

AMENDMENT
NOTICE TO ISLAMIC BANKS
EFFECTIVE DATE 9 NOVEMBER 2017

NOTICE NO. BU/N-10/2017/45 – AMENDMENT NO. 1
TOTAL DEBT SERVICE RATIO

1. INTRODUCTION

- 1.1. Financial Institutions (“FIs”) are expected to maintain sound practices in managing their credit risk. Prudent credit underwriting shall entail careful and comprehensive assessment by FIs of Customers’ repayment capabilities. Where the Customer is an individual, AMBD expects FIs to consider the income level and outstanding debt obligations of the Customer in assessing debt repayment capability.
- 1.2. This Notice is issued pursuant to section 66 of the Islamic Banking Order, 2008 and applies to all Islamic banks in Brunei Darussalam.
- 1.3. This Notice shall only apply to Financing Facilities granted to natural persons.
- 1.4. This Notice shall take immediate effect.

2. DEFINITIONS

- 2.1. For the purposes of this Notice –

“**CBAMBD**” means the Credit Bureau established under section 42A of the Autoriti Monetari Brunei Darussalam Order, 2010;

“**Current independent professional valuation report**” means, in respect of Financing Facility granted against immovable property, a valuation report that is not more than 3 years old, prepared by an independent registered valuer;

[Amendment No. 1 dated 9 November 2017]

“**Customer**” means a borrower or a recipient of financing from an Islamic bank;

“Financing Facility(ies)” means secured and unsecured financing facility(ies) provided to a Customer by an Islamic bank in the form of financing, advance(s), hire-purchase, credit cards or any other form or manner of financing;

“Monthly Repayment Instalment” means the sum of the monthly repayment of the principal amount (where applicable) and the monthly payment of profit under a Financing Facility;

“Mortgage Equity Financing Facility(ies)” means Financing Facility(ies) secured on the Customer’s equity in the immovable property (whether the property is in the Customer’s own name or jointly with another). The equity in a property is the difference between the market value (based on a current independent professional valuation report) and the outstanding balance on the secured Financing Facility;

[Amendment No. 1 dated 9 November 2017]

3. **TOTAL DEBT SERVICE RATIO (TDSR)**

- 3.1. Islamic banks may provide Financing Facility (or renew, extend or otherwise modify an existing Financing Facility) for an amount such that the Customer's TDSR conforms to the following:-

Customer’s Net Monthly Income (X)	Total Debt Service Ratio
$X \geq \text{B\$}10,000.00$	➤ Subject to Islamic bank’s internal financing policy*
$\text{B\$}1,750.00 \leq X < \text{B\$}10,000.00$	➤ Not exceeding 60% TDSR
$X < \text{B\$}1,750.00$	➤ Subject to Islamic bank’s internal financing policy*

*Note: A person's regular income, net of monthly debt obligations, must remain sufficient for that person to support himself and any dependents.

[Amendment No. 1 dated 9 November 2017]

- 3.2. An Islamic bank shall compute the TDSR in accordance with the following formula:-

$\frac{\text{Monthly total debt obligations}}{\text{Net Monthly Income}} \times 100\%$
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- 3.3. The monthly total debt obligations to be applied in the formula in paragraph 3.2 above shall be the aggregate of the Customer's Financing Facilities (existing and new/proposed) based on the Customer's information, including credit information report obtained from CBAMBD, as follows:

Type of Financing Facilities	Monthly Debt Obligations
Fixed Term Financing Facility	➤ Monthly Repayment Instalment
Revolving Financing Facility	➤ 2% of Financing Facility limit
Unsecured Credit Cards	➤ 8% of the total limit of the cards or 8% of the total outstanding amount of the cards, whichever is higher
Credit Cards secured with Fixed Deposits	➤ 0%

- 3.4. For purposes of paragraph 3.3 above, Islamic banks are obligated to make extensive and accurate verification on their individual Customers' monthly total debt obligations.
- 3.5. The TDSR will facilitate Islamic bank's assessment of the Customer's repayment ability. It will also encourage financial prudence by ensuring that Customers are not overleveraged in their debt obligations. AMBD expects Islamic banks to have internal policies and procedures in place to implement this Notice.
- 3.6. Islamic banks shall incorporate the TDSR in their credit assessment policies for individual financing. Islamic banks shall set appropriate and prudent TDSR thresholds in their internal credit assessment policies, to ensure that Financing Facilities granted commensurate with the Islamic banks' risk appetite. Islamic banks shall also set out clearly the rationale behind any differentiated TDSR thresholds applied, taking into consideration factors such as the risk profile of the Customer. TDSR thresholds shall be reviewed periodically to ensure their continued relevance.
- 3.7. For the purposes of paragraphs 3.5 and 3.6 above, an Islamic bank shall notify AMBD of any policy change of its TDSR threshold in its internal credit assessment policies, within 10 working days after formal approval by the Credit Committee of the Islamic bank.

[Amendment No. 1 dated 9 November 2017]

- 3.8. Notwithstanding paragraph 3.1 above, an Islamic bank may, in respect of a Customer with a Net Monthly Income of between B\$1,750.00 and B\$9,999.99, increase the TDSR limit to a maximum of 70% for Financing Facility(ies) to finance the purchase or construction of immovable properties, the financing of which shall be secured by such immovable properties. Islamic banks shall ensure that the Financing Facility(ies) are genuinely utilised to finance the purchase or construction of immovable properties, and not for any other purpose. To this end, Islamic banks shall establish a strong and effective verification process.

[Amendment No. 1 dated 9 November 2017]

TDSR Flexibility for Mortgage Equity Financing Facility

- 3.9. Notwithstanding paragraphs 3.1 and 3.8 above, an Islamic bank may exceed the TDSR limit for Mortgage Equity Financing Facility, subject to the Islamic bank's internal financing policy on TDSR and the following conditions:
- 3.9.1. The immovable property being charged, which may be jointly owned with another, shall not be the sole property owned by the Customer;
 - 3.9.2. The Customer does not currently reside in the immovable property;
 - 3.9.3. The immovable property being charged shall be income-generating where the rental/business income is credited into the Customer's account. For this purpose, an Islamic bank is required to set their own internal standards and policies to ensure such income is verifiable such as through a valid tenancy agreement signed by both the Customer (as the landlord) and the party to whom he has leased the property;
 - 3.9.4. An Islamic bank must ensure that the Customer's Net Monthly Income is sufficient to cover their total debt obligations by conducting internal stress-testing on the Customer's repayment capability in the event of any loss of rental/business income;
 - 3.9.5. The Islamic bank's main assessment of granting a Mortgage Equity Financing Facility shall be on the repayment capacity of the Customer without relying heavily on the immovable property; and
 - 3.9.6. The maximum repayment tenor of the Mortgage Equity Financing Facility shall be determined by the Islamic bank but not exceeding 20 years.

[Amendment No. 1 dated 9 November 2017]

- 3.10. For avoidance of doubt, the monthly debt obligation for Mortgage Equity Financing Facility shall be computed as part of the Customer's TDSR.

[Amendment No. 1 dated 9 November 2017]

TDSR Flexibility for Fully-Secured Financing Facility

- 3.11. Notwithstanding paragraph 3.1 above, an Islamic bank may exceed the TDSR limit for fully-secured Financing Facility subject to the Islamic bank's internal financing policy on TDSR, with the following collaterals and maximum entitlement for the Financing Facility as specified below:-

Collateral	Maximum entitlement for the Financing Facility
Cash/Fixed Deposit under lien - Denominated in BND/SGD	100% of collateral value
- Denominated in foreign currency	Subject to Islamic banks' assessment
Principal protected investment product under lien (denominated in BND/SGD issued by lending Islamic bank)	90% of collateral value

[Amendment No. 1 dated 9 November 2017]

4. NET MONTHLY INCOME

- 4.1. For the purpose of paragraph 3, the Net Monthly Income of a Customer shall be determined as the Gross Monthly Income less the following:-

4.1.1. The Customer's contribution to any employee provident / pension fund (such as Tabung Amanah Pekerja (TAP) and Supplemental Contributory Pensions (SCP) Scheme); and

4.1.2. Any other obligations that are deducted from the Customer's salary slip, including:-

- 4.1.2.1. Government Loan;
- 4.1.2.2. Government Housing Repayment Scheme;
- 4.1.2.3. Company Loan; and
- 4.1.2.4. Memberships.

4.2. In determining the Gross Monthly Income of a Customer, the following may be aggregated:-

4.2.1. Fixed basic monthly income;

4.2.2. Fixed monthly allowances;

4.2.3. Monthly pension except for old age pension, and credited to the Customer's account;

4.2.4. 50% of the average of monthly variable income (such as commission, bonus or allowance from the Customer's employer) credited to the Customer's account earned in the preceding 12 months;

4.2.5. 70% of the average monthly rental income from properties credited into the Customer's account in the preceding 12 months and supported by a valid tenancy agreement signed by both the Customer (as the landlord) and the party to whom he has leased the property. For this purpose, Islamic banks are required to set their own internal standards and policies to ensure such rental income is dependable and verifiable; and

4.2.6. 70% of the average monthly income (for sole proprietors) credited into the Customer's account in the preceding 12 months. For this purpose, an Islamic bank is required to set their own internal standards and policies to ensure such income is dependable and sustainable.

5. **PROVISIONS REPEALED**

5.1. Notice No. BS/N-1/2015/30 – Amendment No. 1 on Total Debt Service Ratio issued to Islamic banks on 28 October 2015 is repealed, but AMBD reserves the right to enforce any non-compliance prior to its repeal.

MANAGING DIRECTOR

AUTORITI MONETARI BRUNEI DARUSSALAM

Date: Safar 1439 / November 2017