THE ADVISORY COMMITTEE ON MONEYLENDING

Final Report

2015

Mr Manu Bhaskaran
Director of Centennial Group International
Vice President of the Economics Society of Singapore
(Chairman of the Committee)

Mr David Poh
President
Moneylenders Association of Singapore

Mr L Narayanan
Secretary
Moneylenders Association of Singapore

Mr Kuo How Nam
President
Credit Counselling Singapore

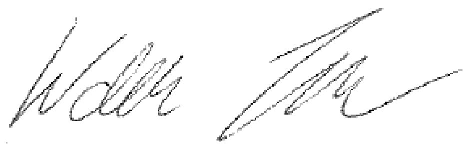
Mr Christopher Chuah
President
One Hope Centre's Executive Committee

Ms Jolene Ong
Executive Director
The Silver Lining

Professor Francis Koh
Vice-Provost
Singapore Management University

Associate Professor Aditya Goenka
Department of Economics
National University of Singapore

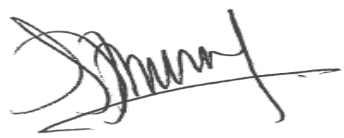
Assistant Professor Walter Edgar Theseira
Division of Economics
Nanyang Technological University



Ms Foo Mee Har
Member of Parliament
West Coast GRC

Ms Tan Su Shan
Nominated Member of Parliament
Managing Director
Group Head Wealth Management
DBS Bank

Mr Patrick Cheong
Chairman of Bedok C2E
Grassroots leader



Ms Carolyn Neo
Head of Prudential Risk Division
Monetary Authority of Singapore

Mr Yoganathan Ammayappan
Director of Gambling Safeguards Division
Ministry of Social and Family Development

Mr Shee Tek Tze
Deputy Director of Joint Ops Management
Ministry of Home Affairs

Contents

Introduction

1. On 18 June 2014, the Ministry of Law ("MinLaw") announced the formation of an Advisory Committee ("the Committee") to review the moneylending regulatory regime ("the regime") in Singapore, and to issue a report making recommendations on measures for:

   a. Capping of interest rates for moneylending loans;

   b. Restricting the charging of fees by moneylenders;

   c. Capping the aggregate amount of moneylending loans taken out by each borrower; and

   d. Other policy parameters which could strengthen the moneylending regulatory regime.

The Committee

2. Mr Manu Bhaskaran, Director of Centennial Group International and Vice President of the Economics Society of Singapore, was appointed as the chairman of the Committee. The Committee's members included representatives from the moneylending industry and voluntary welfare organisations ("VWOs") which help distressed borrowers, as well as academics with expertise in finance-related areas and Members of Parliament who had previously spoken on moneylending issues in Parliament.

3. The full list of committee members is as follows:

   a. Mr Manu Bhaskaran, Director of Centennial Group International and Vice President of the Economics Society of Singapore (Chairman)

   b. Mr David Poh, President, Moneylenders Association of Singapore

   c. Mr L Narayanan, Secretary, Moneylenders Association of Singapore

d. Mr Kuo How Nam, President, Credit Counselling Singapore

e. Mr Christopher Chuah, President of One Hope Centre’s Executive Committee

f. Ms Jolene Ong, Executive Director, The Silver Lining

g. Professor Francis Koh, Vice-Provost, Singapore Management University

h. Associate Professor Aditya Goenka, Department of Economics, National University of Singapore

i. Assistant Professor Walter Edgar Theseira, Division of Economics, Nanyang Technological University

j. Ms Foo Mee Har, Member of Parliament, West Coast GRC

k. Ms Tan Su Shan, Nominated Member of Parliament, Managing Director, Group Head Wealth Management, DBS Bank

l. Mr Patrick Cheong, Chairman of Bedok C2E, Grassroots leader

m. Ms Carolyn Neo, Head of Prudential Risk Division, Monetary Authority of Singapore

n. Mr Yoganathan Ammayappan, Director of Gambling Safeguards Division, Ministry of Social and Family Development

o. Mr Shee Tek Tze, Deputy Director of Joint Ops Management, Ministry of Home Affairs

Background

4. At the outset, the Committee considers it useful to provide a brief background on the moneylending landscape as well as an overview of the regime.

5. The regime is governed primarily by the Moneylenders Act ("MLA") and the Moneylenders Rules ("MLR"). The current MLA was enacted in 2008 and came into force in 2009, replacing the previous Act. Comprehensive changes were made to the legislation in 2008 to modernize the regulation of moneylending whilst safeguarding the interests of borrowers. Further adjustments were made to the regime and legislation from 2011 to 2012.

6. The number of moneylenders grew from 172 in 2008, to a high of 249 in 2011. In 2012, a moratorium was imposed on the grant of licences to new applicants. The number of moneylenders has since declined to 179 (as at 31 Dec 2014). The value of loans granted grew from $189 million in 2008 to $480 million in 2011. It declined to $346 million in 2012 but rose again to $478 million in 2013 and $586 million in 2014.

Overview of the Regime

7. The underlying premise of the current regime is that in a moneylending transaction, there is asymmetry of information between the lender and the borrower that favours the lender. The moneylender is deemed to be in a stronger negotiating position such that if matters were left entirely to the free market, the outcome will be one that favours the lender. Thus, restrictions are imposed on the lender and safeguards instituted to protect vulnerable borrowers, while permitting free market forces to work where possible. The key regulatory requirements that moneylenders must comply with are set out as follows.

Licensing requirements

8. Moneylenders must meet several criteria before their licences are granted. These include ensuring that the business is owned and managed by persons of good character as well as the placement of a security deposit to ensure the proper conduct of the business. In addition, moneylenders or any persons managing their business are required to sit for and pass a written test administered by the Registry of Moneylenders ("the Registry"). The test covers all the laws and regulations that moneylenders are subject to under the MLA and MLR.

9. The various criteria for the issuance of a licence are intended to ensure that the industry is made up of moneylenders who are not only responsible in their lending practices, but also familiar with the various requirements they are subject to under the law. In addition to prosecution in court, which can lead to a jail term and/or hefty fine, the Registry can also take licensing action against errant moneylenders, such as having their licences suspended, not renewed or revoked, as well as having their security deposit forfeited.

Disclosure requirements

10. Moneylenders are not allowed to grant unsolicited loans, as borrowers have to first submit a loan application in writing. Before granting a loan, moneylenders must explain the terms of the loan to the borrower. This is to ensure that borrowers are given sufficient information to assess for themselves whether they can afford the loan. In explaining the terms, the moneylender is also required to disclose the Effective Interest Rate ("EIR") of the loan. This requirement was introduced in 2012 and is intended to facilitate the borrower's comparison of different loan packages.

Advertising restrictions

11. Moneylenders are subject to stringent restrictions over how they may advertise their business[1]. Moneylenders are permitted to advertise only through the following channels: (a) business directories, (b) on their own business website, and (c) on the façade of their place of business. Thus, borrowers will generally only see a moneylending advertisement if they have taken the first step to look for it; i.e. the advertisement is not pushed into their consciousness. This was in response to the high volume of public feedback received by MinLaw, which reflected a legitimate public concern.

Loan quantum caps

12. Moneylenders are subject to caps on the amount of unsecured loans that they can grant to borrowers with an annual income below $120,000[2]. However, these caps are applicable only to individual moneylenders, rather than cumulatively across all moneylenders. This means that after obtaining the maximum allowable loan from one moneylender, the borrower may move on to other moneylenders and do the same. Left unchecked, this can result in a borrower's total loan amounts increasing drastically.

Interest rate caps

[1] These were introduced in 2011, by way of directions from the Registrar. A breach of the directions is an offence under section 26(3) of the MLA.

[2] The existing loan quantum caps are: (a) a borrower with an annual income of less than $20,000 is not allowed to take unsecured loans of more than $3,000; (b) a borrower with an annual income of $20,000 or more but less than $30,000 is not allowed to take unsecured loans of more than two times his monthly income; and (c) a borrower with an annual income of $30,000 or more but less than $120,000 is not allowed to take unsecured loans of more than four times his monthly income. Any moneylender who breaches these caps may be liable to a fine of up to $10,000 or $20,000, depending on whether he is an individual or a corporate entity.

13. There is a cap on how much interest moneylenders may charge borrowers with an annual income below $30,000[3]. For borrowers with an annual income of $30,000 or more, there is no limit on the amount of interest that a moneylender may charge. However, if the borrower feels that the interest charged is excessive, he may file a claim in the Small Claims Tribunal or the Court against the moneylender.

<u>Restrictions on fees</u>

14. Moneylenders are not allowed to charge any fees except those permitted by law. The charging of upfront fees was abolished in 2012. Currently, only contingent fees are permitted, such as fees resulting from failure in repayment, late payment, early redemption, etc.[4] There are currently no limits set on the quantum of such fees. However, if a moneylender wishes to charge such a fee, it must be specified in the loan contract and explained to the borrower.

The Committee's Approach

15. The Committee first discussed the various policy issues that needed to be addressed, based on the Committee's terms of reference. The Committee then proceeded to engage in consultations with the industry stakeholders by conducting two focus group sessions: the first comprising the moneylenders[5], and the second comprising representatives from VWOs which help distressed borrowers[6] as well as grassroots leaders. The focus group participants not only shared their perspectives and concerns with the Committee, but also submitted a number of proposals for consideration. The Committee then used these

[3] The interest rate caps are 20% EIR for unsecured loans and 13% EIR for secured loans.

[4] Under the MLR, the contingent fees moneylenders are permitted to charge are: (a) a fee for late payment of principal or interest; (b) a fee for varying the loan contract; (c) a fee for issuing a dishonoured cheque; (d) a fee for every unsuccessful GIRO deduction from a bank account; (e) a fee for early redemption of the loan or early termination of the loan contract; and (f) legal costs incurred for recovery of the loan.

[5] The moneylenders who participated in the focus group session were selected from members of the Moneylenders Association of Singapore.

[6] The VWO representatives who participated in the focus group session were from Credit Counselling Singapore, One Hope Centre, The Silver Lining, Association of Muslim Professionals and FinCARE.

proposals as a base for its deliberations. A summary of these proposals is set out in **Annex A**.

16. In the course of its deliberations, the Committee is cognisant of these policy constraints in regulating the moneylending industry: There will always be individuals who are in some form of financial distress and who will not qualify for a loan from a bank or other institutions providing credit. Experience shows that in their state of distress, such individuals will seek illegal sources of credit such as loan sharks if uncollateralised loans from sources such as licensed moneylenders were not available. This has significant adverse effects on borrowers and society at large. Consequently, there is a legitimate role for the licensed moneylending industry. The Committee accepts that since licensed moneylenders have a legitimate role in society, they should be allowed to operate in such a way as to earn a return on their capital invested that will compensate them for the risks they bear. However, this should only happen under a rigorous regulatory regime that ensures a fair deal for the borrower.

17. The Committee also recognises that there are various trade-offs to consider in formulating its recommendations. A balance needs to be struck between allowing borrowers reasonable access to credit from moneylenders, whilst ensuring that borrowers, especially the vulnerable ones[7], are adequately protected.

18. Further, the Committee takes the view that as far as possible, the recommendations should be designed to facilitate competition among moneylenders. Effective competition within the industry ultimately benefits borrowers in the form of more competitive rates, improved service levels, etc. A well-regulated yet competitive market will allow the industry to remain sustainable in the long run.

19. The Committee is also mindful of the general profile of borrowers who turn to moneylenders to meet their financial needs. Protective measures that are overly complicated may run the risk of being ineffective, as borrowers may lack the

[7] A borrower's vulnerability could be due to a few reasons, including low income, low education levels, lack of ability to comprehend loan terms etc.

understanding to avail themselves of the protection. Thus, policies should as far as possible be kept simple and easy to understand.

20. The Committee also determined that it should, where possible, base its recommendations on available empirical data on the moneylending industry. A proper analysis and consideration of such data will allow for the formulation of more effective policies. To this end, in addition to data obtained from the Registry, the Committee also considered data submitted by the Moneylenders Association of Singapore ("MLAS").

The Committee's Recommendations

21. This section sets out the specific recommendations made by the Committee as well as the reasons for each of the recommendations.

Recommendation 1: Controls on borrowing costs

22. The issue of borrowing costs comprises two components, i.e. interest and fees, and they will be discussed in turn.

    Interest

23. In respect of interest, the Committee analysed loan data from 2012 to 2013, and made the following key observations (see **Annex B** for details):

    a. Interest rate caps can be effective at reducing the price of credit to borrowers;
    b. Interest rate caps do not necessarily prevent borrowers from obtaining credit; and
    c. An interest rate cap which applies to only a subset of borrowers based on their income levels could result in such borrowers circumventing the cap by declaring a higher income to the moneylender.

24. Based on the analysis, the Committee agrees that if an interest rate cap is to be imposed, it should be a universal interest rate cap applied to all borrowers so as

to ensure adequate protection. Under a universal cap, there will also be no incentive to report inflated income figures.

25. The next question to be considered is whether there is a need to impose such a cap and the quantum at which it should be set. Ideally, the moneylending industry's commercial viability should be taken into consideration in the setting of such a cap, as it will provide a useful indication of the threshold at which an interest rate cap can be set without adversely impacting access to credit for too many borrowers i.e. the threshold at which it no longer becomes commercially viable to lend.

26. However, based on the Registry's data, the Committee was not able to accurately compute the profits within the industry, as moneylenders currently do not report information on their profits/losses and loan defaults.

27. Nevertheless, the Committee notes that for borrowers who are not protected by interest rate caps, a majority of them currently pay Nominal Interest Rates ("NIR") that are three-figure sums (see Table 3 of **Annex B**). This strongly suggests that there is some room for the interest rates to be capped below the current rates being charged which would allow moneylenders to remain commercially viable while offering some borrower protection. The Committee thus took the view that an interest rate cap should be imposed, along with other caps on borrowing costs.

28. In calibrating an appropriate quantum for the interest rate caps, the Committee considered additional data from the MLAS (to be elaborated under paragraph 35), as well as the borrowing cost regimes for moneylenders in other Commonwealth jurisdictions such as Hong Kong. It is noted that Hong Kong has provided that interest rates in excess of 48% per annum, or 4% per month are presumed to be extortionate. This rate appears to be commercially viable for moneylenders[8].

---

[8] The interest rate caps in Hong Kong are set out in sections 24 and 25 of the Hong Kong Moneylenders Ordinance. Section 24(1) provides that moneylenders charging interest above 60% per annum will be liable for an offence punishable with a fine and imprisonment. In addition, section 25(3) provides that interest in excess of 48% per annum is presumed to be extortionate. Thus, there is effectively a 'soft' cap at 48% per annum and a 'hard' cap at 60% per annum. Hong Kong uses Applied Percentage Rate as the basis for calculating interest rates.

Fees

29. Moneylenders are currently allowed to charge fees on the occurrence of various contingent events such as late repayment and variation of the loan contract. The Committee recommends streamlining the fee structure by allowing moneylenders to charge only an upfront administrative fee and a late fee, with both being subject to caps. Any other fee will not be permitted. This will allow the total cost of borrowing to be reflected in terms of the interest rate, the late interest rate, the upfront administrative fee and the late fee.

30. In respect of the upfront administrative fee, this will serve to defray some of the costs associated with operating the moneylending business. This includes the cost of loan defaults, which are estimated to be around 10% of the total loan principal granted by moneylenders currently. In this regard, the Committee is inclined to set the cap on the administrative fee at 10% of the loan principal. This will create a strong incentive for moneylenders to review their cost structures and to improve the efficiency of their operations.

31. As for the late fee, it is intended to serve as a deterrent against late repayment and provide a means for moneylenders to recover costs associated with debt collection. It should be noted that borrowers who repay on time will pay a lower interest rate. Borrowers who repay late generate additional costs associated with debt collection. Therefore, such borrowers should bear a reasonable late fee and additional late interest.

32. With regard to the cap on the late fee, the Committee considers it reasonable to set it at no more than $60 per month, taking reference from a number of credit cards in Singapore which impose similar rates for their late fees.

Proposed controls on borrowing costs

33. To control borrowing costs, the Committee proposes that moneylenders be allowed to charge borrowers the following:

    a. An upfront administrative fee of not more than 10% of the loan principal;

b. Interest of not more than 4% per month[9];
c. Late interest of not more than 4% per month; and
d. Late fee of not more than $60 per month.

34. In addition, the Committee recommends that total borrowing costs be capped at 100% of the loan principal. This means that a borrower who borrows $100 will never be liable for more than $200. This will help prevent borrowers' debts from snowballing, and borrowers from getting trapped in a debt spiral. This cap excludes legal fees[10] incurred as part of the debt recovery process.

35. Using data from the MLAS, simulations were conducted to estimate the effects of the proposed controls on borrowing costs. The results are set out in **Annex C.** In summary, a sufficient number of moneylender businesses should remain commercially viable while borrowers on the whole should see a significant reduction in their borrowing costs. The Committee notes that the commercial viability of moneylenders will depend largely on how well they can adapt to the new borrowing cost structure, e.g. by improving their credit risk assessments and reducing their business operating costs.

36. The Committee also notes that MinLaw has already commenced work in setting up a Moneylenders Credit Bureau ("MLCB"). Moneylenders will be required to share information via the MLCB and to conduct credit checks on borrowers. The MLCB will serve as a central repository for comprehensive loan data. This will help moneylenders improve credit risk assessments, which in turn will help reduce the incidence of loan defaults. The MLCB is also an important enabling factor in the introduction of controls on overborrowing (see Recommendation 2) and on borrowing costs.

37. Additionally, the data collected by the MLCB will allow MinLaw to better calibrate its moneylending policies in future. Therefore, the Committee recommends that MinLaw review and assess the impact of the controls on borrowing costs when better data from the MLCB is available, with a view to improving the calibration of regulatory controls as necessary.

---

[9] To be factored on a reducing balance basis. See Recommendation 9 below.
[10] "Legal fees" refers strictly to such party and party costs as may be ordered by the Court against the borrower when the moneylender successfully sues for a judgement debt.

Recommendation 1: Controls on borrowing costs

To control borrowing costs, the Committee recommends that moneylenders be allowed to charge borrowers the following:

a. An upfront administrative fee of not more than 10% of the loan principal;
b. Interest of not more than 4% per month;
c. Late interest of not more than 4% per month; and
d. Late fee of not more than $60 per month.

In addition, total borrowing costs are to be capped at 100% of the loan principal. The controls on borrowing costs should be reviewed when better data from the MLCB is available, with a view to assessing the impact and improving the calibration of regulatory controls as necessary.

Recommendation 2: Aggregate unsecured borrowing cap

38. The Committee agrees that to encourage financial prudence, it is desirable to cap the aggregate amount of unsecured loans borrowers can take from moneylenders ("aggregate cap"). The existing loan quantum caps can be easily circumvented by borrowers, who can obtain further credit from other moneylenders after reaching the limit with one moneylender. Thus, it is easy for borrowers to take on more debt than they can afford to repay without an aggregate cap. On this basis, the Committee recommends introducing an aggregate cap.

39. On the quantum for the aggregate cap, the Committee is mindful that setting the cap at too low a level could result in borrowers being denied access to credit, and they could be forced to turn to illegal sources. On the other hand, setting the cap at too high a level could result in borrowers borrowing more than they can repay, which renders the cap ineffective. The Committee analysed data from 2012 to 2013 on borrower income and amount of loans taken, which provided guidance on the appropriate quantum for the cap.

40. Based on the analysis (see **Annex D** for details), the Committee notes that the aggregate amount of loans taken by most borrowers is not likely to be more than three times of their monthly income. The Committee also notes that borrowers earning $30,000 or more a year are currently subject to an unsecured borrowing cap (which applies on a *per* moneylender basis) of four times of their monthly income.

41. The Committee takes the view that the quantum of the aggregate cap should be set at a level that is higher than four times of the borrower's monthly income, given that such a cap for each borrower will apply industry-wide. In this regard, the Committee recommends that the aggregate cap be set at six times of a borrower's monthly income. This should offer sufficient protection to borrowers who may become severely indebted, while still allowing them reasonable access to credit. The quantum of the cap can be further calibrated as necessary in future.

42. In respect of borrowers earning less than $20,000 a year, the amount of unsecured loans they can take is currently capped at $3,000 *per* moneylender. The Committee is of the view that for this group of borrowers, the aggregate cap should be kept at $3,000. This helps to ensure that the debts of these borrowers remain manageable, since they are likely to have limited capacity to service loan repayments.

43. While there is a possibility that the proposed aggregate cap could deprive some borrowers of credit, the Committee assesses that this risk is not significant for three reasons.

44. First, as the analysis shows, the majority of borrowers already appear to be borrowing well within the proposed cap. Second, upfront knowledge of the aggregate cap may instil greater financial discipline in borrowers generally such that they are less reliant on moneylenders. Third, the aggregate cap will not entirely cut off borrowers from credit, as they will still be able to borrow up to six times their monthly income or $3,000, where applicable.

45. Taken together, the Committee is of the view that the risk of borrowers being forced to turn to illegal sources is low. The risk is also outweighed by the benefits of encouraging greater financial prudence amongst borrowers.

46. Finally, the Committee agrees that the aggregate cap should be independent of the Monetary Authority of Singapore's ("MAS") aggregate unsecured borrowing cap for banks and financial institutions[11].

Recommendation 2: Aggregate unsecured borrowing cap

The Committee recommends that borrowers earning less than $20,000 a year be subject to an aggregate unsecured borrowing cap of $3,000. As for all other borrowers, they should be subject to an aggregate unsecured borrowing cap of six times of their monthly salary. The proposed caps should be independent of MAS's aggregate unsecured borrowing cap for banks and financial institutions.

Recommendation 3: Lifting of the moratorium on grant of new moneylending licences

47. The Committee notes that there is currently a moratorium in place on the grant of new moneylending licences. The reason for introducing the moratorium was to check the proliferation of moneylenders while MinLaw carried out a review of moneylending regime.

48. The Committee is of the view that the moratorium prevents entrants to the industry and therefore limits competition within the industry. The lack of new

[11] With effect from 1 June 2015, MAS will be introducing an industry-wide borrowing limit on an individual's interest-bearing unsecured debt with MAS-regulated financial institutions. This limit will be phased over four years as follows:

- 24 times an individual's monthly income from 1 June 2015;
- 18 times an individual's monthly income from 1 June 2017; and
- 12 times an individual's monthly income from 1 June 2019.

Financial institutions will not be allowed to grant further unsecured credit to an individual whose interest-bearing unsecured debt exceeds the prevailing borrowing limit for three consecutive months.

entrants effectively strengthens the asymmetry in favour of incumbent moneylenders. Additional competition in the industry could potentially result in lower costs for borrowers. Lenders will also have a stronger incentive to improve the efficiency of their businesses. Therefore, with the introduction of controls on borrowing costs and overborrowing, the Committee recommends that the moratorium be lifted.

Recommendation 3: Lifting of the moratorium on grant of new moneylending licences

The Committee recommends that the moratorium on the grant of new moneylending licences be lifted so as to improve competition in the moneylending industry.

Recommendation 4: Ascertain underlying reasons for borrowing from licensed moneylenders

49. The Committee agrees that there is currently an insufficient understanding of the underlying reasons for borrowing from licensed moneylenders. The Committee takes the view that there are borrowers who should not be borrowing from licensed moneylenders in the first place, e.g. people who borrow to gamble or whose cash flows are so limited that they will never be able to service their loans without getting into further financial distress. In such cases, the borrower may be better served by other forms of support such as counselling or restructuring of existing debts. A more in-depth understanding of the reasons for borrowing will allow for more precise calibration of policies to address the underlying issues.

50. The Committee notes that some VWOs which counsel distressed borrowers have conducted borrower surveys on their reasons for borrowing. The Committee therefore recommends that MinLaw engage the VWOs to obtain the relevant information, as well as undertake further research to ascertain if there are borrowers who should not be borrowing from licensed moneylenders. MinLaw will

then be able to identify the size and other characteristics of this group and look into other forms of support for these borrowers.

Recommendation 4: Ascertain underlying reasons for borrowing from licensed moneylenders

The Committee recommends that MinLaw engage the VWOs which counsel distressed borrowers as well as undertake further research to ascertain if there are borrowers who should not be borrowing from licensed moneylenders. Thereafter, MinLaw should be able to identify the size and other characteristics of this group and look into counselling, debt restructuring or other forms of support for these borrowers.

Recommendation 5: Improve recourse for debt recovery through formalised debt restructuring

51. Apart from taking a borrower to court, there currently appears to be limited alternative recourse for moneylenders against errant borrowers who default on their repayments. Even the option of taking legal action against the borrower may not be cost-effective, since their loan amounts are typically $5,000 or less.

52. There was a suggestion to allow moneylenders to seek recourse in the Small Claims Tribunal, but the Committee feels that this may not necessarily be cheaper for the moneylender, since any judgments issued will still need to be enforced if the borrower refuses to pay, e.g. through a writ of seizure and sale.

53. From the experience of the VWOs which help distressed borrowers negotiate their repayment terms with moneylenders, borrowers are generally willing to repay their debts. The issue for borrowers tend to be that the loan repayment terms are usually beyond the borrowers' capacity. The VWOs are already helping a number of borrowers negotiate and restructure their debts owed to

moneylenders, though such negotiations become more complicated when there are multiple moneylenders involved for the borrower.

54. To this end, the practice in the banking industry can be a useful reference point. Credit Counselling Singapore ("CCS") assists debtors in restructuring their debts with banks. In order to facilitate this, all banks in Singapore are collectively represented in the restructuring process such that CCS only needs to negotiate with one party. The restructuring plan is put to a vote by the banks involved, where a simple majority is sufficient to approve the plan and for it to be binding on all the banks involved. This eliminates the complexity of negotiation with multiple lenders.

55. Overall, the Committee agrees that debt restructuring could potentially benefit both moneylenders and borrowers. The Committee is of the view that collective representation for moneylenders would be necessary to facilitate a debt restructuring regime in the moneylending industry. This will provide some borrowers with more achievable repayment terms, and at the same time allow moneylenders a better rate of recovery for their debts.

56. Therefore, the Committee recommends that the MLAS work closely with the VWOs who assist distressed debtors (e.g. The Silver Lining, One Hope Centre and Credit Counselling Singapore) to explore the feasibility of introducing a formalised debt restructuring regime with the support of MinLaw, where there is a collective representation of moneylenders in the debt restructuring process.

Recommendation 5: Improve recourse for debt recovery through formalised debt restructuring regime

The Committee recommends that the MLAS work closely with the VWOs who assist distressed debtors (e.g. The Silver Lining, One Hope Centre and Credit Counselling Singapore) to explore the feasibility of introducing a formalised debt restructuring regime with the support of MinLaw, where there is a collective representation of moneylenders in the debt restructuring process.

Recommendation 6: Location of moneylenders in the heartlands

57. There have been reports of an increase in the number of moneylenders in the heartlands[12], along with concerns raised that the proximity of moneylenders in the heartlands may result in over-borrowing. However, at present, there is no evidence to show that the presence of moneylenders in any neighbourhood induces residents in that neighbourhood to take on more loans.

58. In any event, to address the root concern of over-borrowing, the Committee is of the view that the aggregate amount of moneylending loans borrowers can take should be limited directly. That being said, the Committee understands the reservations in having an excessive concentration of moneylenders in the heartlands. While at this point the Committee does not advocate strict regulation in respect of the location of moneylenders, the Registry should take note of the current situation and ensure that it is not aggravated.

Recommendation 6: Location of moneylenders in the heartlands The Committee does not recommend strict regulation in respect of the location of moneylenders at the present time. Nevertheless, the Committee recommends that the Registry monitor the situation and ensure that the situation is not aggravated.

Recommendation 7: Complete information on borrower indebtedness

59. The Committee agrees that it is desirable for lenders in general to have complete information on a borrower's indebtedness before a loan is granted. This involves aggregating information relating to as many sources of credit as possible. Given the benefits of comprehensive credit information on borrowers, this should be a long-term target for policymakers to work towards, with the setting up the MLCB

[12] While there is no standard definition of what constitutes heartlands, the Committee's considerations proceeds on the basis that heartlands refers to HDB residential estates/neighbourhoods.

being a good first step towards achieving this target. It is also noted that the MLCB will be a separate system from the credit bureaus that serve the banks and financial institutions.

60. In the interim, there is no legal impediment to borrowers obtaining their own credit reports from the credit bureaus serving the banks and furnishing them to lenders. The Committee considers it good business practice for moneylenders to require borrowers to furnish their own credit reports before granting a loan.

Recommendation 7: Complete information on borrower indebtedness

The Committee recommends that the issue of aggregating credit information on borrowers be given consideration by policy makers. There are benefits to having complete information on borrower indebtedness before a loan is granted. In the interim, it is good business practice for moneylenders to require borrowers to furnish their own credit reports before granting a loan.

Recommendation 8: Flag out casino-excluded borrowers via the Moneylenders Credit Bureau

61. The Committee is concerned that a number of borrowers may take loans from moneylenders to indulge their gambling habits, which is undesirable from a social standpoint. The Committee also agrees that it is important to flag out borrowers who may face financial difficulties due to their gambling activities to lenders, so that the lender can make an informed decision on whether to grant the loan.

62. While it is acknowledged that not all persons who go to the local casinos are in financial trouble, a casino-exclusion order serves as a useful proxy in identifying those who may be at financial risk due to their gambling habits. In this regard, the Committee feels that it would be useful for borrowers who are excluded from local casino premises to be flagged out to moneylenders, possibly via the MLCB before a loan is granted. This will allow the moneylender to make a more complete risk assessment of the borrower.

Recommendation 8: Flag out casino-excluded borrowers via the Moneylenders Credit Bureau

The Committee recommends that borrowers who are found to be excluded from local casino premises be flagged out to moneylenders. This could be done via the MLCB before a loan is granted**.**

Recommendation 9: Standardise loan terms and practices

63. Based on data provided by the Registry, a number of moneylending loans are structured on weekly repayment terms, even if the borrower does not receive a weekly wage. This mismatch between the wage and loan repayment cycles can easily lead to a borrower being late in his repayments, which could result in late repayment charges and eventually the snow-balling of debts.

64. The Committee holds the view that loans should generally be structured on a monthly repayment basis so as to be aligned with the cash-flow for most borrowers. However, if the borrower is able to furnish evidence that he does not receive wages on a monthly basis, repayments can still be structured on a more frequent basis (e.g. weekly). This will better allow borrowers to service their loans and reduce their likelihood of default.

65. Further, the Committee is of the view that loan contracts (including terms such as the frequency of compounding of interest) and repayment schedules should be standardised across all moneylenders and explained in simple terms. This will facilitate borrowers in comparing loan packages without the need to use concepts such as EIR, which may be difficult to understand.

66. The Committee agrees that it would be desirable to mandate that all moneylenders calculate interest on a reducing balance basis, which is in line with banks' practice. Currently, a number of moneylenders calculate interest on a "flat

rate” basis, which means the interest could be applied to the full principal amount throughout the loan term.

67. Using a reducing balance method to compute interest will be fairer to the borrower as the calculation of interest is applied to the outstanding principal amount. This ultimately allows the cost of borrowing to be more accurately captured.

68. Standardising loan terms and practices will facilitate the comparison of loan packages. When borrowers can easily compare loan packages, there will be an additional incentive for moneylenders to engage in market competition, which will benefit borrowers.

Recommendation 9: Standardise loan terms and practices

The Committee recommends that all moneylenders be required to keep to a set of standardised loan contracts and practices. In particular, loan repayment terms should be standardised to be on a monthly basis by default, unless a borrower is able to furnish evidence that he does not receive a monthly wage. All moneylenders should also be required to calculate interest on a reducing balance basis. The standardisation of terms and practices facilitates comparison across loan packages offered by different moneylenders.

Recommendation 10: Professionalise the moneylending industry

69. Moneylenders are currently subject to background and character checks before they are granted a licence. The Committee agrees that such checks need to be as stringent as possible so as to weed out unsavoury characters and prevent them from entering the industry.

70. Simply preventing unsavoury characters from entering the industry is insufficient to provide borrower protection. The Committee also considers it important that the industry be at a sufficient level of professionalism. To this end, the Committee recommends that capital adequacy requirements should be imposed on all moneylenders, with each moneylender being required to be incorporated as a

company with a minimum paid-up capital. By incorporating, the ownership and control structure of moneylenders will be more formalised and transparent.

71. As regards the quantum of paid-up capital required, the Committee considers the issue to be one of striking a balance. A high capital requirement could be prohibitive while a low requirement is ineffective as a filter against frivolous applicants. On balance, the Committee takes the view that imposing a minimum paid-up capital requirement of $100,000 on moneylenders would be adequate as a start. The quantum can be recalibrated in future as necessary.

72. In addition, the Committee proposes that all moneylenders should be required to submit their annual audited accounts to the Registry. This will allow the Registry to better understand the industry as a whole, as well as individual businesses. While it is recognised that this could impose some compliance costs on the moneylenders, such costs are unlikely to be prohibitive. Overall, the benefits of having comprehensive data will outweigh the relatively low compliance costs.

Recommendation 10: Professionalise the moneylending industry

The Committee recommends that all moneylenders be required to incorporate as companies with a minimum paid-up capital of $100,000. Moneylenders should also be required to submit annual audited accounts to the Registry.

Recommendation 11: Advertising restrictions

73. The Committee notes the restrictions that moneylenders are currently subject to in their advertising activities. From a social standpoint, there are various implications to allowing moneylenders free rein in their advertising activities. Nevertheless, overly stringent advertising restrictions may stifle the flow of information to the consumer and undermine effective competition amongst moneylenders.

74. Under the current restrictions, a moneylender's most effective means of advertising is to exhibit information on the façade of its business premises[13]. On the whole, the Committee agrees that the advertising restrictions could be relaxed to allow some advertisement in the newspapers, but subject to stringent regulation both in terms of the channels and the content of their advertisements.

75. In this aspect, the Registry can also develop a strict template for all moneylenders to adopt, with the content limited to information such as the moneylender's landline and licence number, along with restrictions on the number and frequency of advertisements allowed to be put out. This will allow moneylenders to reach out to potential customers, thereby facilitating competition. At the same time, the advertisements should not contain misleading information, or be designed to induce additional borrowing.

Recommendation 11: Advertising restrictions

The Committee recommends that MinLaw consider relaxing the advertising restrictions to allow moneylenders some limited advertisement in the newspapers, subject to stringent regulation in their advertising activities. The Registry can develop a strict template to be adopted by all moneylenders to prevent advertisements from being misleading. The number and frequency of newspaper advertisements could be controlled as well.

Recommendation 12: Regulate moneylenders' debt collection activities

76. At present, debt collection for moneylenders is largely unregulated, with no guidelines or regulations on debt collection practices apart from general criminal laws and laws relating to harassment. The resulting varied debt collection practices in the moneylending industry have given rise to a number of complaints about the unsavoury methods that some moneylenders employ to collect their debts, e.g. visiting the borrower's workplace to cause them embarrassment.

[13] Other permitted forms of advertising include advertising in business directories, having dedicated webpages etc. Anecdotal evidence suggests that these methods are not favoured by moneylenders.

77. The Committee notes that under current criminal laws and anti-harassment laws, borrowers are already offered some measure of protection against illegal behaviour by debt collectors. Nevertheless, the Committee recognises that there is benefit to having clear guidelines on acceptable debt collection practices for moneylenders, and recommends that MinLaw introduce such guidelines accordingly.

Recommendation 12: Regulate moneylenders' debt collection activities

The Committee recommends that MinLaw introduce a set of guidelines for moneylenders on acceptable debt collection practices.

Recommendation 13: Enhance disclosure requirements

78. Moneylenders are currently not obliged to explain to borrowers the effects of late repayment on their overall debt. Borrowers may not understand how their debt may snowball if they repay late. A recent study in the United States found that making banks disclose the effects of late repayment to borrowers had some effect in shifting borrower behaviour towards making repayments on time[14].

79. In view of this, the Committee considers it useful to require moneylenders to make such disclosures. As a start, borrowers should be presented with information as to the total dollar amount they will be charged for late repayments, as opposed to simply the percentage rate, since dollar amounts are generally more intuitively understood.

[14] Agarwal, Sumit and Chomsisengphet, Souphala and Mahoney, Neale and Stroebel, Johannes, Regulating Consumer Financial Products: Evidence from Credit Cards (April 2014). Available at SSRN:http://ssrn.com/abstract=2330942

Recommendation 13: Enhance disclosure requirements

The Committee recommends that before granting a loan, moneylenders should be required to explain to borrowers the effects of late repayment on their overall debt, with concrete examples set out in dollar terms and explained to the borrower.

Recommendation 14: Exceptions for business loans

80. While the vast majority of moneylending loans are taken by individuals, it is not uncommon for moneylenders to extend loans to business entities such as companies. The Committee takes the view that there is a less compelling need to cater protection for borrowers in respect of loans taken purely for business purposes, since the regime is geared towards consumer protection.

81. Accordingly, the Committee recommends that the Registry considers allowing an exception to all business loans, in that such loans will not be subject to the proposed controls on borrowing costs as well as the aggregate unsecured borrowing cap. Business loans can be defined as loans granted to businesses which have been registered for at least two years[15] to serve as a check on the legitimacy of the loan purpose.

Recommendation 14: Exceptions for business loans

The Committee recommends providing an exception to all business loans extended by moneylenders, in that such loans will not be subject to the proposed controls on borrowing costs as well as the aggregate unsecured borrowing cap. Business loans can be defined as loans granted to businesses which have been registered for at least two years.

[15] The word "business" used here refers to entities under any type of business structure, e.g. sole-proprietorships, partnerships, companies, etc. Similarly, "registered" refers to all relevant registration processes by which such a business entity comes into existence, e.g. registration of a sole-proprietorship, incorporation of a company, etc.

Recommendation 15: Improve the collection of moneylending data

82. The Committee notes that the data currently collected by the Registry is incomplete. The data collected does not include information such as loan defaults and profits/losses of moneylenders. Overall, a more comprehensive set of data will allow MinLaw to better understand the industry, and to formulate better policies. To this end, the Committee proposes a list of additional data fields to be collected for the Registry's consideration (see **Annex E**). The Committee also notes that the implementation of the MLCB is a positive step in improving the data available to policymakers.

Recommendation 15: Improve the collection of moneylending data
The Committee recommends that the Registry improves the collection of data from moneylenders. A list of the type of data that might be useful for regulatory purposes is proposed for the Registry's consideration.

Prepared by:
The Secretariat[16]
Community Legal Services Division
MinLaw

[16] The list of members is in Annex F.

Annex A: List of Proposals Submitted via the Focus Group Sessions

<u>Focus Group Session 1: Moneylenders</u>

S/N	Proposal
1.	Remove the EIR caps and reinstate NIR caps, as EIR may not be applicable or relevant to moneylending loans.
2.	Impose a universal NIR cap of 40% per month, taking into consideration the higher credit risk of lower income borrowers served by moneylenders.
3.	Impose a late payment fee cap of $80 per occasion of late payment or 80% of the instalment amount, whichever is higher.
4.	Impose a cap on contract variation fee at 30% of loan amount.
5.	Impose a cap on early redemption fee at 40% of outstanding principal amount.
6.	Impose a cap on unsuccessful GIRO/dishonoured cheque fee at $80.
7.	Impose a loan processing fee of $50 or 5% of the loan amount disbursed, whichever is higher. This will help moneylenders defray the loan processing costs.
8.	To curb excessive borrowing, impose an aggregate moneylending loan quantum cap (“ML cap”) of 9 months of borrower’s monthly income. This will be separate from other aggregate loan quantum caps, e.g. MAS’s cap for unsecured borrowings from financial institutions (“FI cap”).
9.	To encourage more competition in the moneylending industry, allow loan transfers (equivalent to balance transfer) from one moneylender to another. Loan redemption must be done moneylender-to-moneylender and not breach the ML cap.
10.	Allow temporary limit increase of up to three months of borrower’s monthly income over three-month duration. Once a borrower has utilised the temporary limit, no moneylenders should further extend this limit.
11.	Relax the advertising restrictions to facilitate price competition.
12.	Require the Courts to look at any rate of simple interest below the proposed interest rate cap applied to moneylending loan contracts as reasonable and not excessive, taking the moneylenders’ business model into consideration.
13.	Allow moneylenders to seek legal recourse against borrowers who default via the Courts/Small Claims Tribunal. Moneylenders currently do not have legal recourse against such borrowers, and as most moneylending loans are small (i.e. not more than $5,000), it may not be cost-effective for moneylenders to

	take legal action to recover their debts against such borrowers.
14.	Establish a credit dispute resolution centre to provide borrowers with an affordable and accessible one-stop avenue to resolve their disputes with moneylenders. This will provide an additional avenue of recourse for moneylenders and borrowers, and relieve the VWOs and grassroots organisations of the existing burdens of having to mediate between the two parties.
15.	Grant moneylenders access to the banks' credit bureau system so as to allow moneylenders to make a more informed decision with respect to the borrowers' aggregate credit situation.
16.	Put in place guidelines to align the loan repayment schedule with borrowers' income receipts.

Focus Group Session 2: VWOs and grassroots leaders

S/N	Proposal
1.	Require moneylenders to calculate interest charges in a uniform manner, e.g. flat or simple monthly compounded and also show EIR to facilitate comparison.
2.	Impose a universal interest rate cap.
3.	Impose a cap on individual contingency fees plus an overall cap on all types of contingency fees that can be incurred for each loan.
4.	Impose a national cap on borrowings from moneylenders, e.g. four months of borrower's income for all individuals earning below $120,000 per annum. This will be on top of MAS's FI cap.
5.	To ensure borrowers have ability and willingness to make repayments, disallow moneylenders from extending new credit to delinquent borrowers, i.e. those who fail to meet their instalment payments fully or partially in the current month.
6.	Establish a credit bureau for moneylenders so as to monitor the national ML cap and update repayment records for better risk assessment.
7.	No need to restrict the location or stipulate concentration of moneylenders.
8.	Moneylenders should be geographically clustered outside of the HDB heartlands. Their presence in the heartlands could be considered as "unsolicited marketing" and we are in danger of grooming a new generation towards this type of borrowing.

9.	Allow moneylenders to do restricted advertisements on various media – the advertisements can only list the moneylenders' name, contact numbers and office address without any other claims of low interest or easy credit availability.
10.	Set up a mediation centre to handle complaints and disputes between borrowers and moneylenders, similar to FIDREC for disputes between banks and their customers.
11.	Draw up guidelines for moneylenders to work with VWOs to facilitate a debt settlement arrangement to help distressed borrowers and moneylenders achieve a win-win outcome.
12.	Require moneylenders to examine the debt servicing ability of borrowers and justify the loan repayment terms.
13.	Disallow moneylenders to send debt collectors to borrowers' homes since moneylenders have legal recourse against borrowers who default.
14.	To introduce a code of practice for debt collection activities to regulate moneylenders' debt collection activities.
15.	Allow banks into the moneylending arena by allowing them to lend up to the ML cap, in addition to MAS's FI cap, provided the banks follow the same lending rules as the moneylenders, less some of the onerous restrictions regarding the operations for licensed moneylending.

Annex B: Statistics on Moneylending: Interest Rate Regulation

Prepared by: Dr. Walter E. Theseira, Nanyang Technological University

Interest Rate Regulation

Regulating interest rates may protect borrowers, but may also limit access to credit if the rates are set below the actual cost of small-scale lending to risky borrowers. We can learn more about the potential effects of an interest rate cap by examining the historic market reaction to the interest rate cap policy changes in June 2012.

In June 2012, the Ministry of Law implemented a series of changes to interest rate caps in the ML market:

1) The interest rate cap on ML borrowers with annual incomes less than $20,000 was adjusted from 18% NIR to 20% EIR, for unsecured loans.
2) This interest rate cap of 20% EIR was then extended to ML borrowers with incomes between $20,000 and $30,000.
3) The market for ML borrowers with annual incomes exceeding $30,000 was left uncapped, but interest rates for all loans were to be reported in EIR terms henceforth.

Predicted Effects

Economic theory predicts extending the interest rate cap to borrowers earning $20,000-$30,000 will reduce credit available to such borrowers, if the costs of lending exceed the interest rates chargeable. On the other hand, if current interest rates charged generate excess profit (because the market is insufficiently competitive) then rates may fall without reducing credit access.

By comparison, we do not expect a significant change in lending to ML borrowers earning less than $20,000, since the relative effect of going from 18% NIR to 20% EIR is a much smaller change than from unrestricted interest rates to a 20% EIR cap. We also expect minimal effect on lending to ML borrowers earning more than $30,000, except if the change to the EIR regime induces other behaviour changes (e.g. if the market becomes more competitive or if borrowers find EIR easier to understand as prices).

Interest Rate Caps Reduce Credit Access for Protected Borrowers

Accordingly, we can identify the effect of the interest rate change on credit access by comparing the experience of borrowers earning $20,000-$30,000 to that of borrowers in the neighbouring income ranges ($10,000-$20,000 and $30,000-$40,000).

Table 1: Loans to ML Borrowers, by Annual Income Ranges

Period	$0-$10K	$10K-$20K	$20K-$30K	$30K-$40K	$40K-$50K	$50K-$60K	$60K-$70K	$70K-$80K	$80K+	Overall
Mar-May 2012	5,530	11,274	16,858	12,655	6,389	3,939	2,419	1,499	2,678	63,241
Jun-Aug 2012	4,731	10,819	13,093	15,771	7,230	4,422	2,862	1,774	3,460	64,162
Growth	-14%	-4%	-22%	25%	13%	12%	18%	18%	29%	1%

Table 1 reports the number of loans granted from the 6-month period (March-August 2012) around the interest rate cap policy change in June 2012. There was a sharp drop in the number of loans granted under interest rate caps (borrowers earning <$30,000). In general, lending to borrowers earning more than the cap grew significantly by 13%-29%, while lending to borrowers protected by the cap fell. A particularly sharp decline of 22% occurred in loans to borrowers earning $20,000 to $30,000, precisely the group predicted to be most affected by the cap. If overall, loan growth was increasing in the market as a whole (as suggested by the increase in loans to higher income borrowers) then the declines recorded for low-income borrowers may be a lower bound of the true impact of interest rate caps.

Manipulation of Reported Income in Response to Interest Rate Caps

While this evidence suggests credit rationing is taking place, borrowers are not necessarily completely prevented from obtaining credit. A lower income borrower who is unable to obtain a loan at 20% EIR, may qualify for a loan at a higher (uncapped) EIR. Borrowers and MLs can circumvent the interest rate caps simply by manipulating the annual income reported. The next part of our analysis considers the possibility of manipulating annual income as a response to changing interest rate caps.

Figure 1

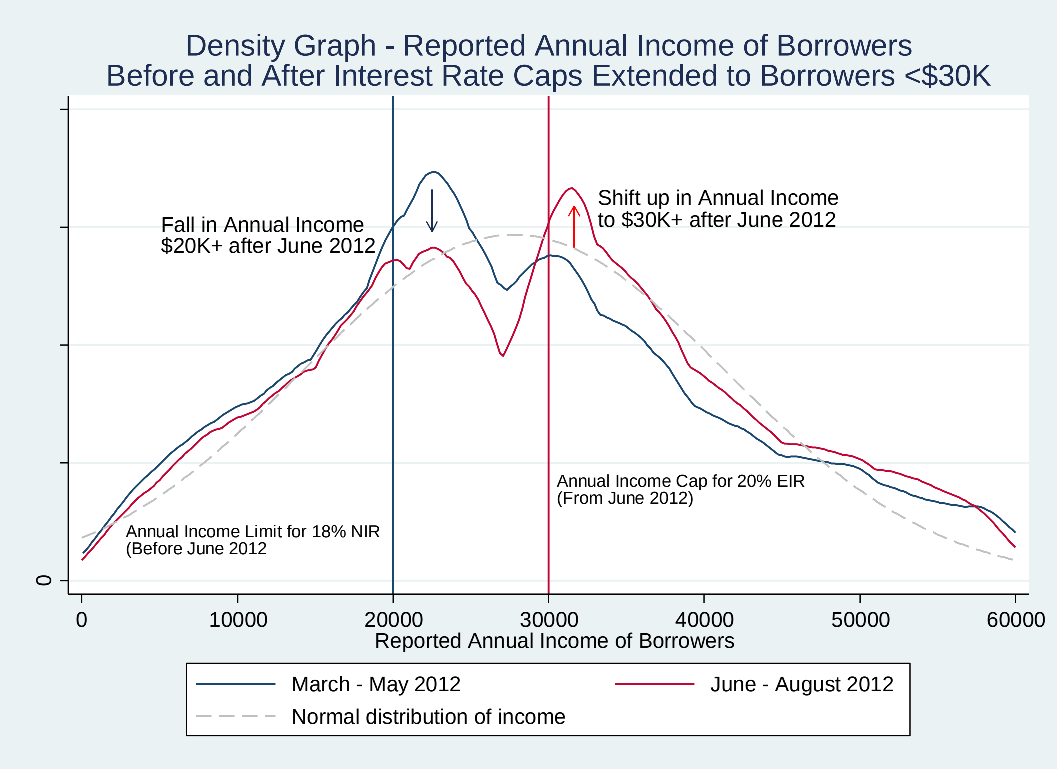


Figure 1 displays the distribution of reported annual incomes for loans originated between March 2012 and August 2012. If incomes are distributed normally in the population, we should not expect to see substantial 'bunching' or peaks in the income distribution. Yet, we observe peaks in the income distribution precisely at just beyond $20,000 during March-May 2012, and also at just after $30,000 during June-August 2012. These peaks are, statistically, very unlikely to occur by pure chance alone, because these are the exact income points which are relevant for the interest rate cap policy, and the statistical peaks *move* after the interest rate cap policy changes. Therefore, even if most ML borrowers did indeed have incomes around a small range of numbers, it is very implausible that their incomes should have shifted so precisely immediately after the policy change.

The evidence thus suggests that reported incomes were manipulated during the March-May 2012 period to be reported as just above the then-binding $20,000 income cap for 18% NIR. Subsequently, when the interest rate cap was extended to borrowers earning $20,000-$30,000, reported incomes were again manipulated to just exceed $30,000.

As additional evidence, we track the same borrowers (by NRIC) over time and summarize their reported annual incomes, during the period March-May 2012 and June-August 2012. That is, we ask: does the same borrower report the same income in each period? And if not, what are the relative odds that a borrower 'upgrades' their income in June-August 2012, for each category of reported income?

Table 2: Reported Annual Incomes for the Same Borrower, Period by Period

	Jun-Aug 2012: Reported Income				
Mar-May 2012: Reported Income	$10K-$20K	$20K-$30K	$30K-$40K	$40K-$50K	Others
$10K-$20K	2,183 80%	325 12%	*in others*	*in others*	196 8%
$20K-$30K	*in others*	3,064 70%	877 20%	*in others*	423 10%
$30K-$40K	*in others*	*in others*	2,782 82%	313 9%	318 9%

Table 2 suggests that borrowers who reported incomes in the $20,000-$30,000 range during March-May 2012 were twice as likely as other groups to reported incomes one category higher during June-August 2012. While incomes for any given individual change for various reasons (promotions, part-time jobs, commissions, etc.), it is hard to imagine why borrowers earning $20,000-$30,000 were so 'lucky' in obtaining such increases in income, compared to borrowers in other income categories.

One result of this manipulation is that borrowers who would have been credit rationed may have been able to obtain funding if they were willing to accept unrestricted interest rates. Therefore, the extent of credit rationing as a result of the policy change was probably minimized.

Interest Rate Caps Lower Interest Rates Paid for Protected Borrowers

Finally, the interest rate cap would lead to lower rates for borrowers if it was set at a level that is lower than the prevailing rate. The difficulty with performing a straightforward comparison of interest rates before and after the policy change is that rates were also mandated to be reported in EIR from June 2012 onwards. Conversion between NIR and EIR is not straightforward because an NIR rate cannot be converted without further information on the timing of payments, which is not available. Nonetheless, mathematically an NIR rate will convert to an EIR rate that is generally higher. Therefore, we can still examine whether rates have changed by comparing differences in the rate of increase between groups of borrowers by income.

Table 3: Interest Rates before and after Cap Extension						
	$10K-$20K		$20K-$30K		$30K-$40K	
Percentile	Mar-May (NIR)	Jun-Aug (EIR)	Mar-May (NIR)	Jun-Aug (EIR)	Mar-May (NIR)	Jun-Aug (EIR)
10	2%	11%	13%	11%	18%	115%
25	16%	16%	18%	16%	96%	360%
50	18%	16%	174%	16%	180%	2254%
75	18%	18%	240%	19%	249%	12866%
90	18%	19%	260%	1454%	260%	43059%
Ratio of Jun-Aug to Mar-May Rates in Aggregate	157%		93%		3528%	
Ratio of Jun-Aug to Mar-May Rates for the Median Borrower	88%		9%		1252%	

Table 3 shows that in aggregate, reported rates ranged from 93% to 3528% of the old rates (that is, they ranged from about the same, to about 36 times more). This change is likely attributable to the fact that high NIR rates applied over a short term loan will generate exceedingly high EIR rates. However, overall rates were actually lower for borrowers earning $20,000-$30,000 even though the new rates are reported in EIR. In fact, for the median borrower earning $20,000-$30,000, rates were actually significantly lower – the 50th percentile borrower paid 174% (NIR) from March-May 2012, but paid only 16% EIR in June-August 2012.

Therefore, interest rate caps appeared to have significantly reduced rates paid by borrowers earning $20,000-$30,000. The caveat is that these are not necessarily the same borrowers in each period. As discussed earlier, a significant number of borrowers earning $20,000-$30,000 reported higher incomes in the June-August 2012 period and would have been subjected to unrestricted interest rates. It is possible that borrowers judged to be higher risks would have been induced to manipulate their reported incomes upwards (and pay higher rates), whereas borrowers who are lower risks may have benefited from the interest rate caps.

Conclusion

1) Extending interest rate caps to borrowers earning $20,000 -$30,000 reduced loan volumes to protected borrowers.
2) However, much of this reduction in lending to protected borrowers is associated with an increase in the number of borrowers *reporting* annual income just in excess of $30,000.
3) There is statistical evidence that declared annual income is likely being manipulated (by borrowers or MLs) to circumvent the interest rate caps.
    a. One possibility is that borrowers are credit rationed if they report incomes <$30,000, and so are required to return with 'higher' income to obtain credit.
4) Interest rate caps are effective (at least on the margin of declared interest rates) at reducing the cost of loans to borrowers. Borrowers earning $20,000 - $30,000 experienced lower interest rates after the extension of interest rate caps.
    a. Note that some were very likely denied credit unless their income 'improved' to $30,000+.

b. There is no data on fees charged, and fees may have increased in response for protected borrowers.

Policy Recommendations

1) If interest rate caps are to be imposed, to reduce unintended consequences:
    a. Caps need to be universal, or;
    b. Measurement of borrower income needs to be regulated and enforced.
2) The effect of a universal cap cannot be fully predicted, but in general;
    a. The majority of borrowers were still able to access credit even after interest rate caps were introduced;
    b. A small proportion (estimated 10%-20%) of existing borrowers may have been rationed out of credit unless they reported ‘improved’ income levels that would allow MLs to charge them unrestricted rates.

Annex C: Estimated Impact of Proposed Controls on Borrowing Costs on Borrowers and on the Moneylending Industry

Introduction

Using data submitted by the MLAS, simulations were conducted to estimate the impact of the proposed controls on borrowing costs on borrowers and the moneylending industry.

The data suggests that loans with different tenures should be analysed separately, as the loan terms differed significantly across loans of varying tenures.

Current Situation

From the data, it is estimated that at present, a typical borrower may incur the following costs in taking loans from moneylenders:

Loan Tenure	**Average Loan Quantum ($)**	**Average Borrowing costs - On time repayment ($)**	**Average Borrowing costs - Late repayment ($)**
Less than 1 month	2,190	331	557
1 month	1,962	445	848
2 months	1,407	487	950
3 months or more	3,137	1,311	1,833

Borrower Impact

Under the proposed controls on borrowing costs, the typical borrower modelled above may experience the following reductions in total borrowing cost (percentage reduction in brackets):

Loan Tenure	**Reduction in borrowing costs - On time repayment**	**Reduction in borrowing costs - Late repayment by 1 month**
Less than 1 month	$22 (7%)	$45 (8%)
1 month	$171 (38%)	$325 (38%)
2 months	$244 (50%)	$635 (67%)
3 months or more	$780 (60%)	$1,000 (55%)

Industry Impact

A model was also constructed of a typical moneylender. Using this model, the proposed controls on borrowing costs will give the moneylender an expected return on capital of about 17% as follows:

Parameter	Quantum ($)
Revenue	805,969
Cost	336,111
Loss to Defaults	205,139
Profit	264,719
Expected Return in relation to Capital Expended in Granting Loans	17%

The estimated returns above are premised on: (a) moneylenders being able to reduce their default risk, with the MLCB allowing for improved credit risk assessments, and (b) moneylenders streamlining their business operating costs, e.g. by in-housing debt collection instead of the more expensive option of outsourcing it.

Conclusion

The proposed controls on borrowing costs would result in a significant reduction in borrowing costs for borrowers while allowing moneylenders to remain commercially viable.

Annex D: Statistics on Moneylending: Loan to Income Ratios

Prepared by: Dr. Walter E. Theseira, Nanyang Technological University

Background

To set a limit on the loan to monthly income (LTI) ratio, it may be useful to first examine the current distribution of LTI ratios amongst moneylender (ML) borrowers in Singapore. If the LTI ratio limit is too low, a significant proportion of ML borrowers will exceed the limit, and they will not be able to obtain loans from licensed moneylenders. This may have unintended consequences, such as borrowers turning to loan sharks.

We have administrative data on 593,184 loans issued to ML borrowers from 2012-2013. The data reports the loan size, and annual income of each borrower. In principle, if loan repayment data were also available we could construct exact outstanding loan-to-income ratio statistics since we can identify each client account. Unfortunately, the data does not track loan repayments at the individual level, as it is based solely on loan origination.

Computing Upper and Lower Bounds on the LTI Ratio

However, using the loan origination data, we can calculate an *upper bound* for the LTI ratio amongst ML borrowers. If we sum up loans across the entirety of the data (2 years), we can calculate the total quantum of loans taken out by each ML borrower and compute the LTI ratio. This LTI ratio is an upper bound because it assumes loans are not repaid at all.

We can next calculate a *lower bound* for the LTI ratio by examining a much smaller segment of the data. If we sum up loans across a shorter span of data – such as one month at a time – we avoid the problem of not observing repayment, because relatively few loans are due for full payment within a month. However, this estimate will be a lower bound because it will not account for the same borrower taking out additional loans *after our span of data*, and before earlier loans are repaid.

We perform this analysis by calculating the LTI ratio over varying spans of the data: monthly, 3-month windows, yearly, and over the entire 2-year dataset. When we calculate LTI over shorter spans of the data, we average the results, for comparison purposes. This provides a range of LTI ratio estimates which range from the lower bound (monthly) to the upper bound (2-year).

<u>The majority of borrowers hold debt below 3 months' LTI</u>

Figure 1: LTI Ratio based on 3-month data segments, all borrowers

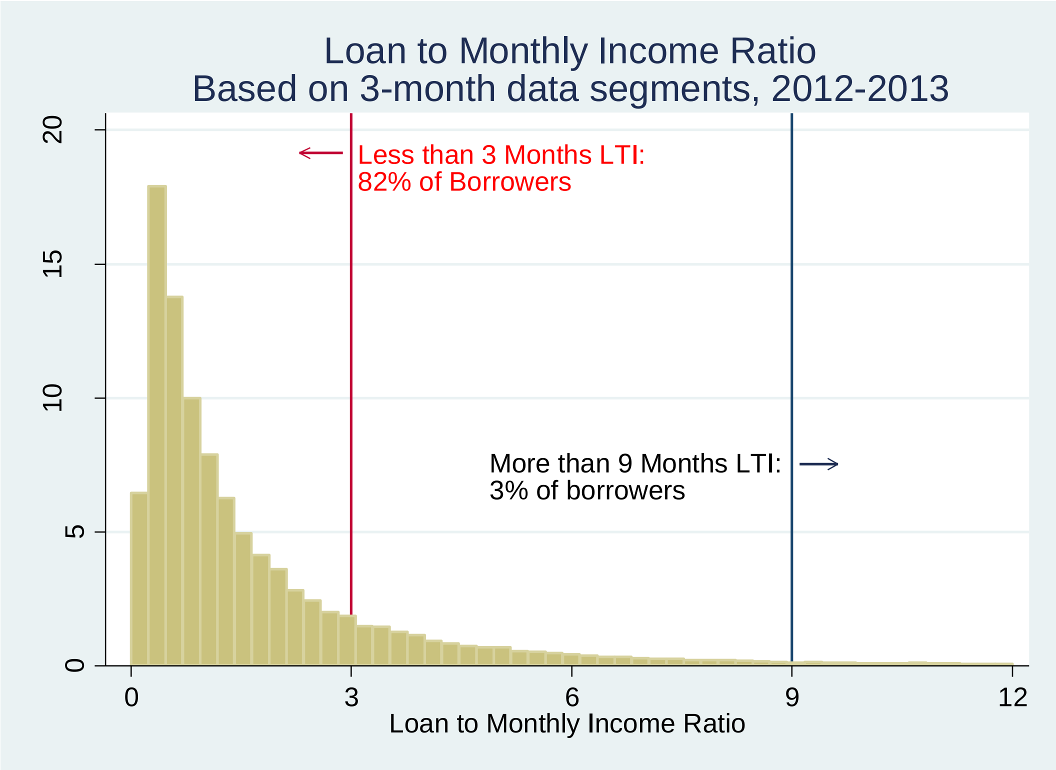


Figure 1 presents the LTI ratio calculated as the average of 3-month segments of the data. This is our preferred estimate because 3 months matches reasonably well to the typical duration of ML loans, and strikes a balance between the lower and upper bound estimates. Figure 1 shows that the vast majority (82%) of ML borrowers have an LTI ratio of less than 3 months. Less than 3% of borrowers exceed an LTI ratio of 9 months.

Table 1: Loan to Monthly Income Ratios, Lower and Upper Bounds				
	Time Span of LTI Calculation			
Percentile	1 month	3 months	1 year	2 years
10%	0.23	0.28	0.36	0.38
25%	0.35	0.48	0.71	0.81
50%	0.62	1	1.78	2.18
75%	1.25	2.22	4.5	6.03
90%	2.4	4.55	10.58	13.86

Table 1 provides a comparison of the calculated LTI ratios ranging from the lower to upper bounds (1 month to 2 year basis). A majority of borrowers, even at the upper bound, have less than 3 months' LTI. Therefore, even if it is assumed that no loans are repaid over the course of 2 years (and so all borrowings contribute to increasing debt burdens), most ML borrowers will not exceed 3 months' LTI.

At worst, less than 16% of borrowers are severely indebted (more than 9 months' LTI)

Table 2: Percentage of Borrowers falling below 3m LTI and exceeding 9m LTI				
	Time Span of LTI calculation			
% of borrowers,	1 mth	3 mth	1 year	2 year
< 3 mth LTI	93%	82%	64%	58%
> 9 mth LTI	0.60%	3%	11%	16%

Table 2 shows the percentage of borrowers who fall below 3 months' LTI, and exceed 9 months' LTI, respectively. The results suggest that in the data, at worst, 16% of borrowers are severely indebted (exceed 9 months' LTI) to MLs. The actual figure is likely to be much lower, since the 2-year calculation assumes no loans are repaid at all.

These estimates are computed across all ML clients. However, previous policy has provided special protection for borrowers with an annual income of less than $30,000. One might be concerned that the LTI ratios for borrowers earning less than $30,000 could be quite different because they are more financially vulnerable.

Borrowers earning less than $30,000 annually have higher LTI ratios

Figures 2 and 3 display the LTI ratios for borrowers earning less than $30,000 and more than $30,000 annually, respectively. Borrowers earning less than $30,000 are indeed more indebted, as a proportion of their income, than borrowers earning more. However, even for borrowers earning less than $30,000, 80% of borrowers have LTI ratios less than 3 months'.

Figure 2: LTI Ratio for borrowers earning less than $30,000

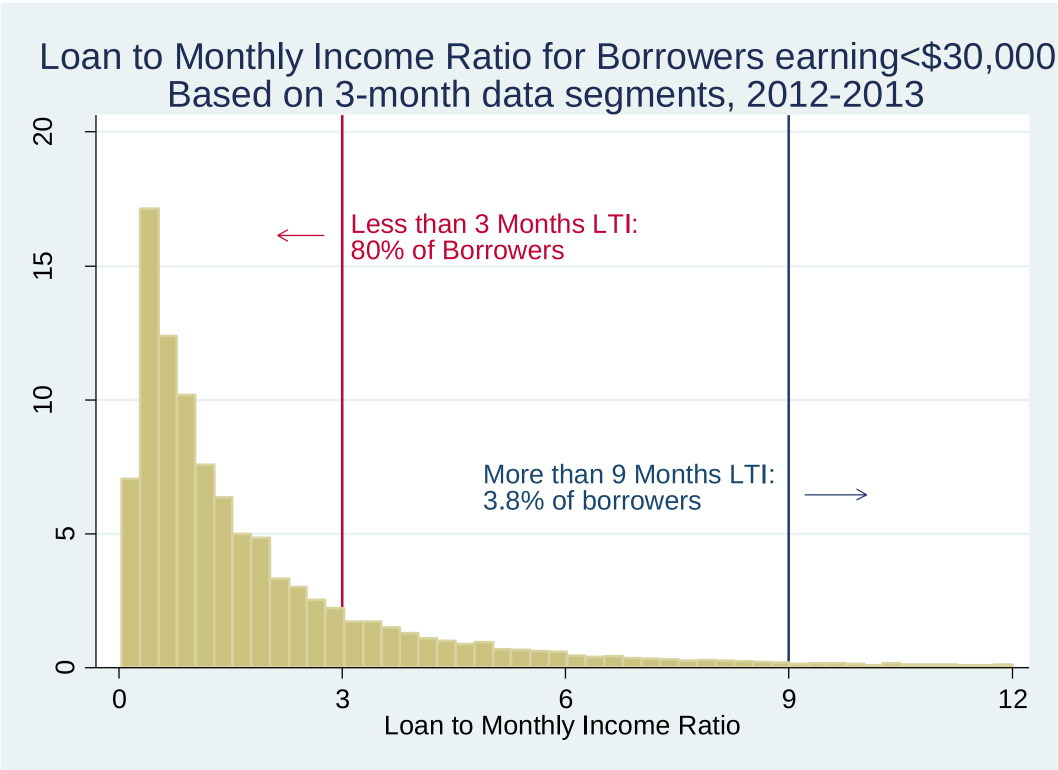
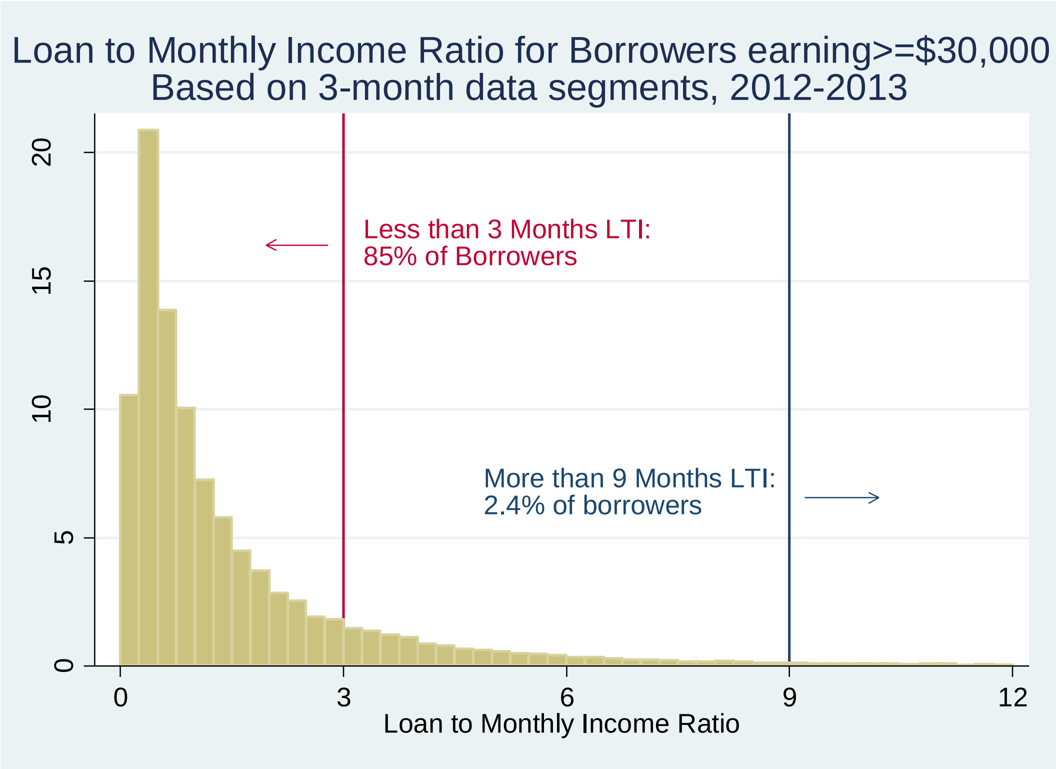


Figure 3: LTI Ratio for borrowers earning more than $30,000



Conclusion

Analysis of ML borrowers over the period 2012 – 2013 suggests that:

1) The vast majority (58% to 93%) of borrowers will not exceed 3 months' LTI.
2) A minority of borrowers (up to 16%) are severely indebted and hold more than 9 months' LTI.
3) LTI ratios are higher for borrowers earning under $30,000.
4) A conservative maximum LTI limit will likely have minimal impact on access to credit by the vast majority of ML borrowers.

Annex E: Proposed Additional Data Fields to be collected from Moneylenders

Prepared by: Dr. Walter E. Theseira, Nanyang Technological University

Periodic Financial Reporting

[Note: Good data collection from loan reporting can eliminate the need to collect several items here – for example, total loan dollars issued does not need to be tracked if accurate loan origination data is provided, and loan dollars outstanding can be constructed if loan repayment information is properly recorded.]

- Moneylender Registration ID
- Total Loan Dollars issued during Reporting Period (e.g. that quarter)
- Total Loan Dollars written-off (bad debt) during Reporting Period
- Total Regular Interest Income collected during Reporting Period
- Total Penalty (default rate) Interest Income collected during Reporting Period
- Total Fee Income collected during Reporting Period
    - Broken down by type of fee
- Total Expenses (other than bad debt written off) during Reporting Period, by:
    - Staff
    - Rental
    - Advertising
    - Financing
    - Other operating expenses
- Loan Dollars Outstanding as of Reporting Date
- Loan Dollars Past 30 days Due as of Reporting Date
- Loan Dollars Past 90 days Due as of Reporting Date
- Balance Sheet Data as of the Reporting Date, e.g.
    - Assets
    - Liabilities
    - Equity (Paid-Up Capital invested by owners and retained profits)

Loan Reporting

a) *Successful Loan Applications*

- Unique Loan Identifier

- Originating Moneylender (including Branch ID/Address)
- NRIC/ID of Borrower
- Borrower Income
- Borrower Address
- Loan Quantum
- Loan Duration
- Repayment periodicity (e.g. weekly, biweekly, monthly)
- Total interest payable in dollars
- Nominal Interest Rate (Effective Interest Rate)
- Fees Chargeable (as stated on the loan contract, for the allowable types of fees; **each** fee type should have the amount specified here)

b) *Unsuccessful Loan Applications (rationale is to track credit rationing better)*

- Unique Loan Application Identifier
- Originating Moneylender (including Branch ID/Address)
- NRIC/ID of Borrower
- Borrower Income
- Borrower Address
- Loan Quantum Desired
- Reason for Rejection

c) *Ongoing and Completed Loans*

- Unique Loan Identifier
- Detailed Payment Information, consisting of:
    - Date (for each payment made)
    - Payment Amount
    - Breakdown of Payment Amount, by:
        - Principal reduction
        - Interest Income
        - Fee Income
- Status of loan at reporting date (e.g. repaid, current, past due, written off)

Annex F: Secretariat

Members of the Secretariat:

1) Mr Kenneth Goh[17], Director (Community Legal Services), MinLaw
2) Mr Derrick Thio, Senior Assistant Director (Community Legal Services), MinLaw
3) Mr Jordon Li, Assistant Director (Community Legal Services), MinLaw

[17] Mr Kenneth Goh joined MinLaw on 1 Aug 2014 and oversaw the Secretariat's work from that point. His predecessor was Ms Jill Tan the-then Director of the Community Legal Services Division.