



AMBD'S Response To Concerns on TDSR

1. Autoriti Monetari Brunei Darussalam (AMBD) would like to thank Azlan Othman for his article in Borneo Bulletin titled 'Call to review TDSR limit' published on Friday, 5 May 2017 and *Concerned's* Letter to Editor on Opinion page titled 'Total Debt Service Ratio, an unrealistic measure' published on Wednesday, 10 May 2017.
2. AMBD would like to share the main objective of introducing the Total Debt Service Ratio (TDSR) among others, is to reduce household debt. Excessive household debt is a source of vulnerability to the social economy of the country. The TDSR policy helps to promote responsible lending by the banks and finance companies and responsible borrowing behaviour of the public. This will foster a healthy and sustainable credit market which in turn contributes to economic and financial stability.
3. TDSR is commonly implemented at a similar or lower ceiling in other jurisdictions by the Financial Supervisory Authorities and Central Banks to address specific issues. The Monetary Authority of Singapore explained their TDSR framework in a joint press release dated 10 March 2017 as follows:

"The TDSR framework aims to encourage prudent borrowing by households and strengthen credit underwriting standards by financial institutions. Under this framework, property loans extended by a financial institution should not exceed a TDSR threshold of 60%".

In Oman, the TDSR for personal loans (including credit cards and motor vehicle financing) is set at 50% rising to 60% if residential mortgage loans are included. In a circular to the banks dated 23 May 2012, the Central Bank of Oman stated the reason for this is to address the rising level of personal indebtedness in housing loans and other personal loans.

4. AMBD would like to elaborate further on the current TDSR policy:-
 - i. AMBD does not impose the TDSR on borrowers with Net Monthly Income below BND1,750. However, to ensure that they have access to credit/financing, banks and finance companies are given discretion to provide lending based on their current internal credit policy on TDSR;
 - ii. Rental income are included as part of the borrower's Gross Monthly Income subject to certain conditions as stipulated by AMBD; and
 - iii. Any car rental facilities with fixed periodic repayment obligations, offered by entities (directly or indirectly) under the purview of AMBD are subject to the TDSR policy.

AMBD will continue to monitor the conditions in the domestic credit market and will review the TDSR policy from time to time in line with one of its objectives - to maintain financial stability.

5. Since the introduction of the TDSR policy in June 2015, and taking into account other enhancements to the financial infrastructure, such as the establishment of the Credit Bureau in 2012, AMBD has observed several positive outcomes as follows: -

i. The household indebtedness as measured by Personal loans (including credit cards), has declined by 28.6% from BND2.3 billion in 2010 to BND1.6 billion in 2016. Prior to the introduction of TDSR in 2015, there were instances where loans were given to customers who had no ability to repay. Household indebtedness also reached a worrying level where 30% of loan applicants earning Net Monthly Income above BND1,750 had TDSR above 70%. This indicated households were heavily in debt prior to the TDSR policy.

As an example, a customer with Net Monthly Income of BND2,000 with TDSR of 90% would only have BND200 as take-home pay which is equivalent to BND6 a day. The TDSR is therefore intended to help households to have enough disposable income for necessities such as food, clothes, education, savings, insurance, emergencies, and other expenses. Since the introduction of TDSR, the number of loan applicants who are heavily in debt have declined to 6% as of March 2017;

ii. Based on the data submitted by finance companies, the number of repossessed motor vehicles has shown a decline of 39% from 2,879 in 2014 to 1,764 in 2016. The decline in repossessions indicates that the customers have significantly improved their repayment capability to meet their debt obligations. This also shows that finance companies have reduced their risk of customers' default effectively with the TDSR policy, as evident from the declining net non-performing loan ratio from 0.6% in 2014 to 0.5% in 2016; and

iii. AMBD has observed an increase in preference of owning residential properties rather than taking a loan for an additional car for example, where residential mortgage loan/financing has increased by 52% from BND0.9 billion in 2010 to BND1.4 billion in 2016.

6. In reference to the matter of declining car sales, as stated in Azlan Othman's article, AMBD has observed that the decline in car loans have started in 2012, prior to the implementation of the TDSR. Additionally, the car market has become increasingly competitive recently due to a number of factors, including the availability of options for long-term car rentals.

7. AMBD would like to take this opportunity to remind the public on the importance of practicing financial discipline. In this regard, the public is advised to:-

- i. Cut down unnecessary credit cards because each card may incur annual fees and can constrain their TDSR limit;
- ii. Use debit cards as a form of reducing cash payments to credit cards as it does not involve monthly repayments and is not included in the TDSR computation;
- iii. Prioritize your spending according to needs instead of wants;

- iv. Prioritize your borrowing needs. For example, you have landed your first job, do you take up a loan for an expensive car or an affordable one? By choosing the affordable car, a bigger share of your TDSR can be used to help finance your first home; and
- v. Consider saving the remaining disposable income for bigger purchases instead of acquiring loans. In the example cited by *Concerned*, a person with an income of BND 20,000 who is left with BND 6,000 after his monthly commitments, would have more room to manage his purchases. For example, if he sets aside BND 2,000 monthly, he will be able to save BND 24,000 in one year to buy a car without taking out a loan.

For more tips and advice on financial management, AMBD publishes awareness articles and advertorials from time to time, as well as organises regular awareness events for the public. Please visit AMBD's website at www.ambd.gov.bn, download our AMBD application for free at Google Playstore or App Store, or follow AMBD's Instagram @autoriti_monetari.

8. The implementation of the TDSR policy continues to foster a healthy and financially-sustainable society which supports the aspiration of the Government of His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah ibni Al-Marhum Sultan Haji Omar 'Ali Saifuddien Sa'adul Khairi Waddien, Sultan and Yang Di-Pertuan of Brunei Darussalam towards Vision 2035.
9. For any enquiries and further information, the public may contact AMBD at 2388388 or email at info@ambd.gov.bn.

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