jointly with another Borrower).

4 NON OWNER-OCCUPIED PROPERTIES[5]

4.1 In the case of a re-financing facility in respect of a credit facility for the purchase of a Property where the Property is not a Residential Property for the occupation of one or more persons which shall include the Borrower, or a re-financing facility in respect of a credit facility otherwise secured by a Property, an FI should only grant such a re-financing facility in excess of the TDSR threshold of 60% in the following circumstances:

(a) the Borrower satisfying the FI’s credit assessment criteria; and

(b) the Borrower committing to a Debt Reduction Plan with the FI at the time of application of the re-financing.

[5] Paragraphs 3(b)(ii) and (d) of the Notices set out certain situations where an FI is not required to compute the TDSR of a Borrower who applies for a re-financing facility in respect of a credit facility for the purchase of a Property or a re-financing facility in respect of a credit facility otherwise secured by a Property. Accordingly, the TDSR threshold of 60% need not apply in such cases. Nonetheless, the Borrower should satisfy the FI’s credit assessment criteria. Paragraph 4.1 of these Guidelines is in respect of a situation where an FI computes the TDSR of a Borrower and the computed TDSR exceeds the threshold of 60%.