

Circular No. BD 04/2005

1 March 2005

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

Dear Sir/ Madam

**CENTRAL PROVIDENT FUND BOARD'S MEASURES TO ADDRESS
CASHBACK TRANSACTIONS FOR RESALE HDB FLATS**

Central Provident Fund Board (“CPFBoard”) announced measures on 21 February 2005 to address ‘cashback’ transactions relating to Housing Development Board (“HDB”) resale flat purchases.

2 From 1 April 2005, CPFBoard will require a valuation report from a private valuer assigned by HDB for CPF members using bank financing and their CPF savings for the purchase of HDB resale flats. This valuation will be used to determine the CPF lump sum and the maximum housing loan that will be accorded priority ranking. Any housing loan granted in excess of 80% of this valuation will rank after the CPF and HDB charges.

3 MAS’ Notices on Housing Loans¹ limit the maximum quantum of financing for residential property purchases to 80% of the purchase price or valuation of the property, whichever is lower. This requirement is intended to provide a 20% prudent buffer for financial institutions offering housing loans against any decline in property prices. The effect of CPFBoard’s decision on the ranking of charges is that financial institutions will not have a 20% buffer if the housing loan amount granted for the purchase of a HDB resale flat is based on a higher valuation than that accepted by CPFBoard. In light of that decision, MAS takes the view that financial institutions offering housing loans for HDB resale flats where CPF monies are used to fund the purchase

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.

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or service the loan are required to use the same valuation as CPFB in computing the maximum loan amount² under MAS' Notices on Housing Loans.

Yours faithfully

CHIA DER JIUN
DIRECTOR
PRUDENTIAL POLICY DEPARTMENT

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