Licensed moneylender or licensed loan shark?

Time to cap interest rates as some charge as much as loan sharks do

By Mavis Toh

A WOMAN needed money quick when her business ran into difficulties. She borrowed sums that came up to $11,000. She was charged interest of about 25 per cent per month.

When she defaulted on her monthly payments, some of her debtors told her she had to repay the principal from scratch. Others charged her hefty late fees. When the original sum borrowed snowballed to over $20,000 within weeks, she was at her wit's end.

This might sound like a familiar problem for those who borrow from illegal moneylenders or loan sharks. But she had not. She was borrowing from licensed moneylenders.

In Singapore, the problems caused by loan sharks – who charge exorbitant interest rates and use violent means to get their money back – have been much discussed. Laws were amended in February last year to give the authorities more bite to tackle such illegal moneylenders.

But what is less well known, is that the same problems now plague the licensed moneylending industry. Last month, MP Ong Seh Hong raised the issue in Parliament and asked for the law to cap the interest moneylenders may charge.

At Credit Counselling Singapore, counsellors report that some licensed moneylenders charge interest of 260 per cent a year, up from about 180 per cent a year last year. This is not unlike rates offered by the loan sharks.

The Registry of Moneylenders, however, has said that a cap on interest rates would make moneylenders unwilling to risk making loans and that borrowers will be forced to turn to loan sharks.

For borrowers, the problem is that it isn't always clear which moneylender is legitimate, and which isn't, especially when both charge exorbitant interest rates. Last year, the licence of a moneylender was revoked when the registry found out the operator was a former loan shark. Few desperate borrowers will be in the right frame of mind to be discerning.

There are currently 265 licensed moneylenders, up from 260 last year. There were 169 in 2007 and 173 in 2008. Most are sole proprietors giving small, short-term loans. They run their operations out of bare offices, with several moneylenders sharing one office space. Their service is most popular with those who do not qualify for bank loans or are unable to borrow further due to bad credit records.

These moneylenders meet a real economic need. But they operate at the margins of the financial world catering to high-risk borrowers. Searching for better returns, lenders start getting creative with their demands on borrowers.

One practice in the past was to give out loans to flat owners in need of cash,