



MAS Introduces New Home Loans Measures

By [iCompareLoan Editorial Team](#)



With effect from 29 June 2013, borrowers taking a home loan will have to meet an additional criteria before being eligible for the loan. Individuals must not exceed the Total Debt Servicing Ratio (TDSR) of 60%. Simply put, the monthly repayments of the loan must not result in his total debt obligations to be more than 60% of his gross monthly income.

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For the first time the Monetary Authority of Singapore (MAS) makes it mandatory for financial institutions (FIs) to follow a standardised TDSR before granting a property loan. The 60% TDSR applies to all mortgages for all types of properties, loans with properties as collateral, and re-financing of all such loans.

This new rule is implemented along with refinements to existing measures. These guidelines are meant to stay for the long run. Thus the Government does not consider them as property cooling measures; rather as financial best practices to create a stable and sustainable financial system.

The TDSR will be based on standardised methodology. When calculating the monthly repayment for the loan it will be based on a specified medium-term interest rate or the prevailing market interest, whichever is higher. Besides the gross monthly income, variable incomes and fixed assets will also be taken into consideration but these will be given a haircut. For the former, the haircut is fixed at 30%.

In financial jargon, a haircut is the percentage by which an asset's market value is reduced.

Current loan measures will also be enhanced to close loopholes. For instance, borrowers of a property loan must also be owners of the property for which the loan is taken. This is to prevent property investors from using somebody else's name to buy a second property. By doing so,

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investors hope to circumvent the lower loan-to-value (LTV) ratio for a second or subsequent residential property.

For borrowers whose TDSR exceeds 60%, their guarantors will have to be included as co-borrowers.

Finally the financiers have to use the income-weighted average age of borrowers when applying the rules on loan tenure. Loans that exceed 30 years or extend beyond the retirement age of 65 years have lower LTV ratio.

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