

Circular No. BD 14/2004

30 December 2004

The Chief Executive Officers of All Banks/ Finance Companies/ Merchant Banks

Dear Sir/ Madam

CASH REBATES OFFERED FOR HOUSING LOANS

MAS is aware that financial institutions have been offering cash rebates to borrowers for housing loans. While cash rebates that were small relative to the cash down payment required have not been a matter of concern, it has come to our attention that the amounts of such rebates have progressively increased. These cash rebates, if disbursed within a short time after the cash down payment has been made, have the effect of assisting borrowers to meet the cash down payment required under MAS' Notices on Housing Loans¹. This is inconsistent with the policy intent of the housing loan rules which require the cash down payment to be made by borrowers using their own finances.

2 Given these developments and to ensure a level playing field amongst all financial institutions, MAS takes the view that cash rebates of any amount, if disbursed within a year from the date the cash down payment is completely paid up by the borrower, would assist the borrower to meet the cash down payment. Such rebates are therefore not permitted under MAS' housing loan rules.

3 This circular will apply to all loan applications received from 6 January 2005 where the aggregate of the cash rebate together with the total quantum of credit facilities obtained from financial institutions or the property seller for the purchase of the property exceeds the maximum amount of financing² permitted under MAS' Notices on Housing Loans.

4 Financial institutions are reminded that they should not offer any scheme that has the effect of assisting the borrower to meet the cash down payment.

Yours faithfully

LOW KWOK MUN
EXECUTIVE DIRECTOR
PRUDENTIAL POLICY DEPARTMENT
PRUDENTIAL SUPERVISION GROUP

¹ MAS' Notices on Housing Loans refer to:

MAS Notice 632 on Housing Loans issued to Banks,
MAS Notice 1106 on Housing Loans issued to Merchant Banks,
MAS Notice 825 on Housing Loans issued to Finance Companies, and
MAS Notice 115 on Housing Loans issued to Direct Insurers.

² The maximum amount of financing is the "relevant amount" referred to in MAS' Notices on Housing Loans.

To illustrate, a borrower purchases a property for \$500,000 and pays the down payment with \$50,000 cash and \$50,000 CPF monies. He obtains a loan from the bank of \$400,000. The bank offers a cash rebate of \$10,000. The cash rebate is subject to the guideline as the aggregate of the rebate and loan quantum (\$410,000) exceeds the relevant amount (\$400,000). The rebate may only be disbursed after one year from the date the \$50,000 cash down payment is paid in full.

For the same property, if the borrower funds the purchase with \$75,000 cash, \$25,000 CPF monies and bank loan of \$400,000, the cash rebate of \$10,000 will be subject to the guideline as the aggregate of the rebate and loan quantum (\$410,000) exceeds the relevant amount. The rebate may only be disbursed after one year from the date the \$75,000 cash down payment is paid in full.

For the same property, if the borrower funds the purchase with \$100,000 cash, \$50,000 CPF monies and bank loan of \$350,000, the cash rebate of \$10,000 will not be subject to the guideline as the aggregate of the rebate and loan quantum (\$360,000) does not exceed the relevant amount.

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