Appendix 2

Personal financing

1. Personal financing refers to any financing product, which are offered to individuals by a lending institution either directly or through the lending institution's intermediaries, other than those listed below:

(a) financing for the purchase of residential and non-residential properties;
(b) vehicle financing;
(c) credit cards;
(d) micro-financing products or financing to sole proprietors for business purposes;
(e) credit sales; and
(f) pawn broking or Ar-Rahnu.

Debt Service Ratio

2. Lending institutions shall take reasonable steps to establish that the customer is offered a financing product that is appropriate to the customer's financial circumstances and ability to repay by observing a prudent debt service ratio (DSR).

3. A prudent DSR level is one that allows for sufficient buffers for the customer to deal with any potential future increase in financing rates, income volatility and other costs.

4. For customers that are more likely to be vulnerable to financial strains, the DSR shall not exceed 60%. Where the aggregate debt obligations of a customer exceeds this DSR level, financing must not be extended solely on the basis of other criteria that do not reduce the customer's vulnerability to unexpected adverse events or income shocks (such as repayment history). Such loans must be subject to a separate monitoring mechanism.

5. The DSR computation shall be determined as follows:

$$\text{DSR} = \frac{\text{Aggregate amount of outstanding debt repayment obligations from all lending institutions plus new financing installment}}{\text{Income after statutory deductions (i.e. tax, EPF, SOCSO)}}$$

Debt Repayment Obligations

6. Lending institutions shall conduct a comprehensive check on a customer's overall indebtedness by obtaining information on the customer's outstanding debt obligations, including both secured and unsecured financing from all lending institutions. The lending institution shall -

(a) refer to the Central Credit Reference Information System (CCRIS) or require the customer to provide a copy of his CCRIS report to establish the customer's outstanding debt repayment obligations;

(b) make specific inquiries on financing products which the customer may have with other lending institution including credit sales; and

(c) alert the customer of his duty to disclose adequate and correct information in the financing application.

Income

7. In assessing income for the determination of the DSR, the lending institution shall enquire the customer's sources and amount of income. For this purpose -

(a) if variable income is taken into account, the lending institution shall evaluate the variability of such income for a period of at least **3** months and only include a prudent portion of the average amount as income in assessing affordability;

(b) the lending institution shall consider the month-to-month variance of the customer's variable income to determine the prudent portion and where a high month-to-month variance is observed, the lending institution shall apply a longer period of evidence of variable income to establish the amount that may be regarded as consistent income;

(c) where the customer has no permanent employment or is self-employed, the lending institution shall evaluate the stability of the primary sources of income over a period of at least **6** months; and

(d) the lending institution shall exclude one-off variable income such as windfall gains in the assessment of income.

8. The lending institution shall verify a customer's income against reliable sources which are independent of the customer and must not rely solely on the customer's self-certification of income.

Suitability and affordability assessment

9. The lending institution shall conduct suitability and affordability assessments for each new and additional financing product the lending institution offers to customers.

10. The lending institution shall develop and implement customer suitability procedures to ensure that a financing product sold suits the customer's needs.

11. A financing product is considered as affordable to the customer if the amount and terms allow the customer to reasonably meet the aggregate repayment

obligations in full throughout the course of financing, without recourse to debt relief or substantial hardship.

12. The lending institution shall not offer any personal financing product, where the total or bulk of repayments (principal only or principal plus interest/profit) are due only at the end of the financing tenure, to be repaid from retirement funds of the customer. Retirement funds include, but are not limited to, pensions, Employees Provident Fund and gratuity payments.

Marketing and disclosure

13. No advertisements and promotion materials on the lending institution's financing products shall be misleading or deceptive or fail to display prominently critical information that is likely to affect customers' borrowing decisions.

14. The lending institution, including intermediary of the lending institution, shall pay due regard to the interests of the customer by inquiring into the customer's financial requirements and financial situation to ensure that the financing product offered is suitable in meeting the customer's needs and circumstances.

15. At the point of marketing any financing product, the lending institution, including the intermediary of the lending institution, shall provide the customer with relevant material information on the product to facilitate comparison and decision-making. The information provided shall include the following –

(a) key features and characteristics of the product;
(b) except for fixed rate financing where relevant, the impact of an increase in financing rate of up to 200 basis points on the monthly installment and total repayment amount;
(c) fees and charges that the customer may incur and whether the fees are one-off or recurring;
(d) the customer's responsibility and obligations, including key terms affecting the obligations of the customer; and
(e) the consequences of defaulting on any repayments.

16. The lending institution, including intermediary of the lending institution, shall –

(a) in addition to paragraph 15 above, inform the customer in writing at the point of entering into the financing contract if there is any material change in the information provided under paragraph 15;
(b) alert the customer on the importance of understanding and confirming the terms of offer of the product prior to entering into a financing contract;
(c) give the customer a reasonable opportunity to consider the terms and conditions of the product and make relevant enquiries; and

(d) draw the customer's attention to the total repayment amount and total interest or profit cost which will be borne by the customer.

17. The intermediary of the lending institution shall not harass, unduly pressure or inappropriately entice a consumer into signing up for a financing product through exaggerated special offers with undisclosed conditions attached.

18. The lending institution, including intermediary of the lending institution, shall not offer any form of pre-approved personal financing product.

19. During the financing tenure, the lending institution shall provide a loan statement to the customer at least once a year. Key information to be captured in the loan statement includes, but is not limited to, the outstanding balance, the amounts credited and charged, including interest and non-interest charges, and the dates when the amounts were posted to the loan account.

Monitoring and recovery

20. The lending institution shall, as part of its regular monitoring of financing accounts, contact the customers promptly upon detecting early signs of repayment difficulty and inform the customer of the importance of engaging with the lending institution early to discuss alternative repayment measures to address the customer's financial difficulties.

21. The lending institution shall explain and provide advice on options available to assist a customer in resolving repayment difficulties.

22. The lending institution shall not offer an alternative repayment plan that unreasonably increases the payment obligation of and financial difficulty faced by the customer.

23. The lending institution shall alert the customer of possible recovery actions if the customer continues to be in default, such as legal proceedings and that the related costs will be borne by the customer.

24. The lending institution shall not pass on charges in relation to recovery efforts to the customer with the exception of charges incurred for any legal action taken.

Customer assistance

25. The lending institution shall provide a dedicated unit to handle complaints from customers and to assist customers facing repayment difficulties.

The lending institution shall communicate clearly the contact details of the unit to its customers.

26. The lending institution shall provide appropriate training to employees handling customer complaints and dealing with customers experiencing difficulties in repayment.

27. The lending institution shall ensure that all complaints, including complaints against its intermediaries, are properly investigated and appropriate remedial actions are taken for any misconduct or unethical practices. All complaints must be handled fairly, efficiently and in a timely manner.