



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

RCS SF70.1.6

29 June 2016

**WRITTEN DIRECTION TO CREDIT SOCIETIES
CO-OPERATIVE SOCIETIES ACT (CAP. 62)**

UNSECURED LOANS

1. This Written Direction is issued pursuant to Section 93(2) of the Co-operative Societies Act (Cap. 62) (hereinafter referred to as “the Act”) and applies to all credit societies. This Written Direction takes effect from **1 July 2016** and supersedes the Written Direction on Unsecured Loans issued on 31 October 2011 (reference: RCS SF70.1.6).

Definitions

2. In this Written Direction, unless the context otherwise requires —

“applicant”, in relation to a credit society, means an individual who applies for an unsecured loan from the credit society;

“borrower”, in relation to a credit society, means an individual who has been granted an unsecured loan by the credit society;

“capital adequacy ratio” or “CAR”, in relation to a credit society, means the credit society’s institutional capital expressed as a percentage of its total assets, based on the most recent audited financial statements of the credit society;

“cash” means all currency notes and coins on hand which are legal tender in Singapore;

“essential medical treatment” means any medical treatment that qualifies for payment, whether in whole or in part, from Medisave accounts under the Central Provident Fund Act (Cap. 36);

“exceptional unsecured loan”, in relation to a credit society, means the amount of the unsecured general loan granted in excess of the applicable loan limit in paragraphs 4 and 5;

“exceptional unsecured loan allowance”, in relation to a credit society, means the maximum amount of exceptional unsecured loans a credit society may grant in a financial year;

“immediate family member”, in relation to an applicant, means the applicant’s spouse, child, adopted child, step-child, parent, step-parent, brother, step-brother, sister or step-sister;

“income”, in relation to an applicant or a borrower, means the total gross monthly income of the applicant or borrower before contributions to the Central Provident Fund under the Central Provident Fund Act and any other deductions, and includes regular passive income (such as, rental income) received by the applicant or borrower, respectively;

“institutional capital”, in relation to a credit society, means the aggregate of the following:

- (a) the credit society’s accumulated surplus/deficit or unappropriated surplus;
- (b) the credit society’s general reserves or general funds (excluding reserves and funds established for specific purposes, such as, common good, scholarship, fair value or revaluation, loan default, or provisions for bad and doubtful loans);
- (c) cash donations;

“liquid assets” means the following assets:

- (a) cash;
- (b) Singapore dollar deposits in all savings accounts, current accounts and fixed deposit accounts (excluding any interest receivable) with financial institutions licensed by the Monetary Authority of Singapore;
- (c) Singapore Government Securities,

provided that the assets are free from any prior encumbrances;

“minimum liquid assets” or “MLA”, in relation to a credit society, means the credit society’s liquid assets expressed as a percentage of its total deposits, based on the most recent audited financial statements of the credit society;

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

“qualified surety”, in relation to an applicant or borrower, means an individual who is a member of the credit society or who is an immediate family member of the applicant or

borrower, and who undertakes responsibility for repayment of the applicant's or borrower's outstanding loan with the credit society in the event of default by the applicant or borrower;

"salary check-off", in relation to an applicant or borrower, means an agreement between the credit society and the employer of the applicant or borrower for the deduction of the loan repayments from the salary of the applicant or borrower, respectively;

"Singapore Government Securities" means securities or any equivalent instrument issued under the Government Securities Act (Cap. 121A), the Local Treasury Bills Act (Cap. 167) or any other written law in Singapore;

"total deposits", in relation to a credit society that receives deposits, means the sum of the following which are held by the credit society:

- (a) all moneys in the current accounts and deposit accounts; and
- (b) subscription capital;

"unsecured general loan" means any unsecured loan other than an education loan, a medical loan or a renovation loan referred to in paragraph 8;

"unsecured loan" means any loan given without security.

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

Limits on Unsecured Loans

4. For the period **from 1 July 2016 to 30 June 2020 (both dates inclusive)**, the loan limits on unsecured general loans are as follows:

Tier A:

Credit societies with **at least 10% CAR and at least 15% MLA** shall not grant any unsecured general loan to an applicant, or jointly to 2 or more persons any of whom is an applicant, if this will result in the outstanding unsecured loan amount of the applicant exceeding:

- (i) in the case where the unsecured loan to be granted has a salary check-off arrangement or at least one qualified surety, **\$50,000 or 6 months' income** whichever is lower; or
- (ii) in the case where the unsecured loan to be granted has no salary check-off arrangement and no qualified surety, **\$30,000 or 4 months' income** whichever is lower.

Tier B:

Credit societies with **at least 8% CAR and at least 15% MLA** shall not grant any unsecured general loan to an applicant, or jointly to 2 or more persons any of whom is an applicant, if this will result in the outstanding unsecured loan amount of the applicant exceeding:

- (i) in the case where the unsecured loan to be granted has a salary check-off arrangement or at least one qualified surety, **\$40,000 or 6 months' income** whichever is lower; or
- (ii) in the case where the unsecured loan to be granted has no salary check-off arrangement and no qualified surety, **\$20,000 or 4 months' income** whichever is lower.

Tier C:

Credit societies with **less than 8% CAR or less than 15% MLA** shall not grant any unsecured general loan to an applicant, or jointly to 2 or more persons any of whom is an applicant, if this will result in the outstanding unsecured loan amount of the applicant exceeding:

- (i) in the case where the unsecured loan to be granted has a salary check-off arrangement or at least one qualified surety, **\$20,000 or 4 months' income** whichever is lower; or
- (ii) in the case where the unsecured loan to be granted has no salary check-off arrangement and no qualified surety, **\$10,000 or 2 months' income** whichever is lower.

5. **From 1 July 2020**, the required CAR in each tier will be revised and the loan limits on unsecured general loans are as follows:

Tier A:

Credit societies with **at least 12% CAR and at least 15% MLA** shall not grant any unsecured general loan to an applicant, or jointly to 2 or more persons any of whom is an applicant, if this will result in the outstanding unsecured loan amount of the applicant exceeding:

- (i) in the case where the unsecured loan to be granted has a salary check-off arrangement or at least one qualified surety, **\$50,000 or 6 months' income** whichever is lower; or
- (ii) in the case where the unsecured loan to be granted has no salary check-off arrangement and no qualified surety, **\$30,000 or 4 months' income** whichever is lower.

Tier B:

Credit societies with **at least 10% CAR and at least 15% MLA** shall not grant any unsecured general loan to an applicant, or jointly to 2 or more persons any of whom is an applicant, if this will result in the outstanding unsecured loan amount of the applicant exceeding:

- (i) in the case where the unsecured loan to be granted has a salary check-off arrangement or at least one qualified surety, **\$40,000 or 6 months' income** whichever is lower; or
- (ii) in the case where the unsecured loan to be granted has no salary check-off arrangement and no qualified surety, **\$20,000 or 4 months' income** whichever is lower.

Tier C:

Credit societies with **less than 10% CAR or less than 15% MLA** shall not grant any unsecured general loan to an applicant, or jointly to 2 or more persons any of whom is an applicant, if this will result in the outstanding unsecured loan amount of the applicant exceeding:

- (i) in the case where the unsecured loan to be granted has a salary check-off arrangement or at least one qualified surety, **\$20,000 or 4 months' income** whichever is lower; or
- (ii) in the case where the unsecured loan to be granted has no salary check-off arrangement and no qualified surety, **\$10,000 or 2 months' income** whichever is lower.

6. For the purpose of this Written Direction, the “outstanding unsecured loan amount” of the applicant is the total of:

- (a) the amount of the unsecured general loan to be granted by the credit society to him or, if the unsecured general loan is to be granted jointly to him and one or more other persons, his share¹ of that amount;
- (b) the outstanding amount of all unsecured loans previously granted by the credit society to him; and
- (c) his share² of the outstanding amount of all unsecured loans previously granted by the credit society jointly to him and one or more other persons.

7. In determining whether the outstanding unsecured loan amount of an applicant exceeds the applicable limits in paragraphs 4 and 5, any interest and fees (including late payment fees) imposed by the credit society shall be disregarded.

8. The loan limits in paragraphs 4 and 5 shall not apply to the following types of loans:

- (a) **education loan** to defray expenses directly attributable to a course of education, including tuition fees and the costs of accommodation, textbooks and computer equipment;
- (b) **medical loan** to defray expenses for essential medical treatment;
- (c) **renovation loan**, where —
 - (i) the loan is to defray expenses for the renovation of an owner-occupied property; and
 - (ii) the aggregate of the following is not more than \$30,000:
 - (A) the amount of the renovation loan to be granted to the applicant, or where the renovation loan is granted jointly to the applicant and one or more other persons, the applicant’s share³ of the amount of the renovation loan;
 - (B) the outstanding balance of all renovation loans previously granted to the applicant by the credit society;

¹ The applicant’s share of the amount of an unsecured general loan to be granted jointly to him and one or more other persons is the amount of the loan divided by the number of persons to whom the loan is to be granted or as otherwise stated in the loan agreement.

² The applicant’s share of the outstanding amount of a loan granted jointly to him and one or more other persons is the outstanding balance of the loan divided by the number of persons from whom the loan is outstanding or as otherwise stated in the loan agreement.

³ The applicant’s share of the amount of the renovation loan granted jointly to him and one or more other persons is the amount of the loan divided by the number of persons to whom the loan is granted or as otherwise stated in the loan agreement.

- (C) the applicant's share⁴ of the outstanding amount of all renovation loans previously granted by the credit society jointly to the applicant and one or more other persons.

Exceptional Unsecured Loans

9. Notwithstanding the unsecured general loan limits set out in paragraphs 4 and 5 but subject to paragraph 10, a credit society may grant exceptional unsecured loans in a financial year if, and only if, the total exceptional unsecured loans granted by the credit society in that financial year does not exceed the exceptional unsecured loan allowance. The exceptional unsecured loan allowance of a credit society is 5% of either:

- (a) the total amount of unsecured general loans granted by the credit society in the immediately preceding financial year; or
- (b) the average per financial year of the total amount of unsecured general loans granted by the credit society in the two (2) immediately preceding financial years.

10. Where a credit society exceeds the exceptional unsecured loan allowance in a financial year, the credit society's exceptional unsecured loan allowance for the following financial year will be reduced by the exceeded amount.

11. All credit societies shall maintain a list of their exceptional unsecured loans containing particulars of each loan, including (but not limited to) the name of the borrower, his income, the purpose of loan, the name of the sureties, the applicable loan limit and the amount of the exceptional unsecured loan granted. The Registrar may from time to time require a credit society or class of credit societies to submit the list of exceptional unsecured loans granted, and to take such actions as the Registrar may require for managing the unsecured loans.

Credit Evaluation

12. Prior to granting any unsecured loan, a credit society shall conduct systematic credit evaluation of the applicant and the sureties (if any) in order to assess their credit worthiness. The credit evaluation process shall include the following and any other reasonable steps deemed necessary by the credit society to assess the credit worthiness of the applicant and sureties:

- (a) checking the applicant's and sureties' records in respect of the repayment of past and existing loans with the credit society;
- (b) assessing the applicant's and sureties' financial commitments;

⁴ The applicant's share of the outstanding amount of a renovation loan granted jointly to him and one or more other persons is the outstanding balance of the loan divided by the number of persons from whom the loan is outstanding or as otherwise stated in the loan agreement.

- (c) in the case of any loan for \$10,000 or more, checking the applicant's credit report from a credit bureau and conducting a bankruptcy search; and
- (d) in the case of any education loan, medical loan or renovation loan referred to in paragraph 8, requiring the applicant to provide supporting documents, to satisfy that the proceeds of the loan are or will be used to defray relevant expenses.

Power to vary the Limits on Unsecured Loans and the Exceptional Unsecured Loan Allowance

13. 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 unsecured loans or the exceptional unsecured loan allowance applicable to that credit society or class of credit societies.

Non-compliance

14. The Registrar may from time to time conduct or commission audits to ensure compliance with this Written Direction.

15. Under Section 100 of the Act, any failure to comply with this Written Direction amounts to an offence. The offence is punishable on conviction with a fine not exceeding \$10,000 and, in the case of a continuing offence, with a further fine not exceeding \$500 for every day or part thereof during which the offence continues after conviction.

Frequently Asked Questions ('FAQs')

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. Why are credit societies subject to loan limits on unsecured general loans?

The loan limits ensure that the credit societies extend credit with prudence and this will better safeguard members' deposits. In addition, it helps to ensure that members of credit societies do not over commit on their borrowings. In formulating the loan limits, the Registrar has taken into account the loan limits that licensed financial institutions and licensed moneylenders are subject to.

Q2. Why are there different sets of loan limits for credit societies with different CAR and MLA?

The rationale is that credit societies with stronger financial positions can take on higher credit risks and hence they are given the flexibility to grant larger loans.

Q3. Why is "qualified surety" limited to applicants' immediate family members and members of the credit society?

The limitations of the "qualified surety" serves to preserve the unique self-help feature of credit societies where members come together to help other members. A credit society may still accept non-members or other relatives as sureties, if it wishes to. However, the applicant will not qualify for the higher loan limit within the loan tier if there is also no salary check-off arrangement.

Q4. Why are higher loan limits accorded to loans with a qualified surety or a salary check-off arrangement?

The Registrar recognises that credit societies are membership based entities and serve a social role. In line with the principle of mutual help, an applicant with at least one qualified surety (applicant's immediate family member or a member of the same credit society) can qualify for the higher loan limit.

Some credit societies work closely with their members' employers to put in place a salary check-off arrangement. This allows the deduction of the loan repayments from the salary of the borrower, hence lowering the risk of loan defaults. Thus, a loan with a salary check-off arrangement can also qualify for the higher loan limit.

Q5. Are existing unsecured general loans required to adhere to the limits if they are renegotiated after the effective date of the Written Direction?

If the renegotiation of existing unsecured general loans does not change the loan principal amount, there is no “new unsecured loan”. Hence, the revised loan limits are not applicable.

However, if the renegotiation involves a top-up amount to be extended over the existing loan, the top-up amount is considered a new unsecured loan. The credit society will have to ensure the applicant’s outstanding unsecured loan amount does not exceed the applicable loan limit under the Written Direction before granting the top-up amount.

Q6. If a credit society’s by-laws or loan administrative policies have lower or higher loan limits than the applicable limits in the Written Direction, is there a need to revise the by-laws or loan administrative policies?

If a credit society has lower loan limits than the applicable loan limits, it is not necessary to revise its by-laws or loan administrative policies unless the credit society intends to grant larger loans, within the applicable loan limits.

If a credit society has higher loan limits (e.g. \$60,000 or 8 months’ salary) than the applicable loan limits, it should revise its by-laws or loan administrative policies to be in line with the Written Direction at the earliest opportunity. A credit society is required to follow the applicable loan limits when granting loans even if the by-laws and loan administrative policies have not been amended.

Q7. Does a credit society have to ensure its unsecured loans granted before 1 July 2016 comply with the Written Direction?

No, the Written Direction is only applicable to loans granted on or after 1 July 2016.

Q8. Can a member’s immediate family member or an employee of a credit society obtain unsecured loans from the credit society?

The Co-operative Societies Act provides that a credit society may give loans to its members, their immediate family members and the employees of the credit society. However, a credit society’s by-laws must state that the credit society may grant loans to members’ immediate family members and the employees of the credit society.

Q9. Why are education loans, medical loans and renovation loans treated differently?

The Registrar recognises that credit societies play a social role in helping their members. As education loans and medical loans relate to basic needs, there are no loan limits imposed on them. On renovation loans, we note the necessity for basic renovations and the difficulty, particularly for low income persons (e.g. annual income under \$20,000 per

annum), to obtain such loans. Hence a separate limit is imposed to facilitate the granting of loans to meet such basic needs.

Credit societies are required to undertake the requisite credit evaluation and to request the supporting documents before the granting of any such loans and to ensure the loans are used for the intended education, medical or renovation purposes.

Q10. If an applicant has existing education loans, medical loans or renovation loans with the credit society and wants to apply for a new unsecured general loan, does the credit society need to include the existing education loans, medical loans or renovation loans amounts into the total outstanding unsecured loan amount?

Yes, the “total outstanding unsecured loan amount” shall include all types of unsecured loans. This way, a credit society can ensure that an applicant does not over-commit himself.

Q11. What forms of essential medical treatment would qualify for exclusion from the limits on unsecured loans?

Essential medical treatments that qualify for exclusion from the limits on unsecured loans are any medical treatments that qualify for claims from Medisave account.

The list of approved medical treatments is available at the MOH website (go to “Costs and Financing”, “Medisave”, then “Withdrawal Limits”; http://www.moh.gov.sg/content/moh_web/home/costs_and_financing/schemes_subsidies/medisave/Withdrawal_Limits.html).

Q12. Can the credit society grant an education loan, medical loan or renovation loan if the applicant is unable to provide the supporting documents?

No. If the applicant is unable to provide the supporting documents for an education loan, medical loan or renovation loan, the credit society can only grant an unsecured general loan, subject to the applicable loan limits.

Q13. Why is there a separate allowance for exceptional unsecured loans?

The Registrar acknowledges that there may be cases where members may have a genuine need for loans above the applicable loan limits. Hence, to help these members, credit societies may grant exceptional unsecured loans. An exceptional unsecured loan refers to the amount granted above the applicable loan limit. The sum of all exceptional unsecured loans granted by the credit society in the financial year should be within the exceptional unsecured loan allowance.

Q14. How is a credit society’s exceptional unsecured loan allowance computed?

The exceptional unsecured loan allowance is 5% of either:

- (a) the total amount of unsecured general loans granted in the previous financial year; or
- (b) the average per financial year of the total amount of unsecured general loans granted in the previous two financial years.

A credit society may choose the option that is more favorable to them. An example is provided below.

The table shows ABC Credit Co-op’s (“ABC”) amount of unsecured loans granted and its exceptional unsecured loan allowance over 4 years, assuming ABC does not exceed its exceptional unsecured loan allowance each year.

Financial Year	Unsecured Loans Granted ('000)	Exceptional unsecured loan allowance ⁵ ('000)
01	\$4,000	subject to previous year(s)
02	\$3,000	5% × \$4,000 = \$200
03	\$6,000	5% × [(\$4,000 + \$3,000) ÷ 2] = \$175
04	\$1,000	5% × \$6,000 = \$300

If, in FY02, ABC granted \$210,000 in exceptional unsecured loans, it has exceeded its exceptional unsecured loan allowance by \$10,000. Hence, in FY03, its exceptional unsecured loan allowance is reduced by \$10,000: \$175,000 - \$10,000 = **\$165,000**.

However, with the reduced exceptional unsecured loan allowance for FY03, ABC granted \$166,000 in exceptional unsecured loans instead. It has exceeded its reduced exceptional unsecured loan allowance by \$1,000. Hence, in FY04, its exceptional unsecured loan allowance is reduced by \$1,000: \$300,000 - \$1,000 = **\$299,000**.

Q15. Why is there a need to maintain a separate listing of exceptional unsecured loans?

The listing of exceptional unsecured loans is useful for the credit society and the Registrar to better understand why some borrowers need larger loans. The information may also be used when there is a need to review the exceptional unsecured loan allowance for all credit societies or a specific credit society.

⁵ The formula and amounts for the maximum allowance is shown.

Q16. What are the applicable loan limits since the commencement of the unsecured loan restrictions?

The loan limits are summarized below:

Effective Dates & Qualifying Conditions	Loan Limits on Unsecured General Loans
<p><u>From 1 Apr 2012 to 30 Jun 2014</u> Tier A: at least 8% CAR and 15% MLA Tier B: at least 5% CAR and 13% MLA Tier C: less than 5% CAR or 13% MLA</p>	
<p><u>From 1 Jul 2014 to 30 Jun 2016</u> Tier A: at least 10% CAR and 15% MLA Tier B: at least 6% CAR and 13% MLA Tier C: less than 6% CAR or 13% MLA</p>	<p>Tier A: \$50,000 or 6 months' income ** \$30,000 or 4 months' income *</p>
<p><u>From 1 July 2016 to 30 Jun 2020</u> Tier A: at least 10% CAR and 15% MLA Tier B: at least 8% CAR and 15% MLA Tier C: less than 8% CAR or 15% MLA</p>	<p>Tier B: \$40,000 or 6 months' income ** \$20,000 or 4 months' income *</p>
<p><u>From 1 Jul 2020 onwards</u> Tier A: at least 12% CAR and 15% MLA Tier B: at least 10% CAR and 15% MLA Tier C: less than 10% CAR or 15% MLA</p>	<p>Tier C: \$20,000 or 4 months' income ** \$10,000 or 2 months' income *</p>

** loan to be granted has salary check-off or at least one qualified surety

* loan to be granted has no salary check-off and no qualified surety