

MAS Notice 612A

15 March 2021

Last revised on 29 June 2021

NOTICE TO BANKS

BANKING ACT, CAP. 19

Credit Files, Grading and Provisioning – COVID-19

Introduction

This Notice is issued pursuant to section 55(1) of the Banking Act (Cap. 19) and applies to all banks in Singapore. It sets out the credit grading treatment, for credit facilities granted support measures by banks in response to the on-going novel coronavirus (“COVID-19”) outbreak, for the period beginning on 1 January 2021 and ending on 31 December 2021 (both dates inclusive).

2 In this period of disruption, banks have granted some borrowers extended loan repayment moratoriums. This was in recognition that the default risk for borrowers who faced only shorter-term liquidity issues could be lowered if they were given more time to resume loan repayments as economic activity recovers. In conjunction with the extraordinary fiscal support measures for households and corporates, a longer adjustment period for creditworthy borrowers would be helpful towards the broader economic recovery and overall loan quality.

3 This Notice sets out the requirements for classifying a credit facility in the context of the unique environment that banks and their customers currently operate in. It clarifies that for the period stipulated herein, a bank is not required to classify a credit facility of a borrower, just because the borrower is granted extended credit support measures. Banks should instead holistically assess a borrower’s ability to fully repay its credit facilities, taking into consideration the impact of the support provided by the bank to the borrower in response to COVID-19, either through standardised relief programs, such as those announced on 5 October 2020 by MAS and the financial industry, or other support measures offered by the bank.

Definitions

4 The expressions used in this Notice shall, except where defined in this Notice or where the context otherwise requires, have the same respective meanings as in the Banking Act.

5 For the purposes of this Notice –

“annual sales turnover”, for a relevant period and in relation to an undertaking, means —

- (a) if the relevant period is a business year that consists of 12 months, the sales turnover of that undertaking in that business year; or
- (b) if the relevant period is a business year that does not consist of 12 months or is a business commencement period, the amount calculated using the formula $(S/B) \times 12$, where —
 - (i) S is the sales turnover of that undertaking in that business year or business commencement period; and
 - (ii) B is the number of months in that business year or business commencement period;

“business commencement period”, in relation to an undertaking, means the period between the date of commencement of the business operations of the undertaking and 1 January 2021 (both dates inclusive);

“business year” means a period in respect of which an undertaking prepares or is required to prepare accounts;

“employee” means an individual who has entered into or works under a contract of service with an employer;

“loan repayment deferment period”, in relation to a loan granted by a bank to an SME, means the total period where the loan repayment terms have been changed, to defer the repayment of the principal or interest, or both, or any part thereof, as described in paragraph 10, beginning on the earliest date on or after 1 January 2020 where the SME was first granted such a deferment;

[MAS Notice 612A (Amendment) 2021]

“Property” has the same meaning as in MAS Notice 645;

“Re-financing Facility” means—

- (a) any credit facility granted for the sole purpose of enabling an individual to repay—
 - (i) the balance outstanding under a credit facility obtained by the individual for the purchase of Property; or
 - (ii) the balance outstanding under a credit facility obtained by the individual for the refinancing of any credit facility in respect of the purchase of Property;
- (b) any credit facility granted for the sole purpose of enabling an individual to repay—
 - (i) the balance outstanding under a credit facility obtained by the individual which is otherwise secured by Property; or

- (ii) the balance outstanding under a credit facility obtained by the individual for the re-financing of any credit facility otherwise secured by Property;

“relevant loan” means a Type 1 relevant loan or a Type 2 relevant loan;

“relevant period”, in relation to an undertaking, means—

- (a) the business year of the undertaking immediately preceding 1 January 2021; or
- (b) if there is no such business year, the business commencement period of the undertaking;

[Deleted by MAS Notice 612A (Amendment) 2021]

“revised loan repayment terms” means the revised loan repayment terms mentioned in paragraphs 6(a) or 6(b), whichever is applicable;

“sales turnover”, in relation to an undertaking, means the aggregate of the following amounts, after deducting sales rebates, goods and services tax and other taxes directly related to those amounts:

- (a) the amounts derived by that undertaking from the sale of products and the provision of services falling within the ordinary activities of that undertaking;
- (b) any other amounts derived from the business operations of that undertaking, but excluding gains from the sale of fixed assets, donations, grants, subsidies, subscriptions, interest, dividends, goods purchased for resale and investment income;

“Small and Medium-size Enterprises” or “SME” means an undertaking that—

- (a) in the relevant period, has an annual sales turnover of not more than \$100 million; or
- (b) has not more than 200 employees as at the date of application for the loan mentioned in paragraph 10.

“Type 1 relevant loan” means any of the following:

- (a) any credit facility granted to an individual for the purchase of Property;
- (b) any credit facility granted to an individual that is otherwise secured by Property;
- (c) any Re-financing Facility;

“Type 2 relevant loan” means any of the following:

- (a) any credit facility granted to an individual for the purposes of renovation where the lender who granted the renovation loan has taken reasonable steps to ascertain that the proceeds of the renovation loan will only be applied

towards the defraying of the costs of renovations which have been made or will be made;

- (b) any credit facility granted to an individual for the purposes of defraying the expenses which are directly attributable to a course of education, including tuition fees and the costs of accommodation, textbooks and computer equipment, where the lender who granted the loan has taken reasonable steps to ascertain that the proceeds of the loan will only be applied towards the defraying of such expenses;

“undertaking” means any individual, or any body corporate, unincorporated body of persons or other entity, that is capable of carrying on commercial or economic activities relating to goods or services, but excludes a body corporate or unincorporate established by or under any public Act to perform or discharge a public function.

Grading of Credit Facilities for Individuals

6 For the period beginning on 1 January 2021 and ending on 31 December 2021 (both dates inclusive), paragraphs 4.3 and 4.5 of MAS Notice 612 do not apply to any relevant loan, if all of the following conditions are met:

- (a) in the case of a Type 1 relevant loan, upon the borrower’s request, the loan repayment terms have been revised as follows:
 - (i) the monthly instalments have been reduced such that only interest, or interest and part of the principal amount, are payable (“reduced monthly instalment”);
 - (ii) where the tenure of the relevant loan has been extended, the tenure of the relevant loan has been extended by not more than 3 years; and
 - (iii) the period for which the reduced monthly instalment is payable begins on the date the borrower’s request is approved and ends no later than 31 December 2021 (both dates inclusive);
- (b) in the case of a Type 2 relevant loan, upon the borrower’s request, the tenure of the relevant loan has been extended by not more than 3 years;
- (c) the borrower had previously requested, in relation to the same relevant loan, to defer the repayment of:
 - (i) the principal or any part of the principal;
 - (ii) the interest or any part of the interest; or
 - (iii) both (i) and (ii)during the period beginning from 1 January 2020 to 31 December 2020 (both dates inclusive).
- (d) the borrower is not more than 90 days past due on its principal or interest or both, prior to period of revised loan repayment terms.

Credit facility grading during the probation period

7 A bank must classify a relevant loan referred to in paragraph 6 when the principal, interest, or both, becomes past due for more than 30 days during the period that the revised loan repayment terms are applicable, or during the first nine months of entering into the revised loan repayment terms, whichever is shorter (referred to in paragraph 7, 8 and 9 as the “probation period”).

Credit facility grading after the probation period

8 After the probation period, a bank must, at the minimum, classify a relevant loan when the principal or interest, or both becomes past due for more than 90 days.

Upgrading of credit facility during and after the probation period

9 A bank may restore a classified credit facility to unclassified status only when:

- (a) The bank has received repayment of the past due principal and interest in accordance with the applicable loan repayment terms during or after the probation period (“applicable loan repayment terms”); and
- (b) The bank expects repayment of the remaining principal and interest in accordance with the applicable loan repayment terms.

Grading of Credit Facilities for SMEs

10 For the period beginning on 1 January 2021 and ending on 31 December 2021 (both dates inclusive), paragraphs 4.3 and 4.5 of MAS Notice 612 do not apply to any loan granted by any bank to an SME, if the loan repayment terms have been changed on or after 1 January 2020, to defer the repayment of the principal or interest, or both, or any part thereof for a period of more than nine months (“relevant SME credit facility”).

Credit facility grading during the SME loan repayment deferment period

11 A bank must classify a relevant SME credit facility when the repayment of the principal or interest, or both, or any part thereof is deferred for more than 18 months, beginning on the earliest date on or after 1 January 2020 where the borrower was first granted such a deferment.

[MAS Notice 612A (Amendment) 2021]

Credit facility grading after the SME loan repayment deferment period

12 After the loan repayment deferment period, banks would typically restructure the borrower's obligations under a new SME credit facility ("relevant new SME credit facility"). A bank must classify a relevant new SME credit facility if it is extended under non-commercial terms.

13 For the purposes of paragraph 12, the bank may only consider the modified loan repayment terms to be commercial if—

(a) all of the following conditions are satisfied:

- (i) the bank has assessed that the borrower has a viable business model;
- (ii) the bank has assessed that the borrower would likely be able to repay on the modified loan repayment terms;
- (iii) the modified loan repayment terms of the relevant new SME credit facility are similar to what the bank would have offered to a new borrower with similar risk profile, at the time the relevant new SME credit facility is entered into;

or

(b) the instalment amount and interest rate of the relevant new SME credit facility are more than or equal to that under the original repayment terms, entered into prior to the loan repayment deferment period.

[MAS Notice 612A (Amendment) 2021]

Monitoring of repayment conduct during and after the SME loan repayment deferment period

14 A bank must classify every SME credit facility:

- (a) in the case of a relevant SME credit facility, where the principal, interest, or both, becomes past due for more than 30 days during the loan repayment deferment period; and
- (b) in the case of a relevant new SME credit facility, where the principal or interest, or both is past due for more than 30 days, during the first six months of entering into the relevant new SME credit facility (referred to in this paragraph as the "SME probation period"). After the SME probation period, a bank must, at the minimum, classify a relevant new SME credit facility where the principal or interest, or both is past due for more than 90 days, or where any other form of repayment conduct weakness is exhibited.

15 Paragraph 14(a) does not apply to a relevant SME credit facility if it was previously classified in accordance to paragraph 11 and was subsequently restored to unclassified status.

For such relevant SME credit facilities, a bank must, at the minimum, classify such credit facilities where the principal or interest, or both, is past due for more than 90 days, or where any other form of repayment conduct weakness is exhibited.

16 Paragraph 14(b) does not apply to a relevant new SME credit facility:

- (a) if it was previously classified in accordance to paragraph 12 and was subsequently restored to unclassified status; or
- (b) where the instalment amount and interest rate of the relevant new SME credit facility are more than or equal to that under the original repayment terms, entered into prior to the loan repayment deferment period.

[MAS Notice 612A (Amendment) 2021]

For such relevant new SME credit facilities, a bank must, at the minimum, classify such credit facilities where the principal or interest, or both, is past due for more than 90 days, or where any other form of repayment conduct weakness is exhibited.

17 For the purposes of paragraphs 14(b), 15, and 16, “other form of repayment conduct weakness”, in relation to a relevant SME credit facility or relevant new SME credit facility, as the case may be, refers to:

- (a) if the relevant SME credit facility or relevant new SME credit facility, as the case may be, is a revolving credit facility¹, where the outstanding amount, including interest, has remained in excess of the approved limit for a period of more than 90 days; or
- (b) if the bank assesses that the relevant SME credit facility or relevant new SME credit facility, as the case may be, exhibits weaknesses described in paragraphs 4.2 (c), (d) or (e) of MAS Notice 612 and assess that the credit facility should be categorised as substandard, doubtful or loss, where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or less.

Upgrading of credit facility during and after the SME loan repayment deferment period

18 A bank may restore a classified credit facility to unclassified status only when the bank has received repayment of the past due principal and interest in accordance with the loan repayment terms and the bank expects repayment of the remaining principal and interest in accordance with the terms of the loan repayment terms.

¹ For example, an overdraft.

Effective Date

19 This Notice takes effect on 16 March 2021.

***Notes on History of Amendments**

1. MAS Notice 612A (Amendment) 2021 dated 29 June 2021 with effect from 30 June 2021.

Guidance Notes:

For the purposes of paragraph 13, factors in assessing the viability of a borrower's business model include whether the borrower is able to continue its operations for the foreseeable future, and whether the borrower is able to operate as a going concern in realising its assets and discharging its liabilities in the normal course of business. An increase in the borrower's sales turnover, upon an easing of COVID-19 restrictions, such as the lifting of circuit breaker measures implemented by the Ministry of Health, is a possible indication of viability in business model.