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MAS Introduces Debt Servicing Framework for Property Loans

Singapore, 28 June 2013 … The Monetary Authority of Singapore (MAS) will introduce a Total Debt Servicing Ratio (TDSR) framework for all property loans granted by financial institutions (FIs) to individuals[1]. This will require FIs to take into consideration borrowers' other outstanding debt obligations when granting property loans. They will help strengthen credit underwriting practices by FIs and encourage financial prudence among borrowers.

2 MAS will also refine rules related to the application of the existing Loan-to-Value (LTV) limits on housing loans. These refinements seek to ensure the effectiveness of the LTV limits that were put in place to cool investment demand in the housing market. In particular, they aim to prevent circumvention of the tighter LTV limits on second and subsequent housing loans.

Introduction of TDSR framework

3 MAS conducted a thematic inspection of banks' residential property loan portfolios in 2012. While banks generally had in place sound policies to assess the credit worthiness of borrowers, the inspection and subsequent surveys revealed uneven practices with respect to the application of debt servicing ratios and highlighted areas for improvement in credit underwriting practices.

4 The TDSR framework will provide FIs a robust basis for assessing the debt servicing ability of borrowers applying for property loans, taking into consideration their other outstanding debt obligations. FIs will be required to compute the TDSR, or the percentage of total monthly debt obligations to gross monthly income, on a consistent basis.[2]

5 The coverage of the TDSR framework will be more comprehensive than FIs' current practice. The TDSR will apply to loans for the purchase of all types of property, loans secured on property,[3] and the re-financing of all such loans.[4]

6 The methodology for computing the TDSR will be standardised. FIs will be required to:

- take into account the monthly repayment for the property loan that the borrower is applying for plus the monthly repayments on all other outstanding property and non-property debt obligations of the borrower;
- apply a specified medium-term interest rate or the prevailing market interest rate, whichever is higher, to the property loan that the borrower is applying for when calculating the TDSR;[5]
- apply a haircut of at least 30% to all variable income (e.g. bonuses) and rental income; and
- apply haircuts to and amortise the value of any eligible financial assets taken into consideration in assessing the borrower's debt servicing ability, in order to convert them into 'income streams' in computing the TDSR.

7 FIs will be required to verify and obtain relevant documentation on a borrower's debt obligations and income used in the computation of the TDSR.

8 MAS expects any property loan extended by the FI to not exceed a TDSR threshold of 60% and will regard any property loan in excess of a 60% TDSR to be imprudent.[6] The threshold is set at 60% for a start to allow both the FIs and borrowers to familiarise themselves with the TDSR framework and its computation methodology. MAS will monitor and review the 60% threshold over time, with a view to further encouraging financial prudence.

Refinement of rules related to application of LTV limits

9 MAS will refine certain rules related to the application of the existing LTV limits on housing loans granted by FIs. In particular, MAS will require:

- borrowers named on a property loan to be the mortgagors of the residential property for which the loan is taken;
- "guarantors" who are standing guarantee for borrowers otherwise assessed by the FI at the point of application for the housing loan not to meet the TDSR threshold for a property loan to be brought in as co-borrowers; and
- in the case of joint borrowers, that FIs use the income-weighted average age of borrowers[7] when applying the rules on loan tenure.[8]

Measures for the long term

10 The new rules will take effect from 29 June 2013.

11 The TDSR framework and refinements to the rules relating to the application of LTV limits are structural in nature, and will be in place for the long term. They aim to encourage prudent borrowing by households and strengthen credit underwriting standards by FIs.

12 They do not involve changes to the LTV limits on housing loans themselves, which were last tightened in January 2013 as part of the government's package of measures to promote stable and sustainable conditions in the housing market.[9] The current LTV limits are not permanent, and will be reviewed depending on the state of the property market.

13 Please refer to the FAQs on MAS' website for further details.

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[1] *This includes sole proprietorships and vehicles set up by an individual solely to purchase property.*

[2] *In the case of a joint application for a property loan, the TDSR shall be computed based on the aggregate total monthly debt obligations and aggregate gross monthly incomes of the joint borrowers.*

[3] *Where a loan is secured by a pool of collateral including property, the TDSR rules will apply if the market value of the property is 50% or more of the value of the total pool of collateral.*

[4] *Existing borrowers who are seeking to refinance their housing loans will be exempted, provided they meet the specific conditions set out in MAS' Guidelines on the Application of TDSR for Property Loans under MAS Notices 645, 1115, 831 and 128.*

[5] *3.5% for housing loans and 4.5% for non-residential property loans.*

[6] *Property loans in excess of the TDSR threshold of 60% should be granted only on an exceptional basis. The board of directors of the FI (or senior management in the case of an FI incorporated outside of Singapore) will have to approve policies and procedures relating to such exceptions. In addition, cases exceeding the threshold will need to be approved by the FI's credit committee.*

[7] *The income-weighted average age will be based on the borrowers' gross monthly income.*

[8] *Lower LTV limits apply to a loan granted for the purchase of a residential property, where the loan period extends beyond the retirement age of 65 years or the tenure exceeds 30 years.*

[9] *In January 2013, MAS lowered the LTV limits for housing loans to individuals with one outstanding housing loan from 60% to 50%, and to individuals with two or more outstanding housing loans from 60% to 40%. Loans with longer tenure faced even tighter LTV limits. The LTV limit for housing loans to non-individuals was also reduced to 20%.*

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