MINISTRY OF LAW
SINGAPORE

FACT SHEET
AMENDMENTS TO THE MONEYLENDERS RULES

The Ministry of Law (MinLaw) is amending the Moneylenders Rules to further improve protection for borrowers, especially for those in the lower-income group.

2 The amendments are in four main areas:

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

3 The amendments will take effect on 1 June 2012, to give the moneylending industry sufficient time to adjust to the changes.

Mandate the use of Effective Interest Rate

4 Currently, there are interest rate caps, based on the Nominal Interest Rate (NIR), of 12 per cent for secured loans and 18 per cent for unsecured loans. We will henceforth be using the Effective Interest Rate (EIR) instead of NIR, as the basis for 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 EIR, while the cap of 18 per cent NIR will be replaced by its equivalent in EIR, rounded up to 20 per cent.

5 Moneylenders will also be required to compute and disclose the EIR of their loan packages to borrowers. This is similar to banks' practice. Compared to 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 a one year period. Using the EIR will also help borrowers more easily compare different loan packages.

6 The difference between EIR and NIR is illustrated in Table 1 below through the example of a typical loan package, where a small loan ($3,000) is taken by a lower income borrower with an annual income of less than $30,000, over six weeks.

<u>Table 1</u>: Illustration of EIR and NIR

Loan Terms	Loan Package (6-week loan)	
	NIR	**EIR**
Principal	$3,000	$3,000
No. of instalments	6	6
Instalment frequency	Weekly	Weekly
Instalment amount	$506.07	$506.07
Interest rate per annum	18.0%	19.7%

(The step-by-step guide to compute EIR and NIR is at **Annex A**)

7 Moneylenders who do not provide the correct EIR to their borrowers are liable to a fine of up to $20,000 and / or imprisonment of up to six months. In the case of a second or subsequent offence, they are liable to a fine of up to $40,000 and / or imprisonment of up to 12 months.

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

8 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. In other words, 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. Borrowers earning $30,000 or more a year generally qualify for credit facilities from banks such as credit card facilities, and are not dependent solely on moneylenders for credit. Thus, we have decided not to introduce any interest rate caps for them for now.

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

9 Currently, moneylenders are allowed to charge borrowers certain fees[1]. We are removing three fees from the list of permitted fees, namely fees for the acceptance of the loan application, fees for the acceptance or renewal of a revolving credit loan, and fees for any payment not made through electronic funds transfer. We have observed many instances where such fees are disproportionately high. These fees also make the cost of borrowing less transparent, and make it harder for borrowers to compare loan packages.

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

10 The remaining six fees in the list of permitted fees are conditional fees which can be charged only under specific conditions, 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

11 We are abolishing all exceptions[2] to the limits on the amount of unsecured loan that a borrower can obtain. For example, these exceptions allow individuals to borrow more than the loan quantum caps stipulated in the legislation, when they borrow for purposes of business or renovation. The loan quantum caps, under Rules 19 and 20 of the Moneylenders Rules serve to prevent excessive borrowing:

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 are not allowed to take unsecured loans of more than four times their monthly income.

12 The exceptions also allow moneylenders to impose interest rates beyond the interest rate caps explained in paragraph 4. As allowing these exceptions can lead to excessive debt, we are abolishing all the exceptions.

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[2] Under Rule 21 of the Moneylenders Rules, the exceptions are: (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.

Annex A

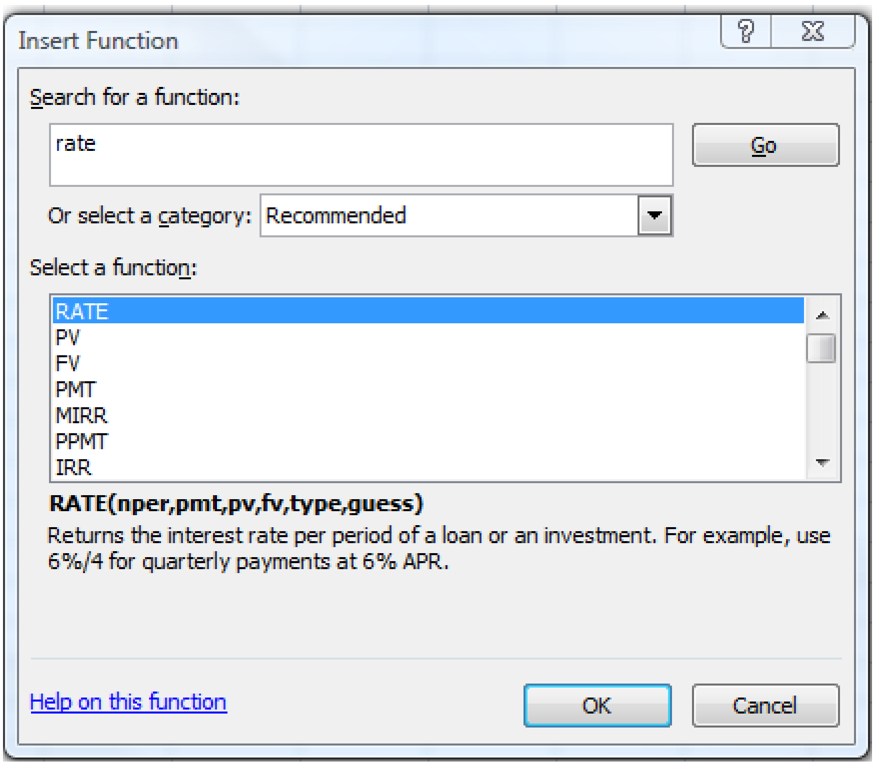
Computation of NIR and EIR

Table 1: Illustration of EIR and NIR

Loan Terms	Loan Package (6-week loan)	
	NIR	**EIR**
Principal	$3,000	$3,000
No. of instalments	6	6
Instalment frequency	Weekly	Weekly
Instalment amount	$506.07	$506.07
Interest rate per annum	18.0%	19.7%

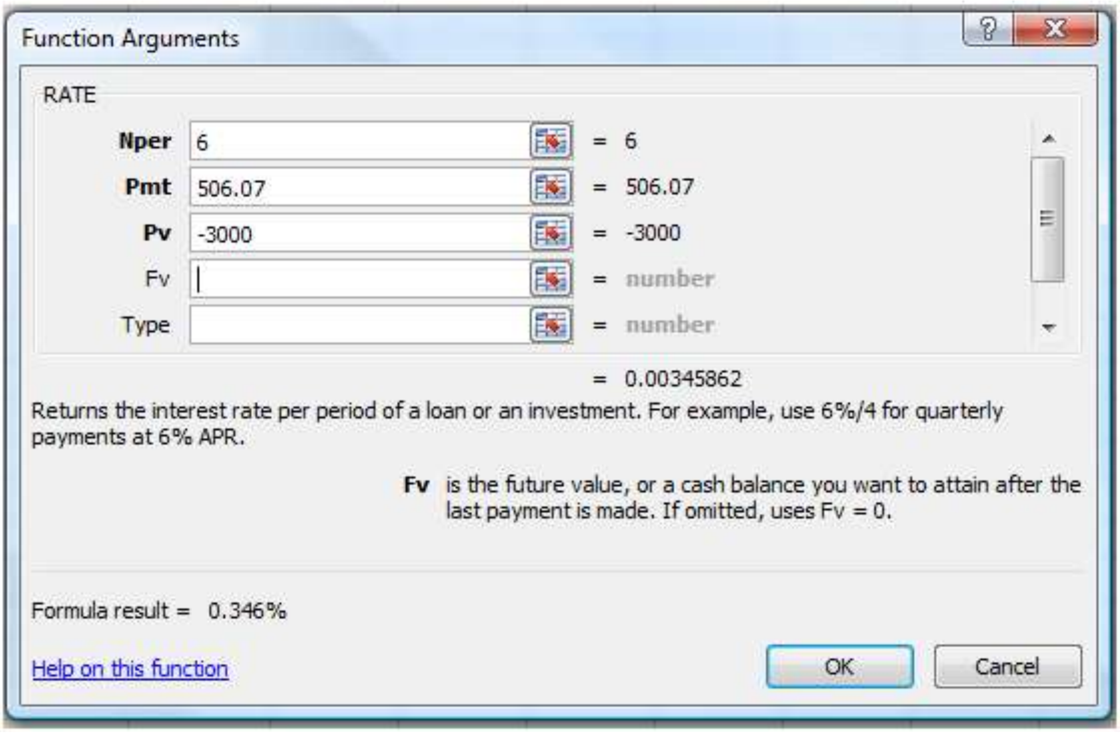
Computation of NIR

1 Use the RATE function in Excel (under the "Formulas" tab, select "Financial" or "All" and then select "RATE" from the drop-down list) to compute the periodic interest rate (i.e. interest rate per period, where the period is 1 week for the example).

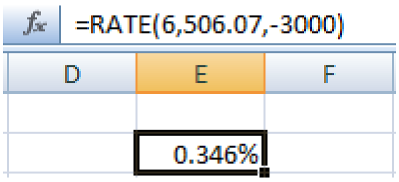


2. Insert 6 to denote 6 weeks for the number of payment periods in the “Nper” field.

3 Insert $506.07 for payment per period into the “Pmt” field, and -$3,000 for the principal amount into the “Pv” field.



4 The periodic interest rate of 0.346% per week should then be generated in Excel.



5 Multiply 0.346% with 52 weeks to get the NIR of 18%.

<u>Computation of EIR</u>

1 The formula to compute EIR is EIR = $(1+i)^n$ -1, where i is the periodic interest rate and n is the number of periods in a year, i.e. 52 weeks for the example.

2 The periodic interest rate, i, can be generated in the same manner using the RATE function, as per steps 1 to 4 in the computation of NIR.

3 Using Excel, type the EIR formula *=(1+0.346%)^52-1* into an empty cell to get 19.7%.

Annex B

Advisory Committee for Moneylending Issues (ACMI) / 放贷课题咨询委员会

The Ministry of Law (MinLaw) convened the ACMI in 2012, which is chaired by Senior Parliamentary Secretary (Law), Ms Sim Ann. The committee had an inaugural meeting in February 2012. The terms of reference and composition of the ACMI are detailed below:

Terms of Reference of ACMI

- To provide advice and feedback on the effectiveness and community impact of policies and regulations governing the licensed moneylending industry.

- To advise MinLaw on public engagement and outreach to educate borrowers on:
  a. The do's and don'ts of borrowing from licensed moneylenders
  b. The safeguards in the moneylending regulations that protect borrowers
  c. How to distinguish between a licensed moneylender and an unlicensed moneylender

The committee will meet at least twice a year.

Composition of ACMI

1. Mr Desmond Lee, MP and grassroots advisor of Jurong GRC
2. Mr Lim Biow Chuan, MP and grassroots advisor of Mountbatten SMC
3. Mr David Poh, President of Moneylenders Association of Singapore
4. Mr Kuo How Nam, President of Credit Counselling of Singapore
5. Mrs Jolene Ong, Executive Director of The Silver Lining
6. Mr Christopher Chuah, President of One Hope Centre Ex-Co
7. Mr Ng Yeow Boon, Senior Director of Policy and Ops Division, MHA
8. Mr Adrian Chua, Executive Director of Prudential Policy, MAS
9. Dr Benjamin Koh, Director of Comcare and Social Support, MCYS

The members of the ACMI are appointed for a two-year renewable term.