

# A LOOK AT SINGAPORE'S MORTGAGE FINANCE INDUSTRY

With property sales slowing down, how is the banking industry designing its mortgage loan facilities to retain existing customers and attract new ones? What are some of the factors customers have to take note of when taking up mortgage loans?

By Jace Tay

**I**n the wake of the US sub-prime mortgage crisis, the Singapore mortgage finance industry seems to have emerged relatively unscathed. However, the crisis has definitely made property buyers more cautious in their purchases, which led to a considerable decline in the volume of home purchases. Yet, despite the resultant decrease in take-up rate of mortgage loans for new properties, banks in Singapore have come up with innovative ways to market alternative loan schemes, such as loan refinancing or other risk-based pricing loans. Such diversification methods have insulated the local mortgage industry against huge collapses following the downfall of US mortgage giants Freddie Mac and Fannie Mae.

## INNOVATION AND DIVERSIFICATION IS KEY

With the lack of demand in the property market, banks are actively sourcing for solutions to boost their mortgage loan facilities. Competition can be stiff when faced with a limited pool of customers, thus, banks have to constantly come up with newer and better products to outdo their rivals and attract or retain customers.

Standard Chartered Bank, for instance, focuses on bringing customers a well-diversified set of home loan solutions, with products for first-time buyers, upgraders, refinancers and investors. "We see a strong interest in SIBOR-linked packages as customers can benefit from the current low interest

rate environment and enjoy full pricing transparency," says Mr Dennis Khoo, general manager of lending, Standard Chartered Bank, Singapore. The bank's latest innovation is MortgageOne SIBOR, which is pegged to the 3-month SIBOR rate and comes with a special offset feature that allows customers to use the interest earned on their deposits to reduce the interest payable on their home loan. By paying less interest every month, customers can now repay their mortgage loan faster compared to a traditional mortgage loan.

United Overseas Bank (UOB) takes another approach to this problem by locking in interest rates for the UOB CLEAR package. It allows customers to have fixed installments for a three-year period, regardless of interest rate movements. As a UOB spokesperson explains, "If interest rates move up, customers can be assured that their monthly cashflow will not be disrupted. If interest rates decline, customers can pay off more of the principal amount."

## THINGS TO LOOK OUT FOR IN A MORTGAGE LOAN

Despite the array of goodies offered by banks, there are still some factors which customers should take note of when signing up for a new mortgage loan scheme. Mr Dennis Ng, founder of Independent Mortgage Consultancy Portal [www.HousingLoanSG.com](http://www.HousingLoanSG.com) remarks, "Some banks are offering fixed rate packages which comes with a longer lock-in period of four years

to secure customers in this competitive environment. If you want to retain flexibility of making partial repayment from time to time or to consider selling your property within the next two to three years, then you should consider packages with a shorter lock-in period."

For customers who are servicing an existing mortgage loan, they should also review their loans regularly and access if they are maximizing their loan benefit. There might be times when refinancing a loan might result in significant savings. "SIBOR has dropped from over 3.5 per cent 18 months ago to about 1.2 per cent currently, this means that anyone who has taken up a housing loan in the last two years when interest rates were higher are likely to be able to enjoy significant interest savings if they refinance their housing loans now," explains Mr Ng.

Mr Eddy Cheong, head of Risk Management and Special Projects at Provident Pte Ltd, feels that mortgage customers are generally not well-served in Singapore. He said, "Within the banks/financiers, there seems to be a greater emphasis on getting new businesses than customers' retention. Customers are not assisted to maximise their loan benefit by switching over to a better package. Instead customers who stick on to their same loan package for years may not be fairly rewarded for their loyalty. This inevitably creates the role of independent mortgage consultants who are not tied to an individual financier but are free to source for the best deal for the client."

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Mr Cheong went on to say that refinancing customers should first check with their current banks (including financial institutions) on re-pricing or conversion options (i.e. changing to a better package within the same lender) as this is the most hassle-free approach compared to switching across banks. However, he adds that not all banks allow their existing clients to take up their promotional packages, in which case refinancing with another bank might be a better option.

### INDUSTRY OUTLOOK FOR 2009

"The refinancing market would be the driver for mortgage business this year forward, as mortgage rate has dropped significantly," says Mr Cheong. This was a view shared by Mr Ng. He explains that homeowners who took up housing loans in 2006 and 2007 might see the penalty period of their loans expiring. This will lead to a jump in the volume of refinancing loans given the current low interest rates. Furthermore, there

are over 10,000 properties which will reach Temporary Occupation Permit (TOP) status in 2009 and even more in 2010. Most of these properties were sold on the Deferred Payment Scheme which is now abolished. As the majority of these homeowners have yet to apply for a housing loan, there will be a surge in housing loan applications as the properties draw nearer to TOP status. It can thus be said that the outlook for the mortgage loan industry still looks rather upbeat at this moment in time. SI

## MORTGAGE LOANS FOR OFFSHORE PROPERTY INVESTMENTS

With a strengthening Singapore dollar, is it a good time to invest in properties abroad? The answer from mortgage consultants seems to border on the negative.

**I**t might be worthwhile to note that property prices have fallen quite a bit in general, bringing them to more normal levels. That said, Ms Michele Lee, investment specialist at Provident Pte Ltd, cautions that there is still some level of delusion in the market, where sellers continue to hold out. "Coupled with the buyers' wait-and-see attitude, as well as the tight credit situation, the dynamics of the whole situation could see further price falls. Even properties with good fundamentals may see their prices fall by association," warns Ms Lee.

Mr Dennis Ng too expresses his doubts on venturing into offshore property investments at this point in time. "The current global financial crisis we are facing might turn out to be the worst crisis in the last 50 years because most of the world's economic growth and expansion in the last five years were due to leveraging (housing loans)," says Mr Ng. With the collapse of global bank Bear Stearns and mortgage giants Fannie Mae and Freddie Mac, there is a sudden breakdown in the financial system, and Mr Ng believes that banks would need huge infusions of capital to undo much of these bad loans. In the meantime, banks are likely to go on a course of "de-leveraging" which means less liquidity in global markets. "It is very unlikely for property prices to go up as liquidity dries up, thus, I would personally think that in terms

of a risk and reward trade-off, it does not appear to be a good time to invest in properties at this juncture," comments Mr Ng.

Still, for investors who are keen to acquire offshore properties, the crux is to be discerning and do their homework properly before throwing in the cash. "Property investment is quite a 'local' investment", as Ms Lee puts it. It is always wise to analyse the property market situation of the country before coming to any decision. Mr Ng cites Australia as an example. "In Australia, property prices are starting to fall. If this is a trend, it might not make sense to invest in Australian properties even though the Australian dollar has weakened against the Sing dollar by over 10 per cent in the last two months," Mr Ng also points out that different countries have different market dynamics, as well as different rules on tax, laws and other issues, which has to be considered before making the investment. There are cases of developers failing in countries such as Malaysia and Indonesia which resulted in investors losing most of their money on the properties they purchased.

Ms Lee sums it up with these words -- "Know what you are buying, know where your returns come from and know what can detract from those returns. Most importantly, know how you are going to exit and realize the returns."