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DREW & NAPIER LLC

LEGAL UPDATE

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LEGISLATION UPDATE

PUBLIC CONSULTATION ON AMENDMENTS TO UNSECURED CREDIT RULES

The Monetary Authority of Singapore (the “**MAS**”) and the Ministry of Law (“**MinLaw**”) have released a joint consultation paper (the “**Joint Consultation Paper**”) seeking public feedback on proposed amendments to the rules and requirements relating to unsecured lending by financial institutions and moneylenders.

The proposed rules (the “**Rules**”) seek to implement the MAS’ and MinLaw’s policy positions on unsecured credit following two earlier public consultations held in October 2007 and August 2006.

The public is invited to submit comments on the Rules by **17 January 2008**.

Earlier Public Consultations

The MAS and MinLaw conducted a joint public consultation in 2006 in connection with the proposal to revise the existing unsecured credit rules for financial institutions and to extend these rules to moneylenders with appropriate modifications.

The MAS also sought public feedback in October 2007 on a proposal to exempt financial institutions from the rules relating to maximum credit limits for individuals.

Feedback from the prior consultations was taken into consideration in formulating the Rules.

Draft Rules

The Rules are found in Annexes A and B of the Joint Consultation Paper.

Annex A contains the draft rules for financial institutions supervised by the MAS.

Annex B contains the draft rules for moneylenders supervised by MinLaw.

A table setting out the proposed changes is attached as Table 1 on pages 3 and 4.

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References

Additional information may be obtained by clicking on the links below:

1. [Full text of current Consultation Paper](#)
2. [Full text of earlier consultation paper issued on 1 October 2007](#)
3. [Feedback from public consultation for CP issued on 1 October 2007](#)
4. [Full text of earlier consultation paper issued on 7 August 2006](#)
5. [Feedback from public consultation for CP issued on 7 August 2006](#)

If you would like more information about this consultation paper or wish to discuss how it may potentially affect you or your business, please feel free to contact the banking lawyers in Drew & Napier LLC (please refer to the Directors' Profiles on our website) or either of the following lawyers:

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TABLE 1

S/No	RULE SUMMARY	DRAFT DOCUMENT REFERENCE
	Banks and Financial Institutions	
1	Lowering of minimum annual income threshold for unsecured credit facilities from \$30,000 to \$20,000.	MAS Notice to Banks on Unsecured Credit Facilities to Individuals* (“MAS Notice 635”), Para 5
2	Maximum aggregate credit limit for all unsecured personal credit facilities and credit cards to be set at 4X monthly income for individuals with at least \$30,000 annual income. Maximum aggregate credit limit for all unsecured personal credit facilities to be set at 2X monthly income for individuals with annual income of at least \$20,000 but less than \$30,000.	MAS Notice 635*, Paras 11 and 12
3	Credit checks with a credit bureau are mandatory.	MAS Notice 635*, Para 22; Banking (Credit Card and Charge Card) (Amendment) Regulations 2007 (“Banking Regulations”), Section 7
4	Banks and financial institutions will not be allowed to grant unsecured credit facilities or send any articles allowing drawdown on such on such facilities without the customer requesting for them in writing.	MAS Notice 635*, Paras 19 and 20
5	Banks and financial institutions will be required to disclose clearly and prominently on bills and statements all finance charges, late payment charges, rates of computation, consequences of late payment and notices to encourage prompt settlement.	Banking Regulations, Section 6; MAS Notice 635*, Para 21
6	Upgraded credit cards are considered “additional cards” which attract more obligations than “replacement cards”. A card is a “replacement card” only if it is a substitute for an existing card which is expiring or has been reported lost or damaged.	Banking Regulations, Section 5
7	Where an individual has an annual income of at least \$120,000 or net personal assets exceeding \$2 million, he will be exempted from the maximum credit card limit.	Banking Regulations, Section 3

	Moneylenders	
8	For unsecured loans exceeding \$3,000, moneylenders are to ensure that the applicant has an annual income of at least \$20,000.	Moneylenders' Rules, Rule 15B
9	Maximum unsecured credit limit shall be 2X monthly income if the applicant earns at least \$20,000 per annum but less than \$30,000 or 4X monthly income if the applicant earns \$30,000 or more per annum.	Moneylenders' Rules, Rule 15C
10	Moneylenders will not be allowed to grant unsecured credit facilities or send any articles allowing drawdown on such facilities without the customer requesting for them in writing.	Moneylenders' Rules, Rule 15F
	Exemptions from unsecured credit rules	
11	<p>Some loans are excluded from the operation of the abovementioned rules. These include the following broad loan categories (which are further subject to certain qualifying criteria):</p> <ul style="list-style-type: none"> ▪ Business loans to sole proprietorships and partnerships; ▪ Education loans; ▪ Renovation loans, within certain limits; ▪ National Service bonds; ▪ Security bonds for employing foreign domestic workers; ▪ Any unsecured refinancing facility/loan used to repay an amount owing under an existing facility/loan which has become unsecured due to a fall in the value of collateral; and ▪ Medical loans. 	Banking Regulations, Section 2; MAS Notice 635*, Para 7; Moneylenders' Rules, Rule 15D
12	Securities financing schemes, provided that loan finances only up to 80% of the value of the shares.	Banking Regulations, Section 2; MAS Notice 635*, Para 7

* Similar provisions are found in the MAS Notices to Direct Insurers, Finance Companies and Merchant Banks.

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