Monetary Authority of Singapore

GUIDELINES ON THE APPLICATION OF TOTAL DEBT SERVICING RATIO FOR PROPERTY LOANS UNDER MAS NOTICES 645, 1115, 831 AND 128

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(with effect from 6 July 2018)]

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1 INTRODUCTION

1.1 Financial Institutions ("FIs") are expected to maintain sound practices in managing their credit risk.[1] Prudent credit underwriting should entail careful and comprehensive assessment by FIs of borrowers' repayment capabilities. Where the borrower is an individual, MAS expects FIs to consider the income level and outstanding debt obligations of the borrower in assessing debt repayment capability.

1.2 MAS Notices 645, 1115, 831 and 128 (collectively, the "Notices") require FIs to compute the total debt servicing ratio ("TDSR") of a Borrower applying for any credit facility set out in paragraph 3 of the Notices ("property loan"). The TDSR will facilitate FIs' assessment of the Borrower's repayment ability. It will also encourage financial prudence, as it will help to ensure that borrowers are not overleveraged in their property purchases. MAS expects FIs to have internal policies and procedures in place to implement the Notices. These Guidelines set out MAS' further expectations regarding an FI's application of the TDSR.

1.3 The expressions used in these Guidelines have, except where expressly defined in these Guidelines or where the context otherwise requires, the same meanings as that in the Banking Act and the Notices.

1.4 These Guidelines take effect on 29 June 2013.

[1] Please refer to MAS' Guidelines on Risk Management Practices – Credit Risk (http://www.mas.gov.sg/~/media/MAS/Regulations%20and%20Financial%20Stability/Regulatory%20and%20Supervisory%20Framework/Risk%20Management/Credit%20Risk.pdf).

2 TDSR THRESHOLD

2.1 FIs should incorporate the TDSR in their credit assessment frameworks for property loans. FIs should set appropriate and prudent TDSR thresholds in credit assessment, to ensure that property loans granted are commensurate with the institutions' risk appetite. FIs should also set out clearly the rationale behind any differentiated TDSR thresholds applied, taking into consideration factors such as the risk profile of the Borrower and purpose of the property loan. TDSR thresholds should be reviewed periodically to ensure their continued relevance.

2.2 MAS expects property loans granted by an FI to not exceed a TDSR threshold of 60%. Property loans in excess of the TDSR threshold of 60% should only be granted on an exceptional basis and FIs should clearly document the basis for granting property loans in excess of the TDSR threshold of 60%.

2.3 In addition, processes should be in place to subject such exceptional cases to:

- Enhanced credit evaluation, including:
  - approval for the policies and procedures from the board of directors of the FI[2]; and
  - approval of individual cases by the credit committee of the FI.

- Reporting to MAS. The report should minimally include information on the profile of the borrowers (e.g. age and income), details of the loan being granted (e.g. TDSR, loan-to value ratio and loan tenure), as well as the basis for the exceptional approval. MAS will inform FIs of the list of data items required.

[2] In the case of an FI incorporated outside Singapore, approval may be obtained from the senior management of the FI instead.

3 EXCLUSION OF MONTHLY REPAYMENT INSTALMENTS FROM TDSR COMPUTATION IN CERTAIN SITUATIONS

3.1 In the case of a Borrower applying for:

(a) any credit facility for the purchase of Property where the Property is a HDB Flat;

(b) any Re-financing Facility for the purchase of Property where the Property is a HDB Flat;

(c) any credit facility for the purchase of Property where the Property is an EC and the minimum occupation period of the EC has not expired; or

(d) any Re-financing Facility for the purchase of Property where the Property is an EC and the minimum occupation period of the EC has not expired,

an FI may, in computing the Borrower's TDSR, exclude the monthly repayment instalment in respect of the Borrower's outstanding credit facility for an existing Property, provided that at the time of applying for such a credit facility, the Borrower has provided the FI –

(i) a copy of his signed undertaking to the HDB committing to complete the sale of his existing Property within the period stipulated in the undertaking; and

(ii) a written declaration that he shall take steps, in accordance with the signed undertaking to the HDB in sub-paragraph (i), to sell his existing Property.

3.2 In the case of a Borrower applying for a credit facility or a Re-financing Facility for the purchase of Property that is not provided for under paragraph 3.1, an FI may, in computing the Borrower's TDSR, exclude the monthly repayment instalment in respect of the Borrower's outstanding credit facility for an existing Residential Property –

(a) where the existing Residential Property is:

(i) an EC and the minimum occupation period of the EC has expired or a private property; and

(ii) at the time of applying for such a credit facility or Re-financing Facility, the FI has obtained from the Borrower:

(A) a sale and purchase agreement signed by both the Borrower (as the seller) and the party to whom he has sold the existing Residential Property; and

(B) a certificate from IRAS showing that stamp duty has been paid on the signed agreement; or

(b) where the existing Residential Property is a HDB Flat, if at the time of applying for such a credit facility or Re-financing Facility, the FI has obtained from the Borrower a letter from the HDB approving the sale of the HDB Flat.

3.3 In the case of a Borrower applying for a credit facility or a Re-financing Facility for the purchase of Property, an FI may, in computing the Borrower's TDSR, exclude the monthly repayment instalment in respect of the Borrower's outstanding credit facility for an existing Property where the Borrower has discharged the outstanding credit facility for the purchase of the existing Property.

4 NON OWNER-OCCUPIED PROPERTIES[3,4]

4.1 In the case of a Re-financing Facility for the purchase of a Property where the Property is not a Residential Property for the occupation of one or more persons which shall include the Borrower, or a Re-financing Facility for a credit facility otherwise secured by a Property (including an owner-occupied Residential Property), an FI should only grant such a re-financing facility in excess of the TDSR threshold of 60% in the following circumstances:

(a) the Borrower satisfying the FI's credit assessment criteria; and

(b) the Borrower committing to a Debt Reduction Plan with the FI at the time of application of the re-financing.

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[3] Under paragraph 3(b)(i) of the Notices, an FI is not required to compute the TDSR of a Borrower who applies for a Re-financing Facility for the purchase of a Residential Property where the Residential Property is for the occupation of one or more persons which shall include the Borrower. Accordingly, the TDSR threshold of 60% need not apply in such a case. Nonetheless, the Borrower should satisfy the FI's credit assessment criteria.

[4] Paragraphs 3(b)(ii), (c) and (d) of the Notices set out certain situations where an FI is not required to compute the TDSR of a Borrower who applies for a Re-financing Facility for the purchase of a Property, a credit facility otherwise secured by a Property or a Re-financing Facility for a credit facility otherwise secured by a Property. Accordingly, the TDSR threshold of 60% need not apply in such cases. Nonetheless, the Borrower should satisfy the FI's credit assessment criteria. Paragraph 4.1 of these Guidelines is in respect of a situation where an FI computes the TDSR of a Borrower who is applying for a Re-financing Facility for the purchase of a Property or a Re-financing Facility for a credit facility otherwise secured by a Property, and the computed TDSR exceeds the threshold of 60%.