



REGISTRY OF CO-OPERATIVE SOCIETIES
Ministry of Community Development, Youth and Sports

SF70.1.5

29 August 2011

WRITTEN DIRECTION TO CREDIT SOCIETIES
CO-OPERATIVE SOCIETIES ACT, CAP 62

SECURED LOANS

1. This Written Direction is issued pursuant to Section 93(1)(e) and 93(2) of the Co-operatives Societies Act (Cap. 62) (the “Act”) and applies to all credit societies.

2. With effect from 1 November 2011, any credit society lending money on the security of Movable Property or Immovable Property is required to comply with this Written Direction.

Definitions

3. In this Written Direction:

“adjusted purchase price” means the purchase price after the deduction of the amount of any discount, rebate, interest, or any other benefit offered by the vendor or any other party (including the payment of legal or stamp fees for the purchase), having the effect of reducing the true purchase price;

“credit society” has the same meaning as defined in the Act and includes a society deemed to be a credit society under paragraph 1(1) of the Schedule to the Co-operative Societies (Amendment) Act 2008;

“HDB” means the Housing and Development Board, a body corporate established under the Housing and Development Act (Cap. 129);

“HDB Flat” means –

- (a) a flat, house or living accommodation sold by the HDB under the provisions of Part IV of the Housing and Development Act (Cap. 129); or
- (b) a housing accommodation, as defined in section 65M of the Housing and Development Act, sold by an approved developer (as defined in the same section of the same Act) under Part IVB of the same Act;

“Immovable Property” means land, building or real estate;

“LTV” means the loan-to-valuation or total outstanding amount that is granted, relative to the adjusted purchase price or current market valuation, whichever is lower, of the Movable Property or Immovable property securing the loan(s);

“MAS” means the Monetary Authority of Singapore established under the Monetary Authority of Singapore Act (Cap. 186);

“moneylender” has the same meaning as a moneylender as defined in section 2 of the Moneylenders Act (Cap. 188) but does not include an exempt moneylender as defined in the same section;

“Movable Property” means any personal property (including vehicles, computers, furniture, televisions, and so forth) other than land, building or real estate;

“secured loan” means a loan secured by Movable or Immovable Property; and

“Vendor” means the vendor of an Immovable Property.

4. In this Written Direction, all expressions used shall, unless otherwise defined in this Written Direction or where the context otherwise requires, have the same meanings as in the Act.

Acceptable Security

5. Other than members’ Deposits, Subscription Capital, and Share Capital of the credit society, a credit society shall not accept as security, any other Movable Property of a financial nature, including but not limited to equities and structured deposits.

6. A credit society shall not accept as security, any Immovable Property that is an HDB Flat. As prescribed under section 51(1) of the Housing and Development Act (Cap. 129), any contract or agreement to directly or indirectly use protected property (i.e. an HDB Flat) (or the proceeds of sale of protected property) as security or collateral for any debt, obligation or claim shall be null and void. Section 51(1) is applicable to all credit societies as prescribed under section 51(4) of the same Act.

Credit Evaluation

7. Prior to granting a new loan on the security of property or increasing the amount of an existing loan which is secured by property, a credit society shall conduct systematic credit evaluation of the borrower and the guarantor(s) (if applicable) in order to assess their credit worthiness. The credit evaluation process shall include (but is not limited to) the following:

- (a) checking the borrower's and guarantor's records in respect of repayment of past and existing loans with the credit society;
- (b) checking whether the Movable Property or Immovable Property has any prior encumbrances before accepting it as security;
- (c) assessing the borrower's and guarantor's financial commitments;
- (d) taking reasonable steps to value the security;
- (e) checking the credit report(s) obtained by the borrower from one or more credit bureaus; and
- (f) any other reasonable steps necessary to assess the credit worthiness of the borrower(s) and the guarantor(s).

Limits on Secured Loans

8. For the avoidance of doubt, a secured loan granted before the effective date of this Written Direction but which is increased in amount on or after the effective date of this Written Direction, shall not exceed the LTV limits prescribed herein.

9. A credit society shall only lend money on the security of Movable or Immovable Property if in granting the secured loan, the aggregate of

- (a) the amount granted by the credit society; and
- (b) the balance outstanding under any other loan granted by any credit society, any financial institution regulated by the MAS, any moneylenders or Vendor to the borrower, secured on that Movable or Immovable Property

does not exceed the following LTV:

Security	LTV	Description
Members' Deposits, Subscription Capital and Share Capital held in the credit society	100%	LTV applies to all members' Deposits, Subscription Capital and Share Capital held in the credit society. A credit society may allow the withdrawal of Deposits, Subscription Capital and Share Capital securing a loan, provided

Security	LTV	Description
		that the balance amount of such Deposits, Subscription Capital and Share Capital held in the credit society is not less than the total outstanding loan amount.
Movable Property (other than members' Deposits, Subscription Capital and Share Capital held in the credit society)	80%	LTV applies to any movable property, other than members' Deposits Subscription Capital and Share Capital held in the credit society.
Immovable Property	80%	LTV applies to a borrower with no outstanding loan for the purchase of another Immovable Property at the time of loan application (either in his own name or jointly with another borrower, and either obtained from a credit society, a financial institution regulated by the MAS, a moneylender, a Vendor, or the HDB).
Immovable Property	60%	LTV applies to a borrower with any outstanding loan for the purchase another of Immovable Property at the time of loan application (either in his own name or jointly with another borrower, and either obtained from a credit society, a financial institution regulated by the MAS, a moneylender, a Vendor, or the HDB).

Power to Vary Limits on Secured Loans

10. The Registrar may, if he considers it appropriate in the circumstances of a particular credit society or class of credit societies, vary the limits on secured loans applicable to that credit society or class of credit societies; and in that event, paragraph 9 of this Written Direction shall no longer apply to that credit society or class of credit societies with effect from such date as determined by the Registrar.

Non-compliance

11. Under Section 100(1)(c) of the Act, it is an offence if a person, without reasonable excuse, disobeys any written direction issued under the Act. Under Section 100(3), a credit society guilty of an offence under Section 100 shall be liable on conviction to a fine not exceeding \$10,000 and, in the case of a continuing offence, to a further fine not exceeding \$500 for every day or part thereof during which the offence continues after conviction.

Effective Date

12. This Written Direction shall take effect from 1 November 2011.

Frequently Asked Questions ('FAQs') accompanying the Written Direction for Secured Loans

Please note that the FAQs below are provided for the sole purpose of offering additional information regarding the written direction. It is not part of the written direction.

Q1. What is the rationale for imposing the LTV limits?

The purpose of having LTV limits is to ensure that credit societies are prudent in granting secured loans to borrowers.

Q2. If a borrower has an outstanding loan (not for the purchase of Immovable Property) with a moneylender secured against Immovable Property A, and the borrower takes up a secured loan for the purchase of Immovable Property B, what LTV limit is applicable for Property B?

An borrower who has an outstanding loan (not for the purchase of Immovable Property) from a moneylender in respect of Property A, and who borrows a secured loan from a credit co-op for the purchase of Property B, will be able to borrow up to 80% LTV from the credit co-op for Property B.

Q3. Can shares of a co-operative society (other than the shares of the credit society granting the loan) or its parent company be used as property to secure a loan? If not, why can't shares be used as security?

Shares of listed entities (which include parent company) or unlisted entities such as credit societies cannot be used as security for a loan. This is because for listed entities, the shares' prices are subject to fluctuations in the financial market. For unlisted entities (which include co-operative societies other than the credit society granting the loan), there is no market for the sale of the unlisted entities' shares. This means that the credit society may not be able to recover the full value of the unlisted entity's shares. If shares are allowed to be used as security, the credit society may be required to monitor the daily market or realizable value of the listed or unlisted company's shares to ensure that the LTV limit is complied with.

Q4. Do credit societies need to provide returns to the Registry on the loans granted that are secured by Moveable or Immovable Property?

Credit societies are not required to provide any returns relating to this prudential requirement. However, the Registry may conduct ad-hoc audits to check if the credit society is complying with the prudential requirement.