Factors on How Moneylenders Decide on an Interest Rate

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If you reside in Singapore, you might already be aware that many moneylenders are willing to lend you money. As a result, you don't have to rely on the banks solely.

In fact, altogether, there are over 150 licensed moneylenders in Singapore as of 1 October 2019. It is much easier and faster to get money from these moneylenders as their loan approval requirements are more relaxed. The types of loans offered by the moneylenders include personal loans, parent loans, student loans, car loans, home loans, and so on.

In case you want to borrow money, you might be wondering how those moneylenders determine the interest rates.

Not all moneylenders offer the same rate of interest. Your interest rate can be determined by your annual income, default rate, number of outstanding loans, length of employment, credit risk status you hold, and so on.

However, since October 2015, moneylenders are to cap their rates of interest at 4 percent per month, irrespective of a borrower's yearly income, and regardless of whether they obtain an unsecured or secured. If a borrower can't repay the loan, the highest rate of interest that moneylenders may charge will still be 4 percent per month.

Annual Income

In order to provide better protection for borrowers, recently, The Ministry of Law made new rules limiting the amount a person may borrow from all licensed moneylenders.

Under these caps, permanent residents and residents of Singapore whose yearly income doesn't cross $20,000 may borrow only up to $3,000. People earning over $20,000 yearly may borrow up to six times their monthly income.

Annual Income of Borrower	For Singapore Citizens and Permanent Resident	Foreigners residing in Singapore
Less than $10,000	Maximum of $3,000	Maximum of $1,500
Between $10,000 to less than $20,000	Maximum of $3,000	
At least $20,000	Up to 6 times the monthly income	

Foreigners residing in Singapore who earn less than $10,000 annually can borrow $1,500. Foreigners earning between $10,000 and $20,000 annually can borrow up to $3,000. And those earning at least $20,000 can borrow six times their monthly income.

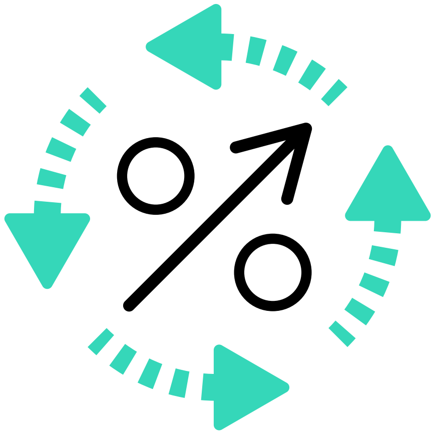
Thus, your annual income can be a deciding factor on the rate of interest the moneylender charges you.

Default Rate

Some moneylenders can keep a default rate and charge everyone the same rate of interest regardless of their monthly salary, yearly income, or credit risk status.

For instance, borrowers at Credit 21 are charged an interest rate of 4% per month applies regardless of their income and whether the loan is an unsecured or secured one. This rate was set by the Ministry of Law with effect from 1 October 2015.

In case a borrower can't repay the loan on time, the maximum rate of late interest a moneylender can charge is 4% monthly for each month the loan is repaid late.



This default rate of interest set by the MOL (Ministry of Law) is for the benefit of the borrowers. Hence, it is a great measure taken to check illegal moneylenders in Singapore. On top of that, the default rate is safe and transparent.

Number of Outstanding Loans

The outstanding amount refers to the total due of your loan that you need to pay to the bank, including interest and principal to date.

In case you have taken several loans from banks or moneylenders and are yet to pay back the loans, the moneylenders may charge you a higher rate of interest. It is because they are taking a big risk by lending you money, which you may not be able to pay back on time.

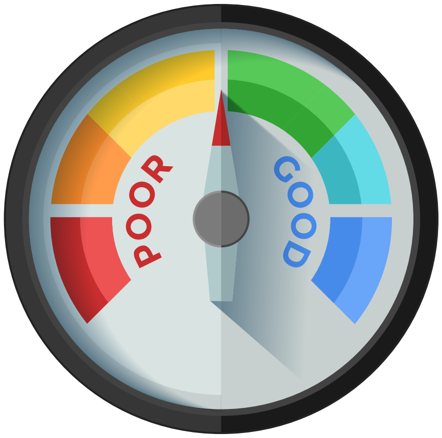
Length of Employment

Your length of employment may be another deciding factor on the interest rate you pay your moneylender.

If you are a self-employed person, moneylenders will usually ask you to present your Notice of Assessment for two years. If you have been self-employed for less than a year, this can create an issue. You will have to secure a line of credit while you are still employed. A line of credit is typically valid for at least two years, and it covers the amount of time needed before your Notices of Assessment qualify you for another loan.

In case you are just starting a business and have no employment proofs to show, it can be very difficult to avail a loan or moneylenders may offer you a loan at an increased interest rate.

Your Credit Risk Status



In Singapore, having a functional credit status is very crucial while obtaining a loan from a moneylender. The best grade is AA, followed by B, and C. Grade D is the lowest score often caused by defaults.

If your credit score is low, moneylenders may charge higher interest rates as your credit status poses a high risk. As per Value Penguin, maintaining an excellent credit score may also affect your average personal loan interest rate.

To keep your credit score high, it is recommended to take only the amount of money that you are able to repay in full within the set timeframe.

Your Collaterals

The common forms of collateral are properties you own, a fixed deposit with the bank, a stock portfolio, and so on. Some moneylenders may ask you to provide your collateral at the time of filling up the application for obtaining loans.

If you provide sufficient collateral, the moneylender weighs up your income as being higher than the quantifiable amount.

However, note that not all the banks accept the same collateral or place the same value on the collateral. The collaterals you provide can, thus, affect your interest rate.

Type of Loan You Take

The type of loan you avail is another factor that determines the interest rate. For instance, Cash Advance Loans and Instant Loans usually have higher rates of interest than personal loans. When you apply for such loans, you get the money instantly; thus, the interest rate is high. Personal loans can take a longer time to process.

Time Factor

Time is a risk factor when it comes to loans. Long-term loans have a higher chance of not being repaid if it leads to default.

Also, a long-term loan is more vulnerable to the effects of inflation as compared to that of a short-term loan. Thus, a moneylender may charge a higher rate of interest if you take a long-term loan. The loans which you are supposed to return within a short time period may typically have lower interests.

Winding-Up

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