

MAS 1012

01 Nov 1985

NOTICE TO MERCHANT BANKS

Credit Facilities to a Single Borrower or Group of Borrowers

In compliance with [Directive 8](#), issued under Section 24C(3) of the MAS Act, no merchant bank shall grant or permit to have outstanding credit facilities to a single borrower or any group of borrowers which such borrower, is able to control or influence such credit facilities, in the aggregate in excess of 30% of capital funds of the merchant bank. The limit may be increased to a minimum of 100% of a merchant bank's capital funds provided:-

- a) the credit facilities in excess of the 30% legal lending limit are legally guaranteed by its head office or shareholder(s); or
- b) the capital base of the merchant bank is enlarged through an increase in paid-up capital or subordinated loans from its head office or shareholder(s). In the case of subordinated loans, the following terms and conditions (or such other terms and conditions which the Authority may impose from time to time) would have to be complied with:-
 - the subordinated loan must have a minimum 7-year original maturity;
 - it must be extended for a further term once the unexpired term falls below 2 years. Subsequent extensions must be made so long as the subordinated loan is required for compliance with the single customer lending limit;
 - it must not have any performance or other unduly restrictive covenants attached which may trigger immediate or early repayment;
 - it must not have any cross-default clauses and negative pledges; and
 - it must be automatically converted into capital to provide a cushion for losses arising from bad and doubtful debts if an appropriate reconstruction of the capital of the merchant bank, which is acceptable to the Authority, has not been undertaken.

2 The restriction of 30% or 100% shall apply to the limit of the credit facilities granted, or to the amount outstanding, whichever is the higher. For fully-disbursed term loans, the 30% or 100% limit shall apply to the amount outstanding.

Existing Credit Facilities

3 Merchant banks which have outstanding credit facilities in excess of the 30% limit prior to 1 Nov 85 would be given a 2-year grace period to comply with the new limit. Only existing fixed term credit facilities in the process of being repaid according

to the agreed repayment schedules may be allowed to run down in the event that they still exceed the 30% limit after the grace period. No further extension will be given. After the grace period, credit facilities in excess of the 30% limit but not in excess of 100% of the merchant bank's capital funds, would have to be supported either by a guarantee from the merchant bank's head office/shareholder(s) or an enlarged capital base through either the increase in paid-up capital or subordinated loans, as stated in paragraph 1.

4 Merchant banks are required to submit a list of outstanding credit facilities in excess of the 30% limit by 1 Dec 85 so as to enable the Authority to monitor compliance with the limit.

5 The general guidelines given in the [Appendix](#) are intended to assist merchant banks in determining when credit facilities granted to various borrowers have to be aggregated for the purpose of Directive 8. As these guidelines would not cover all situations, merchant banks are free to aggregate the credit facilities granted to companies in a group even if the guidelines indicated that they could be treated as separate risks. Any merchant bank that has doubts should contact the Banking and Financial Institutions Department for clarification.