Singapore Car Loans. Imprudent Banking Practices

Until a week ago it was possible to buy a car in Singapore with a 10% down payment and a 10 year loan. Cars are acutely expensive a shortage of land (Singapore is a tiny island at the foot of Malaysia) has necessitated the rationing of cars through a quota system. The rationing requires car buyers to first buy a 10 year right to operate a car called a certificate of entitlement or COE. COEs are auctioned monthly with supply based on the number of cars being de-registered that month plus an acceptable growth rate. This idiosyncratic system has led to wild swings in COE prices, mostly to the upside, resulting in Singapore having the most expensive cars in the world. As an example, an Audi A6 in Singapore would cost the same as a Ferrari 458 Italia in London.

Not many people would be able to afford cars in Singapore were it not for the easy credit provided by banks. Which brings us to a rather simple question: why would anyone extend a loan, secured against a depreciating asset which almost guarantees that loan-to-values would rise from 90% at purchase to 105% overnight and to 120% in a year? Banks have to assume that car and COE prices would rise continually to defend their lending practices.

A week ago, the government stepped in to legislate that car buyers would have to put up 50% of the cost in cash and that loans should not exceed 5 years. At last someone was thinking rationally. One can only wonder who invented the 10 year car loan with 10% downpayment, for surely it is simply irresponsible lending behavior. It is an example of why regulators are necessary and why perhaps it is time to reconsider the limited liability concept, for who in his right mind would lend his own money this carelessly?