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One in 10 borrowers overstretched, warns MAS

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Hike in rates and fall in property prices may pose risks to financial stability

HOUSEHOLDS here are borrowing more amid low interest rates and combined with soaring home prices, the mix poses "significant risks" to Singapore's financial stability, the Monetary Authority of Singapore (MAS) has warned.

The central bank said 5 per cent to 10 per cent of borrowers here have likely taken on too much debt to buy a home. In other words, their total monthly debt repayments exceed 60 per cent of their income, said MAS managing director Ravi Menon yesterday.

This proportion of "at risk" borrowers could hit 10 per cent to 15 per cent if mortgage rates rise by 3 percentage points, he added.

While Singapore households as a whole have more cash and deposits than debt, individual households may not be in such good financial shape, Mr Menon said at the release of the MAS annual report. Households with lower income, less savings or longer loan periods may find it a strain to repay debts if interest rates rise.

"The combination of low interest rates, growing leverage, and surging property prices poses significant risks to financial stability," Mr Menon said. "When interest rates rise and if property prices fall, any risks built up will materialise.“

He added: "So when interest rates rise, long before any bank gets into trouble - and they won't - some households will."
Bank housing loans here have risen 18 per cent a year in the last three years, and home loans as a share of gross domestic product (GDP) have jumped from 35 per cent to 46 per cent in the period.

This has led Singapore's debt as a share of GDP to rise from 200 per cent to 270 per cent over the last three years, while resident debt to GDP has risen from 125 per cent to 155 per cent, Mr Menon said.

Economists have sounded similar alarms. Standard Chartered noted this month that Singapore households are among the most indebted in Asia relative to what they earn, while Moody's Investors Service recently downgraded its outlook for Singapore's banking system due to mounting debt.

Barclays economist Joey Chew pointed out that Singaporeans have one of the highest savings rates in the world. OCBC economist Selena Ling added that while debt is not a major problem now, the MAS wants to ensure that people do not assume interest rates will be low forever.

The MAS last month unveiled a new framework for home-buyers' loans, to ensure that a borrower's repayments on all his debt does not exceed 60 per cent of his gross monthly income. The move came as MAS wants banks to practise responsible lending. It had noted some "worrying practices" during bank inspections.

One couple with a total monthly income of $6,000 were granted a new home loan of $400,000 on top of their existing debt, as they had a savings deposit of $90,000. But their total monthly loan repayments came to more than 90 per cent of their income. Some car buyers also borrowed almost the full car price, which is not prudent as cars are depreciating assets, Mr Menon said. While the MAS is concerned about household debt, it is less worried about the local banks as they are financially strong and have healthy buffers against home price falls. The average housing loan-to-value ratio for banks is just under 50 per cent, he said.

A report yesterday by the National University of Singapore's Risk Management Institute said the probability of default for each of the local banks is now near lows not seen since early 2011.