

## **AMENDMENTS TO THE MONEYLENDERS RULES TO TAKE EFFECT FROM 1 JUNE 2012**

The Ministry of Law (MinLaw) made amendments to the Moneylenders Rules in March 2012 to further improve protection for borrowers, especially those in the lower-income group. These amendments will take effect on 1 June 2012.

2 The amendments are in four main areas:

- i. Mandate the use of Effective Interest Rate;
- ii. Extend coverage of caps on interest rate, to a larger group of borrowers;
- iii. Remove certain fees from list of fees which moneylenders are allowed to charge borrowers; and
- iv. Abolish all exceptions to the limits on the amount of unsecured loan that a borrower can obtain.

### **Mandate the use of Effective Interest Rate**

3 Before 1 June 2012, interest rate caps were based on Nominal Interest Rates (NIR) - 12 per cent NIR for secured loans and 18 per cent NIR for unsecured loans. From 1 June 2012, all licensed moneylenders must use the Effective Interest Rate (EIR) instead of NIR as the basis of compliance with the interest rate caps. The interest rate cap of 12 per cent NIR will be replaced by its equivalent in EIR, rounded up to 13 per cent, while the cap of 18 per cent NIR will be replaced by its equivalent in EIR, rounded up to 20 per cent. Licensed moneylenders will also be required to compute and disclose the EIR of their loan packages to borrowers. This is similar to banks' practice.

4 Unlike NIR, EIR takes into account the compounding effect of the frequency of instalments over a one-year period. This means that EIR better reflects the actual cost of borrowing over the one-year period. The EIR will also help borrowers more easily compare different loan packages. From 1 June 2012, borrowers can visit <https://rom.mlaw.gov.sg> to find out more about how the Effective Interest Rate is calculated.

5 Moneylenders who do not provide the EIR to their borrowers are liable to be fined up to \$20,000 and / or imprisoned up to six months. In the case of a second or subsequent offence, they are liable to be fined up to \$40,000 and / or imprisoned up to 12 months.

## **Extend coverage of caps on interest rate, to a larger group of borrowers**

6 From 1 June 2012, we are extending the coverage of the above-mentioned interest rate caps, from applying only to borrowers earning less than \$20,000 a year, to those earning less than \$30,000 a year. This will apply to both secured and unsecured loans. Henceforth, for borrowers earning less than \$30,000 a year, the interest rate that moneylenders can charge will be capped at 13 per cent EIR for secured loans and 20 per cent EIR for unsecured loans.

## **Remove certain fees from list of fees which moneylenders are allowed to charge borrowers**

7 Before 1 June 2012, moneylenders were allowed to charge borrowers certain fees<sup>1</sup>. From 1 June 2012, we are removing three fees from the list of permitted fees, namely fees for the acceptance of the loan application, acceptance or renewal of a revolving credit loan, and any payment not made through electronic funds transfer. These fees are removed as they tend generally to be disproportionately high compared to the quantum of loans, and make the cost of borrowing less transparent, and thus, harder for borrowers to compare loan packages.

8 The remaining six fees in the list of permitted fees are conditional fees which can be charged only under specific circumstances, for example, when the loan contract is breached or varied. These will continue to be permitted.

## **Abolish all exceptions to the limits on the amount of unsecured loan that a borrower can obtain**

9 From 1 June 2012, we are abolishing all exceptions<sup>2</sup> to the caps<sup>3</sup> on the amount of unsecured loan that a borrower can obtain, as these can be abused and lead to excessive debt by borrowers. These exceptions, such as for business or renovation purposes, allowed individuals to borrow more than the loan quantum caps stipulated in the legislation. The exceptions also allowed moneylenders to impose interest rates beyond the interest rate caps outlined in paragraph 3.

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<sup>1</sup> Before 1 June 2012, under Rule 12 of the Moneylenders Rules, the fees moneylenders were permitted to charge were for: (a) acceptance of the loan application; (b) acceptance or renewal of a revolving credit loan; (c) any payment not made through electronic funds transfer; (d) late payment of principal or interest; (e) varying the loan contract; (f) issuing a dishonoured cheque; (g) every unsuccessful GIRO deduction from a bank account; (h) early redemption of the loan or early termination of the loan contract; and (i) legal costs incurred for recovery of the loan.

<sup>2</sup> Before 1 June 2012, under Rule 21 of the Moneylenders Rules, the exceptions were: (a) a business loan; (b) a loan for medical treatment; (c) an education loan; (d) a renovation loan; (e) a loan for furnishing of security to the Government for employment of a foreign domestic worker; (f) a loan for furnishing of security to Government for deferment of NS liability; (g) a loan to repay another moneylending loan which has become unsecured as a result of a fall in the value of the security given for it; and (h) a loan to an officer or employee of a moneylender.

<sup>3</sup> Currently, the limits are: (a) borrowers with an annual income of less than \$20,000 are not allowed to take unsecured loans of more than \$3,000; (b) borrowers with an annual income of \$20,000 or more but less than \$30,000 are not allowed to take unsecured loans of more than two times their monthly income; and (c) borrowers with an annual income of \$30,000 or more but less than \$120,000 are not allowed to take unsecured loans of more than four times their monthly income.

10 All licensed moneylenders are required to comply with the new Moneylenders Rules. The Registry of Moneylenders, under the Insolvency & Public Trustee's Office, will take stern action against errant moneylenders found to be in breach. Members of the public who come across such moneylenders should report them to the Registry at DID: 6325 2585 or email: [ipto\\_romp@ipto.gov.sg](mailto:ipto_romp@ipto.gov.sg)

**REGISTRY OF MONEYLENDERS  
INSOLVENCY AND PUBLIC TRUSTEE'S OFFICE  
MINISTRY OF LAW  
31 MAY 2012**