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PRESS RELEASE

MAS RESTRICTS LOAN TENURE FOR RESIDENTIAL PROPERTIES

Singapore, 5 October 2012...The Monetary Authority of Singapore (MAS) will restrict the tenure of loans granted by financial institutions for the purchase of residential properties. MAS' move is part of the Government's broader aim of avoiding a price bubble and fostering long term stability in the property market.

2 The maximum tenure of all new residential property loans will be capped at 35 years. In addition, loans exceeding 30 years tenure will face significantly tighter loan-to-value (LTV) limits. This will apply to both private properties and HDB flats. The new rules will take effect from 6 October 2012.

Long tenure loans fuel property prices

3 The new rules aim to curb continued upward pressure on residential property prices, driven by low interest rates and rapid credit growth.

4 Previous rounds of Government measures have had a moderating effect on residential property prices. There is also significant supply of housing that will come onto the market over the next two years. However, prices in both the HDB resale market and private residential property have continued to rise in Q2 and Q3 of 2012.

5 The current climate of low interest rates, globally and in Singapore, is likely to persist for some time. It will continue to spur demand in the residential property market, pushing up prices beyond sustainable levels. The eventual correction could be painful to borrowers and destabilise the economy.

6 At the same time, financial institutions have been lengthening the tenures of residential property loans. Over the last three years, the average tenure for new residential property loans has increased from 25 to 29 years. More than 45% of new residential property loans granted by financial institutions have tenures exceeding 30 years.

7 Long tenure loans pose risks to both lenders and borrowers. The lower initial monthly repayments, made possible by long loan tenures and the current low interest rates, may lead borrowers to over-estimate their ability to service the loans, and take a bigger loan than they can really afford. A rising property market may give false confidence to both borrowers and lenders that should there be difficulty in servicing the loan they can always sell the property at a higher price.

In reality, long tenure loans impose a larger debt repayment burden on borrowers as interest accumulates over a longer period. When interest rates eventually rise, borrowers who have overextended themselves will have difficulties repaying their loans. If property prices fall, financial institutions may be caught holding the bad loans.

8 Mr Tharman Shanmugaratnam, Chairman of MAS, said, "Monetary conditions worldwide are far from normal. QE3 and low interest rates have made credit easy, but this will eventually change. We are taking this step now to require more prudent lending, and will continue to watch the property market carefully. We will do what it takes to cool the market, and avoid a bubble that will eventually hurt borrowers and destabilise our financial system."

New rules on loan tenure

9 The new MAS rules impose an absolute limit of 35 years on the tenure of all loans for residential property. This will apply to loans to both individual and non-individual borrowers, as well as refinancing loans[1], from 6 October 2012.[2]

10 In addition, MAS will lower the LTV ratio for new residential property loans to borrowers who are individuals, if:

- the tenure exceeds 30 years; *or*
- the loan period extends beyond the retirement age of 65 years.

For these loans, the LTV limit will be:

- 40% for a borrower with one or more outstanding residential property loans[3]; and
- 60% for a borrower with no outstanding residential property loan.

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[1] Where a borrower applies for a refinancing facility in respect of any balance outstanding under a residential property loan, the sum of the tenure of the refinancing facility and the number of years since the first residential property loan granted to the borrower for the purchase of that residential property was first disbursed, cannot exceed 35 years.

[2] The rules will apply to new loans granted to individuals and non-individual borrowers, by financial institutions regulated by MAS, for the purchase of residential property, if the date when the option to purchase was granted or, where there is no option to purchase, the date of the sale and purchase agreement, is on or after 6 October 2012. For re-financing facilities, the rules will apply where the application date of such facilities is on or after 6 October 2012.

[3] The outstanding loan may be either a loan from HDB or a financial institution regulated by MAS.

11 MAS will also lower the LTV ratio for residential property loans to non-individual borrowers from 50% to 40%.

For media enquiries, please contact:

Jacqueline Ong
Deputy Director (Corporate Communications)
Tel: 6229-9159
Fax: 6227-0705
Email: jong@mas.gov.sg

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