

CONSULTATION PAPER

P024 - 2012
December 2012

Proposed Changes to Credit Cards & Unsecured Credit Rules

MAS

Monetary Authority of Singapore

PREFACE

i MAS' rules on credit cards and unsecured credit¹ are part of the Government's social policy of discouraging individuals from spending beyond their means. To complement existing measures, MAS proposes changes aimed at:

- (a) improving financial institutions' ("FIs") lending practices;
- (b) empowering individuals to make better borrowing decisions;
- (c) helping individuals who are at risk of credit problems avoid getting into greater debt;
- (d) increasing flexibility for financially secure retirees; and
- (e) aligning rules across unsecured credit products.

ii Further details are set out in this consultation paper.

iii MAS invites comments on the proposed changes from credit card issuers and FIs that grant unsecured credit facilities, and any other interested persons. Electronic submission is encouraged. Please submit written comments by 21 January 2013 to:

Prudential Policy Department
Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079 117
Email: policy@mas.gov.sg

iv Please note that any comments received may be made public unless confidentiality is specifically requested.

¹ See Banking Act, Banking (Credit Card and Charge Card) Regulations 2004, MAS Notices 118, 635, 827, 1109, 759, and 760.

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1 Improving financial institutions' ("FIs") lending practices

Proposal A: Require FIs to review borrowers' outstanding debt and credit limits in credit bureau checks.

1.1 FIs will be required to review the outstanding debt and credit limits for all loans taken by a borrower aggregated across different FIs as part of their comprehensive checks with the credit bureau(s). Amounts for unsecured² credit facilities in the credit bureau's records should be aggregated separately from amounts for secured credit facilities. Such data will help FIs make a holistic assessment whether an individual is borrowing within his means. This proposal will improve on the current situation where the aggregate outstanding balances and credit limits of borrowers are not available to FIs on the credit bureau(s).

Proposal B: Require FIs to conduct credit bureau and income checks for credit limit increases.

1.2 Before increasing the credit limit on existing credit cards, charge cards, and unsecured credit lines, FIs will be required to conduct checks with the credit bureau(s) and obtain updated income documents³, if these have not been conducted or obtained respectively in the 3 months prior to the credit limit increase. This proposal will ensure that FIs make decisions based on updated information about a borrower's financial capacity.

² This includes credit cards and charge cards.

³ Updated income documents are not mandatory for individuals who hold only credit cards with secured credit limits or credit cards with credit limit of \$500 or less.

Proposal C: Require FIs to conduct credit bureau checks and request updated income documents when anything that may impinge on the creditworthiness of credit and charge cardholders and borrowers of unsecured credit facilities comes to FIs' attention.

1.3 When FIs are alerted of potential debt problems of a borrower, such as by family members or credit counsellors, FIs will be required to re-assess the creditworthiness of the borrower by conducting credit bureau checks and requesting updated income documents⁴ if these have not been conducted and obtained respectively in the 3 months prior to the alert.

⁴ Updated income documents are not mandatory for individuals who hold only credit cards with secured credit limits or credit cards with credit limit of \$500 or less.

2 Empowering individuals to make better borrowing decisions

Proposal D: Require disclosures on length of repayment period and total amount payable if only the minimum amount is paid and the total amount payable in 6 months if no payment is made.

2.1 FIs will be required to disclose clearly (see [Figure 1](#)) in billing statements⁵ to borrowers who did not pay their credit cards, charge cards or revolving unsecured credit facilities in full in the prior month,

- (a) the length of repayment period and total amount payable if borrowers made only the minimum amount each month; and
- (b) the total outstanding balance, including interest and finance charges, in 6 months' time if no payment is made.

2.2 Such disclosure will make the cost of borrowing more apparent to borrowers and help them make more informed borrowing decisions.

Proposal E: Disallow unsolicited offers to increase credit limit and require FIs to obtain borrowers' consent on the amount of credit limit increase.

2.3 FIs will not be allowed to make unsolicited offers to their customers to increase their credit limits. This means that all credit limit increase requests will have to be initiated by borrowers. FIs will have to expressly obtain the borrower's consent for the amount of each credit limit increase.⁶ This will ensure that borrowers are not offered credit limit increases that they did not ask for.

⁵ Disclosure should be made clearly and prominently (e.g. using paper or font of a different colour) on the front page of the billing statement or on a separate sheet attached on top of the billing statement. For electronic billing statements, FIs should send email or SMS alerts to their borrowers to inform them that the billing statements are issued. The proposed disclosure should also be prominently displayed onscreen (e.g. as a pop-up screen and using font of a different colour) for electronic billing statements.

⁶ Specific consent has to be obtained from the principal cardholder each time the credit limit(s) of the principal and/or supplementary card is raised. Blanket consent covering future increases will not be acceptable.

Figure 1: Sample disclosure to borrowers who did not pay in full

Outstanding balance	\$2,000.00	Due Date	31 Jan 2012
<p>! WARNING: If you do not pay the outstanding balance in full by the due date, you will be subject to [x] % interest on the outstanding balance and on all new transaction amounts.</p>			
For example, if you pay only the minimum payment each month,			
you will pay off what you currently owe only by		the total you will end up paying, even without charging new transactions, is about	
31 Dec 2017		\$3,653.98	
<p>! WARNING: If you do not even make the minimum payment, you will also be charged late fees of \$50 per month. Legal action may also be taken.</p>			
For example, if you do not make any payment,			
in 6 months' time, i.e. by		the amount you owe, even without charging new transactions, will increase to about	
31 Jul 2012		\$2,567.73	
<p>Pay your bills in full to avoid interest and finance charges. Call us at XXXX-XXXX if you foresee problems repaying the debt.</p> <p><i>Has your outstanding balance grown out of control? Seek credit counselling if you feel that you are unable to manage your debts.</i></p>			

Proposal F: Allow borrowers to indicate their preferred credit limits in application forms for revolving credit facilities and credit limit changes.

2.4 Applicants should be able to state on application forms for new credit cards, charge cards and revolving credit lines as well as applications for credit limit changes, their preferred credit limits (see [Figure 2](#) for a sample). The credit limit granted should then be up to the lower of the allowed regulatory limit⁷ and the borrower's preferred limit.

⁷ The regulatory maximum credit limit for unsecured credit cards, charge cards and unsecured credit facilities is 2 months' income if the individual's annual income is less than \$30,000 or 4 months' income if the individual's annual income is at least \$30,000.

Figure 2: Applicant's preferred credit limit in application form

Please tick one of the following boxes:

I prefer and give consent to be granted a credit limit that is no more than _____.
I understand that the issuer has the right to grant me a credit limit that is lower than what I have indicated.

I have no preference on my credit limit.

3 Helping individuals who are at risk of credit problems avoid getting into greater debt

Proposal G: Disallow further amounts to be charged to credit cards, charge cards, and unsecured credit facilities of individuals whose debts with the FI are more than 60 days past due.

3.1 Individuals⁸ whose debts⁹ on any credit card, charge card or unsecured credit facility¹⁰ with a FI are more than 60 days past due will be disallowed from:

- (a) charging new amounts¹¹ to the credit cards¹², charge cards and unsecured credit facilities issued by the FI;
- (b) obtaining new¹³ credit cards, charge cards or unsecured credit facilities from any FIs¹⁴; and
- (c) obtaining credit limit increases on existing credit cards, charge cards and unsecured credit facilities from any FIs.

See [Table 3](#) for an illustration of the implications.

⁸ Including individuals with annual income of at least \$120,000 or total net personal assets exceeding \$2 million, who might have been granted credit limits exceeding 4 months' income.

⁹ This excludes amounts related to disputed transactions, fees and charges. MAS expects FIs to have proper procedures in place to assess whether a transaction is a *bona fide* disputed transaction.

¹⁰ "Unsecured credit facility" excludes loans defined under paragraph 9 of Notices 118, 635, 827 and 1109. Joint borrowers for renovation loans are proposed to be expanded to include fiancés/fiancées, subject to the marriage certificate being produced within 3 months from the disbursement of the loan; failing which the borrowers would have to pay down their share of the loan to the applicable unsecured credit limit or convert the loan to a single borrower renovation loan with a credit limit of up to 6 months.

¹¹ FIs should not allow further amounts, except for fees and charges such as that for interest and late payment, to be charged. Recurring payments tagged to the credit cards, charge cards and unsecured credit facilities will also be suspended, once an individual is more than 60 days past due.

¹² FIs are also disallowed from charging further amounts to unsecured credit cards with credit limits of \$500 or less and secured credit cards.

¹³ Replacement, substitute, and additional cards, as defined in the Banking (Credit Card and Charge Card) Regulations 2004, which do not result in an increase in credit limit, are not considered new credit cards.

¹⁴ For other FIs to identify such borrowers, members of credit bureaus will submit information to the credit bureaus identifying such individuals and have such information reflected in the individual's credit bureau report. FIs should also obtain prompt alerts from the credit bureau(s), whenever an existing borrower is flagged out as more than 60 days past due by another FI on a credit card, charge card or unsecured credit facility. Where the borrower or prospective borrower reasonably satisfies the FI that the FI should take into account additional information in order to ascertain whether or not the borrower has debts that are more than 60 days past due on any credit card, charge card or unsecured credit facility, the FI may supplement the information held by any one or more credit bureaus with information provided by the borrower or prospective borrower from reliable sources.

Table 3: Illustration of implications of Proposal G

Example	Borrower holds credit cards from Lender A and Lender B. He fails to make minimum payment for more than 60 days to Lender A, but has been prompt in his payment to Lender B.
Lender A (existing lender)	<ul style="list-style-type: none"> • Suspend all existing credit cards, charge cards and unsecured credit facilities, i.e. prevent cards from being used further and disallow further draw down on existing unsecured credit facilities. • Reject applications for new credit cards, charge cards and unsecured credit facilities.
Lender B (existing lender)	<ul style="list-style-type: none"> • Disallow increase in credit limit for existing credit cards, charge cards and unsecured credit facilities. • Reject applications for new credit cards, charge cards and unsecured credit facilities that increase overall credit limit.
Lender C (new lender)	<ul style="list-style-type: none"> • Reject applications for new credit cards, charge cards and unsecured credit facilities.

3.2 This proposal will help to prevent debt from spiralling for borrowers who already have problems repaying their debt.

3.3 The FI can reinstate access to the cards and unsecured credit lines under limb (a) of para 3.1 after amounts due on all credit cards, charge cards and unsecured credit facilities owed to the FI are paid and the FI reviews the appropriateness of existing credit limits, including by obtaining updated income documents¹⁵ and conducting credit bureau checks, if these have not already been obtained or conducted respectively in the 3 months prior to the reinstatement of the credit lines.

¹⁵ Updated income documents are not mandatory for individuals who hold only credit cards with secured credit limits or credit cards with credit limit of \$500 or less.

Proposal H: Disallow further amounts to be charged to unsecured credit cards, charge cards and unsecured credit facilities of individuals whose interest bearing balances with the FI are more than 2 months' income for 6 consecutive months or more.

3.4 Individuals¹⁶ whose interest-bearing¹⁷ outstanding balances¹⁸ aggregated across unsecured credit cards, charge cards, and other unsecured credit facilities¹⁹ extended by the FI exceed 2 months of their income²⁰ for 6 consecutive months or more²¹ will be disallowed from:

- (a) charging further amounts²² to the unsecured credit cards²³, charge cards and unsecured credit facilities extended by the FI;
- (b) obtaining new²⁴ unsecured credit cards, charge cards or unsecured credit facilities from any FIs²⁵; and
- (c) obtaining credit limit increases on existing unsecured credit cards, charge cards and unsecured credit facilities from any FIs.

¹⁶ Including individuals with annual income of at least \$120,000 or total net personal assets exceeding \$2 million, who might have been granted credit limits exceeding 4 months' income.

¹⁷ Interest bearing balances are balances which accrue positive Effective Interest Rate ("EIR").

¹⁸ This excludes amounts related to disputed transactions, fees and charges. MAS expects FIs to have proper procedures in place to assess whether a transaction is a *bona fide* disputed transaction.

¹⁹ Unsecured credit facilities exclude loans defined under paragraph 9 of Notices 118, 635, 827 and 1109.

²⁰ Income is based on the latest available income documents on the FI's records.

²¹ Secured credit cards and persons who only hold credit cards with a credit limit of \$500 or less and who have no other unsecured credit facility are entirely excluded from this proposal.

²² FIs should not allow further amounts, save for fees and charges such as that for interest and late payment, to be charged. Recurring payments tagged to the credit cards, charge cards and unsecured credit facilities will also have to be suspended, once an individual's interest-bearing outstanding balances exceed 2 months' income for 6 consecutive months or more.

²³ FIs are also disallowed from charging further amounts to unsecured credit cards with credit limits of \$500 or less.

²⁴ Replacement, substitute, and additional cards, as defined in the Banking (Credit Card and Charge Card) Regulations 2004, which do not result in an increase in credit limit, are not considered new credit cards.

²⁵ To facilitate compliance with this proposal, members of credit bureaus will submit information to the credit bureaus identifying such individuals and have such information reflected in the individual's credit bureau report. Where the borrower or prospective borrower reasonably satisfies the FI that the FI should take into account additional information in order to ascertain whether or not the individual owes interest-bearing outstanding balances on unsecured credit cards, charge cards and unsecured credit facilities that exceed 2 months' income for 6 consecutive months or more to any FI, the FI may supplement the information held by any one or more credit bureaus with information provided by the borrower or prospective borrower from reliable sources.

3.5 This proposal will discourage individuals from prolonged reliance on credit cards and unsecured credit to finance their spending.

3.6 The FI can reinstate access to the cards and unsecured credit lines under limb (a) of para 3.4 after the borrower reduces his interest-bearing balances on unsecured credit cards, charge cards and unsecured credit facilities with the FI to below 2 months' income²⁶ and the FI reviews the appropriateness of existing credit limits, including obtaining updated income documents and conducting credit bureau checks, if these have not already been obtained or conducted respectively in the 3 months prior to the reinstatement.

²⁶ If the borrower's income level has increased such that the outstanding interest bearing balances fall below 2 months' income, the suspension can also be lifted. Updated income documents must be submitted for verification.

4 Increasing flexibility for financially secure retirees

Proposal I: Allow individuals above 55 years of age to qualify for credit cards if any one of the following conditions is met -

- (a) Annual income of at least \$15,000;**
- (b) Net personal assets exceeding \$750,000; or**
- (c) Guarantor with annual income of at least \$30,000.**

4.1 Currently, individuals above 55 years of age may qualify for a credit card²⁷ if he has an annual income of at least \$15,000.²⁸ The proposal provides for more alternatives for retirees to qualify for credit cards. Under the proposal, individuals above 55 years of age can qualify for credit cards if they meet any one of the following criteria:

- (a) Annual income of at least \$15,000;
- (b) Net personal assets²⁹ exceeding \$750,000; or
- (c) Guarantor with an annual income of at least \$30,000.

4.2 For individuals who qualify under (a) or (b), the maximum credit limit granted to the individual will be determined based on the income level of the individual, i.e. the maximum credit limit is 2 months' income if annual income is less than \$30,000 or 4 months' income if annual income is at least \$30,000. For example, an individual above 55 years of age with an annual income of \$12,000 and net personal assets of \$760,000 can now qualify for a credit card under this proposal. The maximum credit limit granted to him should be no more than \$2,000. For individuals who qualify under (c), the guarantor's and the cardholder's combined credit limit should be kept within the regulatory maximum credit limit of the guarantor.³⁰

²⁷ This proposal refers to unsecured credit cards with credit limits exceeding \$500.

²⁸ Income can include non-salaried sources such as rental income, dividend income, and interest income.

²⁹ Net personal assets is used in the same manner as it is used in the definition of "accredited investor" in Section 4A of the Securities and Futures Act. While MAS does not prescribe how net personal assets should be computed, assets should be substantiated by documents provided by the borrower. Lenders should take reasonable steps to ascertain the liabilities of the borrower, including by obtaining a written declaration from the borrower.

³⁰ FIs are encouraged to consider and provide feedback on downstream implementation issues, such as whether different limits can be set for the guarantor's card and the card issued to the individual above 55 years of age.

5 Aligning rules across unsecured credit products

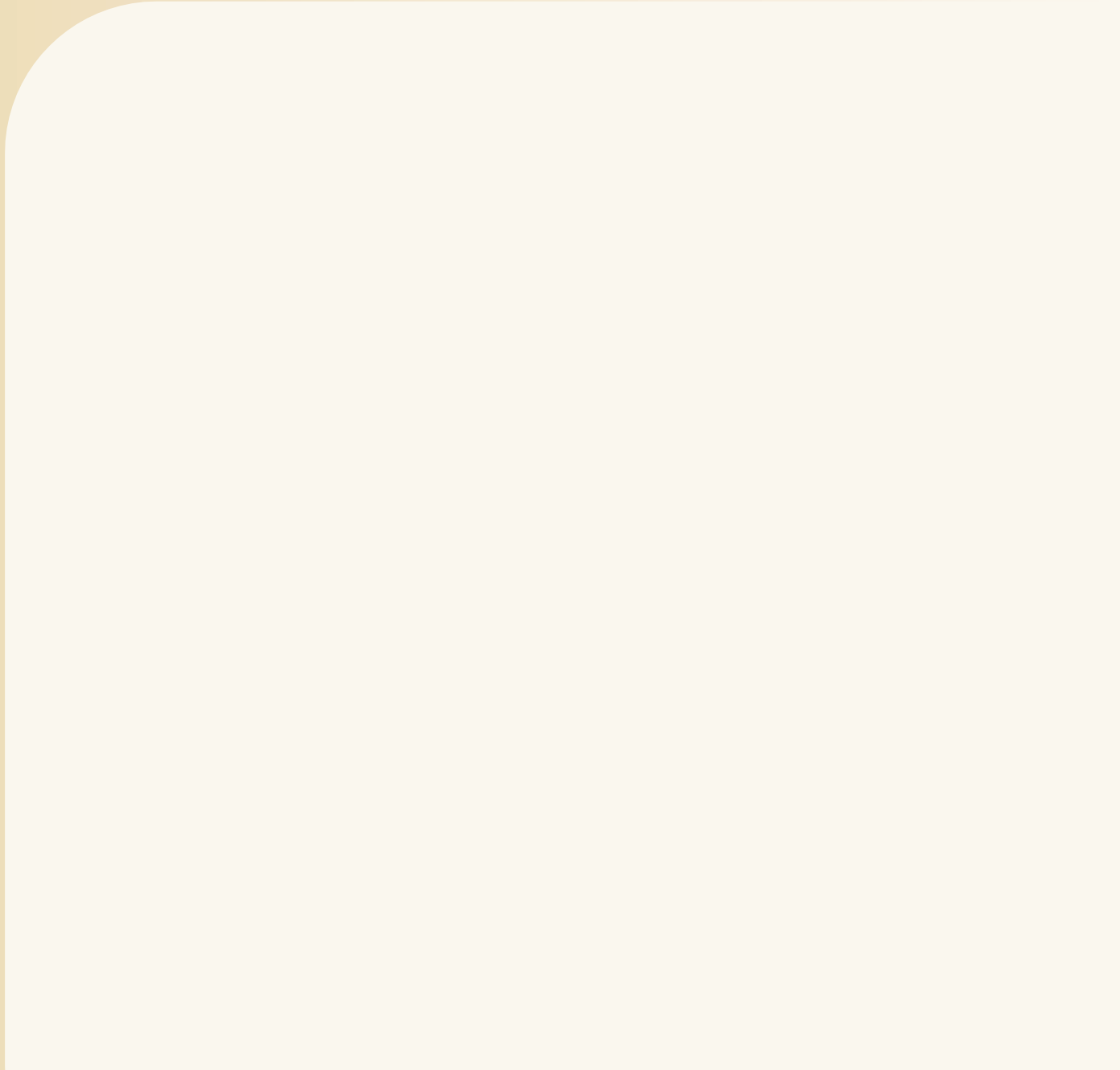
Proposal J: Require credit bureau checks and individual's written consent to be obtained in a document signed by him before credit cards with credit limit of \$500 or less can be issued, and disallow the acceptance of application forms for credit cards with credit limit of \$500 or less at temporary locations.

5.1 Similar to existing rules on other credit cards, FIs will be required to conduct comprehensive checks with one or more credit bureaus and to obtain an individual's written consent in a document signed by him before credit cards with credit limit of \$500 or less can be issued. The acceptance of application forms for credit cards with credit limit of \$500 or less at temporary locations will also be disallowed.

5.2 This proposal extends credit bureau checks and solicitation requirements to credit cards with credit limit of \$500 or less to align rules across unsecured credit products, and protect users of credit cards with credit limit of \$500 or less.

6 Specific feedback requested

6.1 Besides providing specific feedback on proposals A to J, FIs are requested to provide feedback on the indicative implementation time needed for each of the proposals.



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