ABS FAQs on Revised Credit Card and Unsecured Credit Rules

I) With effect from 1 December 2013, FIs are required to conduct credit bureau checks and income checks before increasing credit limits.

1. **What is the purpose of conducting credit bureau and income checks before credit limits can be increased?**

Borrowersô incomes and overall indebtedness may have changed since they first applied for the credit cards/charge cards or unsecured credit facilities. FIs are required to conduct fresh credit assessments before increasing their credit limits to ensure that the increased credit limits are appropriate. The income and credit bureau checks will help FIs in these fresh credit assessments.

II) FIs are required to conduct credit bureau and income checks upon receiving information that calls their borrowers' credit-worthiness into question.

2. **Are FIs required to conduct checks upon receiving information from any person?**

FIs are required to conduct income and credit bureau checks upon receiving such information, unless these have already been conducted within the last 3 months, or if the borrowerõs credit lines are already suspended. Examples include alerts raised by family members and credit counsellors of borrowers in debt distress. FIs may request the informant to identify himself and provide information (e.g. borrowerõs identification number) for the FIs to identify the borrower. To ensure greater accountability, FIs will only act on information provided by an informant who identifies himself.

3. **Are FIs required to conduct fresh income checks before credit limits can be increased for borrowers who have previously been granted credit cards/charge cards and unsecured credit facilities based on annual income of at least $120,000 or net personal assets exceeding $2 million?**

Yes, unless borrowers are able to provide updated documents (dated within 3 months from the date credit limits are to be increased) evidencing that their annual income is at least $120,000 or net personal assets exceed $2 million.

4. **What action should FIs take after conducting income and credit bureau checks?**

If the credit bureau checks indicate deterioration in the borrowersô credit worthiness, FIs should consider any of the following actions:

(a) reduce the credit limits granted;

(b) terminate the credit cards/charge cards and/or unsecured credit facilities granted to the borrowers; or

(c) arrange for the borrowers to pay off part or all of the existing debt.

III) FIs are allowed to issue credit cards/charge cards to individuals above 55 years of age who meet any one of the following criteria:
(a) annual income of at least $15,000;
(b) total net personal assets exceeding $750,000;
(c) guarantor with annual income of at least $30,000.

Previously, individuals above 55 years old needed to have annual incomes of at least $15,000 to qualify for credit cards/charge cards. However, this posed a difficulty for some retirees who do not meet the minimum income criterion even though they are financially secure.

To cater to the transactional needs of retirees, alternative criteria i.e. (b) and (c) are included for retirees to qualify for credit cards/charge cards.

To ensure that retirees do not over extend themselves, the credit limits of those who qualify for credit cards/charge cards are still subject to regulatory credit limits. Where a card is issued to a retiree based on his income or net personal assets, the regulatory credit limit is 2 monthsô income for a retiree with annual income of less than $30,000 and 4 monthsô income for a retiree with annual income of at least 30,000 but less than $120,000. Income can include non-employment income e.g. interest, dividend and rental income.

Where a card is issued to a retiree on the basis that he has a guarantor with an annual income of at least $30,000, the credit limit of the guaranteed card will be based on the guarantorõs income.

The offer of credit cards to individuals above 55 years of age is a commercial decision. FIs may set their own lending and credit assessment criteria in addition to the minimum criteria prescribed by MAS.

5. Does the increased flexibility mean that retirees can obtain a credit card/charge card based solely on proof of their assets?

Most retirees will need to show proof of their income when applying for a credit card/charge card. If the retiree has no income at all, he cannot be granted any credit limit.

The only exception is where the retiree can prove that he has net personal assets exceeding $2 million or its equivalent in foreign currency. In this situation, the retiree can obtain a credit card/charge card based solely on proof of his net personal assets. He would not be subject to the regulatory credit limits of 4 / 2 monthsô income.

6. Why did MAS extend the unsecured credit rules to unsecured loans that were previously exempted?

This is to provide further safeguards for borrowers. For instance, by requiring FIs to disclose the relevant finance and late payment charges for all unsecured loans, borrowers will be able to make more informed decisions.

However, MAS will continue to exempt education, business, medical and renovation loans from the minimum income eligibility criteria, per-FI regulatory credit limits and aggregate annual income limit in recognition of the purposeful or needs-based nature of these loans.

IV) With effect from 1 June 2014, FIs are required to review borrowers' aggregate credit limits and outstanding balances in credit bureau checks.

7. Why are FIs required to review borrowers' aggregate credit limits and outstanding balances?

This requirement will help FIs obtain a more comprehensive view of their borrowersô current and potential indebtedness. Besides knowing whether a borrower has defaulted or missed a payment, FIs will be aware if a borrower is at risk of borrowing beyond his means.

8. When are FIs required to conduct credit bureau checks?

FIs are required to conduct credit bureau checks in the following four circumstances:

(a) before granting a new credit card/charge card or unsecured credit facility;

(b) before granting a credit limit increase;

(c) upon receiving information calling a borrowerǆs credit worthiness into question; and

(d) before reinstating a suspended credit card/charge card or unsecured credit facility.

9. How are borrowers' aggregate credit limits and outstanding balances computed?

The credit bureaus will add up the credit limits and outstanding balances of all the credit facilities reported by their members (i.e. banks, finance companies and card issuers) to derive each borrowerǆs aggregate credit limits and aggregate outstanding balances, respectively, for secured and unsecured credit facilities. Please refer to the websites of Credit Bureau (Singapore) Pte Ltd at www.creditbureau.com.sg and DP Credit Bureau Pte Ltd at www.dpcreditbureau.com.sg for more detailed information.

10. Why are FIs required to either:

(i) ask borrowers what their preferred credit limits are; or

(ii) obtain borrowers' consent for the amount of credit limits to be granted?

This is to allow borrowers better control over their unsecured borrowing by ensuring that they are not granted more credit than what they require.

V) With effect from 1 June 2015, FIs are required to disclose to borrowers:
(a) the total amount and time needed to fully pay off their debts if they pay only the minimum payment each month; and
(b) the amount of debt that would accumulate by the end of 6 months if they make no payments in the next 6 months.

11. Who will receive the disclosure statement and why?

Borrowers who have not paid their prior monthòs credit cards and unsecured credit facilities in full will receive the disclosure statement. These borrowers are more at risk of incurring significant borrowing costs.

By illustrating how debt will snowball if not repaid in full, the disclosure statement will help these borrowers make more informed decisions and encourage them to repay their debts in full promptly.

VI) FIs are disallowed from granting further unsecured credit to borrowers whose outstanding unsecured debt aggregated across FIs exceed their annual income for 3 months or more.

12. Why is MAS setting a limit on borrowers' credit card/charge card and unsecured borrowings, aggregated across FIs?

This is a more holistic way of managing borrowersôtotal indebtedness, compared to a limit placed on each FI. This will also help to discourage prolonged reliance on unsecured credit and slow debt accumulation by borrowers who have already incurred significant unsecured debt. This rule does not apply to borrowers with annual income of at least $120,000 or net personal assets exceeding $2 million.

13. What is the impact of this rule on the borrowers' credit facilities if their aggregate outstanding unsecured debt exceeded their annual income?

Borrowers will be disallowed from:

(a) charging new amounts to their existing credit cards/charge cards and unsecured credit facilities issued by the FIs;

(b) obtaining new credit cards/charge cards or unsecured credit facilities from the FIs; and

(c) obtaining credit limit increases on existing credit cards/charge cards and unsecured credit facilities issued by the FIs.

Other FIs will not be required to suspend the borrower’s accounts if the borrower’s aggregate unsecured debt has not exceeded his annual income for 3 months or more based on their respective income records.

14. How are borrowers’ annual incomes determined?

Apart from salaries and bonuses, FIs are allowed to take other forms of incomes such as dividend, interest and rental income into account in determining borrowers’ annual income. Each FI will rely on its own income records and computation methods to determine the borrower’s annual income. Hence, borrowers are strongly advised to update their income records with their FIs to avoid unnecessary disruption to their credit facilities.

15. How are borrowers’ aggregate outstanding balances computed for the purpose of this rule?

FIs are only required to take borrowers’ interest-bearing unsecured balances into account. These include amounts rolled over on credit cards and outstanding balances on term loans that accrue interest.

Amounts charged to credit cards that are fully repaid by their due dates are excluded since they do not attract interest. Likewise, amounts outstanding on interest-free instalment payment plans are also excluded. If interest is imposed on a particular instalment due to late payment, the instalment amount will be included. However, if no interest is imposed, the particular instalment can be excluded.

Interest-bearing unsecured balances refer to amounts that attract an effective interest rate. This means that the outstanding balance on a 0% balance transfer with a processing fee will be included in the computation of aggregate outstanding balances for this rule.

Needs-based unsecured loans set out in paragraph 9 of Banking (Credit Card and Charge Card) Regulations 2013 will be exempted from the calculation of aggregate outstanding balances.

16. How will FIs determine whether borrowers’ aggregate outstanding unsecured debt has exceeded their annual income for 3 reporting months?

FIs will use the interest-bearing unsecured balances reported to the credit bureaus to determine if such balances have exceeded a borrower’s annual income for 3 reporting months.

17. What is the purpose of the 3 months period?

The 3 months period is intended to be a grace period. This is to allow borrowers who travel frequently, or who may have inadvertently omitted to pay their bills, time to make the necessary payments before their unsecured credit lines are suspended.

18. When can suspensions of unsecured credit lines be lifted?

A suspension can be lifted only after the borrower reduces his aggregate interest-bearing unsecured debt to less than his annual income and after the FIs have conducted fresh credit bureau and income checks.

In addition, FIs have the discretion to lift the suspension and grant new facilities to refinance borrowersôexisting debts* with other FIs. In doing so, FIs are allowed to exceed the per-FI regulatory credit limit of 4 monthsôincome (for borrowers with annual income of at least $30,000 but less than $120,000) and 2 monthsô income (for borrowers with annual income of below $30,000). This will enable borrowers to benefit from refinancing debt at lower interest rates by transferring debs from one FI to another FI.

*(*Only for refinancing. FIs are not allowed to extend further fresh credit).*

Borrowers are required to submit updated income documents to the FIs when requesting for reinstatement. The purpose of conducting credit bureau checks and obtaining updated income documents is to assess the credit-worthiness of the borrower. Hence, lifting of the suspension is subject to the FIsôcredit assessment.

19. When will the aggregate annual income limit takes effect?

The aggregate annual income limit will take effect on 1 June 2015. This means that borrowers have 18 months from the time the revised rules were issued on 29 November 2013 to reduce their unsecured debts.

The 3 months grace period will commence from 1 March 2015. This means that if the borrowersô aggregate outstanding unsecured debt exceeds their annual income for 3 consecutive months starting from 1 March 2015, their unsecured credit lines will be suspended when the rule takes effect on 1 June 2015.

20. Will borrowers who have already accumulated unsecured debts exceeding their annual income be given more time to reduce their unsecured debts?

Borrowers whose unsecured debts already exceed their annual income as at November 2013 will be given extended concessionary timelines to reduce their unsecured debts.

To qualify for the concession, the repayment plans entered into should reduce the borrowersô unsecured balances with each FI to not more than their unsecured balances as at November 2013 by:

(a) 1 June 2017 (if their aggregate unsecured debt as at November 2013 are between 12 and 16 months of their income); and

(b) 1 June 2019 (if their aggregate unsecured debt as at November 2013 exceed 16 months of their income).

This means that before 1 June 2017 or 1 June 2019, as the case may be, FIs need not suspend the credit cards/charge cards and unsecured credit facilities of such a borrower.

Borrowers who wish to rely on the extended concessionary timelines will need to have their November 2013 debt levels computed by 1 June 2015, when the aggregate annual income limit takes effect.

If, after 1 June 2017 and 1 June 2019, the borrowersôaggregate unsecured debt still exceeds their annual income for 3 months or more, FIs must then suspend their unsecured credit cards/charge cards and unsecured credit facilities. Nevertheless, their repayment plans can continue beyond the extended timelines of 1 June 2017 and 1 June 2019, as the case may be.

21. How can borrowers determine their aggregate unsecured outstanding balances?

From Q4 2014, borrowers can refer to their credit reports for a summary of their aggregate outstanding unsecured balances (comprising both interest-bearing and non interest-bearing balances).

For more information on how to obtain a credit report, please refer to the websites of Credit Bureau (Singapore) Pte Ltd at www.creditbureau.com.sg and DP Credit Bureau Pte Ltd at www.dpcreditbureau.sg.

VII) FIs are disallowed from granting further unsecured credit to borrowers who are 60 days or more past due on any credit card/charge card or unsecured credit facility extended by the FI. Other FIs will also not be allowed to issue new credit cards/charge cards or unsecured credit facilities, or grant credit limit increases, to such borrowers.

22. Why is MAS prohibiting the grant of further credit to borrowers whose debts with a FI are 60 days or more past due?

This is to help prevent debt from spiralling for borrowers who already have difficulties repaying their existing debt. However, these borrowers will still be allowed to take loans for certain needs-based or purposeful expenditure, such as for medical treatment and education.

23. If a borrower is 60 days or more past due with only one FI, will other FIs suspend his credit cards and unsecured credit facilities as well?

Only the FI with which the borrower is 60 days or more past due is required to suspend his credit lines. Other FIs are not required to suspend the credit cards/charge cards and unsecured credit facilities that they have granted to the borrower. However, the other FIs cannot issue new credit cards/charge cards or unsecured credit facilities or grant credit limit increases to the borrower.

24. When can suspensions imposed on credit cards/charge cards and unsecured credit facilities as a result of this rule be lifted?

FIs are allowed to reinstate the suspended credit lines when the borrowersô debt on all credit cards/charge cards and unsecured credit facilities extended by the FIs are no longer past due, and after conducting fresh income and bureau checks. There is no requirement for all balances to be fully paid off before the credit lines are reinstated.

Borrowers are required to submit updated income documents to the FIs when requesting for reinstatement. The purpose of conducting credit bureau checks and obtaining updated income documents is to assess the credit-worthiness of the borrower. Hence, lifting of the suspension is subject to the FIsô credit assessment.

25. How can borrowers determine if they are 60 days or more past due?

Borrowers can either contact their FIs or check their credit bureau reports to determine the number of days for which they are past due.

26. What should affected borrowers do and where can they request for repayment plans?

Affected borrowers should provide their FIs with updated income documents for assessment. They should also contact their FIs directly to request for and negotiate repayment plans.

For further assistance, affected borrowers may contact Credit Counselling Singapore (CCS) at 1800 2255 227 (9am to 6pm, Monday to Friday, except Public Holidays).