SINGAPORE: If lower-wage earners are given access to loans without the need for collateral, it will most likely lead to bad debts, according to many people who took part in Channel NewsAsia's online poll.

They were responding to proposals announced on Monday by the Monetary Authority of Singapore and the Law Ministry.

Among other things, the two agencies had proposed that the minimum income for unsecured credit facilities be lowered to S$20,000, from S$30,000.

Of the more than 100 responses so far, more than 45 percent felt that there would be more bad debt if lower-wage earners got access to the unsecured credit facilities, meaning they do not have to put up any collateral for taking out loans.

This view is shared by industry observers.

While banks in general have welcomed the increase in spending by an enlarged pool of potential customers, they say the loans will still be granted in a prudent manner.

Some 460,000 will immediately qualify to take out unsecured loans, if the new rules are adopted after public consultation.

This means banks will potentially have a 20 percent rise in customers to grant loans to without collateral.

Based on a minimum S$20,000 annual income, and twice the monthly income for those who qualify, the extra amount of loans that banks can give could amount to more than S$1.5 billion.

Experts say that without checks and encouragement of financial prudence, borrowers will be no better off if they were to borrow from moneylenders.

Said Associate Professor Sundaram Janakiramanan, of the Lee Kong Chian School of Business at Singapore Management University, "These are low-income people, and because they may not have the financial discipline, it's quite likely they will be paying interest of S$600 for a long period of time. I think what should be considered is that when they borrow the loan, there be a sort of payment schedule, so that the interest is less and financial discipline is brought in."

While the move is seen as a boost for the financial industry, there could also be a limit on how much unsecured credit can be extended.

Said Professor Janakiramanan, "One of the things that may affect the banks is when they give loans, they're also suppose to follow the capital adequacy rule; and this being very high-risk unsecured credit, it may turn out to be a tier 2 or even tier 3 capital, which means the capital may have to be increased."

These are issues the public consultation will take into account before a decision is made on the rules.

The public can give its feedback to the government until September 7. - CNA /ct