http://www.asiaone.com/Business/My+Money/Property/Story/A1Story20071004-28416.html

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How to choose a housing loan

Most consumers want to know which housing loan is the best in town. Unfortunately, that is the wrong question
to ask.

There are more than 100 housing loan packages in the market and what is best for one person might not necessarily be the best for you. Each package has different features that are suitable for different needs.

Thus, a more appropriate question to ask is what are the factors that you should consider in choosing a housing loan? Here are some things you should note before signing on the dotted line for a home loan.

Pre-approval: Before you close a deal to buy a property, it is advisable for you to first get pre-approved for a bank loan.

With the setting up of the Credit Bureau in 2002, banks can now check your repayment history of loans and credit cards taken up with other banks. Were you late in paying instalments? Have you ever been sued? If the answer is yes, banks may not approve your loan application or they might approve a lower loan quantum. This could jeopardise your purchase of a property, and you might even have to forfeit the option money you paid.

Loan duration: A minimum loan duration is five years and the maximum 30 or 35 years, or till you are 65 or 70 years old, whichever is lower.

One way to decide on loan duration is to time the loan duration to match your intended retirement age. So, if you plan to retire by age 60, you should ensure the loan is fully paid up before you reach 60, rather than stretch it till you're 65.

Floating or fixed: If you think interest rates have peaked and are likely to go down, you might want a floating rather than a fixed rate package.

However, if you're worried about the possibility of banks revising interest rates upwards, you might want a package which fixes the interest rate for the next one to three years instead. It might not make sense to fix rates for more than three years since the lock-in period for most packages ends after three years. You can always shop around for a better package after that.

At a glance

Comparing interest rates

	BANK	% YEAR 1*	YEAR 2*	YEAR 3*
Floating rate	Stanchart	2.95	2.95	2.95
Fixed rate 1 year	Maybank	3.38	3.48	3.58
Fixed rate 2 years	UOB	3.50	3.50	3.50
Fixed rate 3 years	OCBC	3.58	3.58	3.58
Sibor-pegged package	HSBC	3.33	3.33	3.33
Sibor-pegged fixed rate 3 years	DBS	3.65	3.65	3.65
Swap offer rate-pegged package	Stanchart	3.20	3.45	3.70

*As at Sept 25, 2007. Sibor and Swap rates differ from day to day

Source: www.HousingLoanSG.com

Flexibility of repayments: If you intend to make a lump sum repayment within the next one to three years, you should look for a package that offers you the flexibility to make such repayments without penalty. Some packages impose a penalty fee of up to 1.5 per cent of any lump sum repayment you make.

Transparency of rates: If you want to know the exact basis for the interest rates charged on the housing loan, you can consider loans pegged to interest rates that are publicly available, such as the three-month Singapore Inter-bank Offer rate (Sibor) or Swap Offer Rate (SOR) which move according to market conditions.

Basically, a home buyer pays an agreed percentage above the variable SOR for a specified period.

You might want to consider such a package if transparency is a key issue for you and you are of the view that Sibor or SOR rates are falling rather than rising.

Penalties: Ask if any penalty will be imposed if you make a full redemption of your loan and how long the penalty period is. Currently, there are some housing loan packages with zero penalty period, while most loans typically have a penalty period of one to three years.

Interest-only: If you are a high income earner and in high tax bracket, choosing an interest-only mortgage might make sense. You benefit through savings in income tax as the interest portion of loan instalments for investment properties is tax-deductible.

This package also works well for short-term investors. By paying back only the interest, investors would benefit from lower cash outflow until they sell the property. As a result, they may be able to invest in two properties instead of one.

Interest-offset: If you have substantial cash you might want to consider an interest-offset mortgage instead. This basically links your current account to your home loan. The interest earned in your current account is the same rate as that charged on your home loan. By offsetting the interest earned on your current account against your home loan interest, you can enjoy big savings - in time and money.

Every dollar you put into this current account would have same effect as making a partial repayment of your loan, but give you the added flexibility of drawing down the cash in the current account if you need to. Whereas if you do a lump sum prepayment, the cash is 'locked' in the property and you lose liquidity. Thus, an interest offset package enables you to pay a lower effective rate of interest on your housing loan so that a bigger portion of your monthly instalment goes toward reducing the principal. This allows you to pay off your loan sooner and pay less in interest.

Promotions: Sometimes, banks might offer special promotional packages. If you engage the services of a mortgage broker, he would be able to provide you updated information on such promotions which could translate to additional interest savings for you.

In the past, when consumers shopped for home loans, they had to contact each bank individually to gather information. This a tedious process that takes up a lot of time. In the last few years, with the emergence of independent mortgage brokers in Singapore, home loan shopping and comparison have been made easier.

Basically, an independent mortgage broker who knows your requirements can help you zoom in on the most attractive home loan packages. You typically do not have to pay for the service of a mortgage broker as banks pay them a fee as they also help banks save on staff costs and resources.

In more advanced countries such as the US and Australia, people usually apply for home loans through a mortgage broker rather than go to the bank directly. In Singapore, many people are still unaware of the services and benefits of engaging a mortgage broker, but things are likely to change with public education and increasing awareness.

The writer is a spokesman for mortgage consultancy portal www.HousingLoanSG.com