

RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON PROPOSED EXEMPTION FROM THE MAXIMUM UNSECURED CREDIT LIMIT

1 Introduction

1.1 On 1 October 2007, Monetary Authority of Singapore (MAS) conducted a public consultation on the proposed exemption from the maximum credit limit for card issuers when issuing credit or charge cards to individuals with greater financial means. MAS would like to thank all respondents for their comments.

1.2 MAS has carefully considered the feedback received, and where it agreed with the comments, has incorporated them into the draft legislation that will be issued for public consultation in due course. Comments that are of wider interest, together with MAS' responses, are set out below.

2 Proposal - An exemption from the maximum credit limit for card issuers when issuing credit or charge cards to individuals with an annual income of at least \$120,000 or net personal assets exceeding \$ 2 million, both to be applied on an ongoing basis. For cards issued to individuals in the bank's director group with an annual income of at least \$120,000 or net personal assets exceeding \$2 million (both applied on an ongoing basis), a maximum credit limit of eight times their monthly income would be imposed.

Feedback

2.1 Respondents asked how the exemption for credit cards would interact with the rules on other unsecured credit facilities, given that both credit cards and other unsecured credit facilities would share a common maximum credit limit. They further opined that for consistency and ease of implementation, an exemption from the maximum credit limit for other types of unsecured credit should be implemented as well.

MAS' Response

2.2 The proposed exemption for credit cards was based on the consideration that this group of individuals with greater financial means should not require the same level of protection under Government's social policy rules on credit. In line with this consideration and in light of the feedback provided, MAS has decided to extend the exemption to other types of unsecured credit.

Feedback

2.3 A respondent suggested that individuals in the \$30,000 to \$120,000 income bracket be divided into multiple tiers, with the higher tiers having more generous maximum credit limits as a multiple of their monthly income.

MAS' Response

2.4 MAS is of the view that the proposal to exempt lenders in respect of the maximum credit limit for individuals earning at least \$120,000 annually is already a significant step. We do not consider it appropriate to introduce further concessions at this stage.

Feedback

2.5 Respondents requested more clarity as to how net personal assets are to be defined. One respondent also asked if there were requirements on where the assets are to be domiciled, and whether the assets needed to be held or even collateralised with the card-issuing bank. Another inquired as to how lenders could ascertain the net personal assets of the individual, especially as the customers may not fully declare their liabilities. A respondent felt that public news could be used to aid card issuers' assessments, and others inquired if assets held under joint-names could be considered towards the computation of net personal assets.

MAS' Response

2.6 Net personal assets is used here in the same manner as it is used in the definition of "sophisticated investor" in the Guidelines for Operation of Wholesale Banks, as well as in the definition of "accredited investor" in Section 4A of the Securities and Futures Act. Assets should be based on

substantiated documents provided by customers while lenders should take reasonable steps to ascertain the liabilities of the borrower including obtaining a written declaration from him. There are no restrictions on where the assets are to be domiciled, neither do we require the assets to be held or collateralised with the lending institution.

Feedback

2.7 A respondent asked if there would be any specific guidelines on the income recognition criteria. Others inquired as to what is meant by “on an ongoing basis”, and commented that it could be onerous for issuers to ensure that the minimum annual income or net personal assets criteria be met on an ongoing basis. An alternative of applying the criteria only at point of application was suggested.

MAS’ Response

2.8 Just as for the existing rules on credit cards, MAS will not set any specific guidelines on the income recognition criteria. Notwithstanding the fact that the income/net personal assets criteria are to be applied on an ongoing basis, it will suffice for lenders to perform periodic checks to ensure that these criteria continue to be met. This is not more onerous than the periodic income checks expected of lenders on their borrowers to ensure compliance with the maximum credit limit, which is also to be complied with on an ongoing basis.

2.9 The proposed exemption from the maximum credit limit is a significant step, and it is important that individuals enjoying credit limits in excess of four times their monthly income continue to have income streams or net personal assets that will support their spending patterns. MAS does not consider it prudent to apply the qualification criteria only at point of application.

Feedback

2.10 A respondent asked for the steps to be taken should an individual no longer meet the criteria for exemption from the maximum credit limit.

MAS' Response

2.11 Under such a scenario, lenders should not extend additional credit to the individual until the aggregate outstanding balance of that individual is brought within four times' his monthly income, as required by the unsecured credit rules.

Feedback

2.12 One respondent suggested that the directors of a bank who have net personal assets of \$ 2 million or more should be given a maximum credit limit independent of their monthly income. Other respondents inquired as to the scope of application of the maximum credit limit for director-related individuals. Yet another respondent inquired as to the acceptable and expected income verification process for directors.

MAS' Response

2.13 The existing exemption allows banks to grant unsecured credit cards to directors with net personal assets of \$2 million or more, up to a maximum of eight times their monthly income. This is already a relaxation from the current situation where a bank is allowed to grant its director unsecured credit card facility of only up to twice his monthly income. We are not prepared to consider further relaxations.

2.14 All individuals in the director group of the bank, as defined in the Fifth Schedule of the Banking Act, that meet the criteria for exemption from the maximum credit limit of four times their monthly income, will have a maximum credit limit of eight times their monthly income instead, inclusive of any other outstanding unsecured credit amounts. The same income verification process used for other cardholders can be applied to directors.

Feedback

2.15 Two respondents asked how the proposed exemption would interact with other requirements in the Banking Act, Regulations and Notices. One

of them further inquired if the restriction on supplementary cards would continue to apply.

MAS' Response

2.16 The proposed exemption applies only to the maximum credit limit in the Credit Card Regulations and Notices on Unsecured Credit. Other requirements in the Banking Act, Regulations and Notices will continue to apply. Restrictions on the issuance of supplementary cards continue to remain in force.

2.17 MAS will be issuing the draft credit card regulations and notices for public consultation in due course, which will provide greater clarity on how the proposed exemption interacts with other requirements in the Banking Act, Regulations and Notices.

Feedback

2.18 Respondents asked if written consent from existing cardholders would be required when increasing the maximum credit limit for those meeting the criteria for exemption, and whether fresh income documents need be obtained for purposes of ascertaining whether the exemption criteria are met.

MAS' Response

2.19 As the exemption criteria are to be applied on an ongoing basis, MAS expects card issuers and other lenders to obtain fresh income documents *and* customer consent before increasing the maximum credit limit available to individuals who qualify. We would like to remind all lenders to be prudent when evaluating/granting credit limit increases.

Feedback

2.20 A respondent asked if the guidelines for temporary credit limit increase would be exempted in respect of individuals exempted from the maximum credit limit.

MAS' Response

2.21 The guidelines for temporary credit limit increases above the maximum credit limit are not needed in the cases of individuals who already qualify for the exemption from the maximum credit limit.

Feedback

2.22 A respondent asked for confirmation that unsecured credit facilities linked to debit cards usable at point of sale terminals would be considered as credit cards, and therefore qualify for the exemption.

MAS' Response

2.23 Unsecured credit facilities linked to debit cards usable at point of sale terminals would be considered as credit cards.

3 Other Feedback

Feedback

3.1 A respondent commented that MAS should move from setting rules on unsecured credit to protecting individuals by ensuring banks are responsible corporate citizens.

MAS' Response

3.2 Government's policy is to protect individuals from spending beyond their means. The proposed changes have allowed banks and borrowers more leeway to make credit decisions responsibly. We will monitor developments arising from this set of changes before reviewing the policy further. MAS agrees that it is important for banks to be responsible corporate citizens, and encourages banks to continue to improve and develop new industry guidelines setting out standards of good practice in their dealings with customers.

Feedback

3.3 Some respondents commented that since the maximum credit limit has been removed for individuals earning at least \$120,000 annually, it would be beneficial if the credit bureau could provide more detailed information on individual customer credit limits and outstanding balances, in order to aid card issuers in setting their own internal limits.

MAS' Response

3.4 The decision regarding what customer information to include in the credit report for the purpose of creditworthiness assessment is a commercial decision between banks and the consumer credit bureau. Such suggestions on information enhancement should be provided directly to Credit Bureau (Singapore) Pte Ltd.

Feedback

3.5 A respondent asked if the unsecured credit rules apply to foreigners.

MAS' Response

3.6 The unsecured credit rules apply only to Singaporeans and permanent residents.

Feedback

3.7 A respondent requested that corporate cards issued to individuals who are personally liable for expenses charged to their corporate cards be exempted from the maximum credit limit as well.

MAS' Response

3.8 A corporate card where the individual cardholder is solely liable for sums charged is not dissimilar from a normal credit card and should not be exempted from the maximum credit limit. Nevertheless, we would like to clarify that such corporate cards issued to individuals meeting the exemption criteria (minimum annual income of at least \$120,000 or net personal assets of \$2 million) will similarly not be required to abide by any maximum credit limit.

MONETARY AUTHORITY OF SINGAPORE
12 DECEMBER 2007