

Housing loan tips

PATRICIA HUNG has some timely advice for borrowers

BUYING a property in Singapore could well be considered the most "expensive" of purchases in the lifetime of most Singaporeans, especially with today's high property prices. Whether the property is for one's own use or for investment, it is a financial commitment that one has to maintain as long as the housing loan is not fully repaid or the property is not sold.

The latest property cooling measures introduced by the Monetary Authority of Singapore (MAS) in January are timely in reducing the increasing investment and speculative demand in the property market spurred by the extremely low interest rate environment.

Other than imposing higher additional buyer's stamp duty (ABSD) rates for the purchase of residential properties, reducing borrowing limits and increasing the cash downpayment, MAS has also introduced new rules governing loans for Housing and Development Board (HDB) flats. One of the rules states that if a buyer takes a housing mortgage from a financial institution for the purchase of an HDB flat, the mortgage servicing ratio (MSR) is capped at 30 per cent of the borrower's monthly income. MSR is the proportion of a borrower's gross monthly income going towards home loan repayment only.

This is the first time that such a rule has been imposed on loans from banks, which is mainly to prevent excessive lending as well as to ensure that buyers do not overstretch their finances, especially for HDB resale flat buyers. Most importantly, it is to encourage home owners to go for properties that are within their means.

When considering a housing loan, there are important things that home buyers need to keep in mind to ensure that their "prized" homes are assets, and do not become liabilities.

◆ Secure an in-principle approval from banks before committing to a property

Before buying a property, the very first step (and also the most prudent thing to do) is to get in-principle approval for a home mortgage from a bank. This will provide assurance that you will be able to secure the required home loan from a bank to support your purchase of the property, without any surprises. The in-principle approval from banks is preferably obtained before you even start looking for properties. In this way, you will know exactly the kind of credit standing you have with banks.

Other than calculating the borrower's debt servicing ability, banks will also conduct checks on the repayment record of your other personal loans (including car loans, renovation loans and credit lines) as well as your credit card payments for the past 12 months. These can be obtained from the Credit Bureau. Searches will also be done to check for any legal suits against you.

Generally, banks will ask for income documents from all applicants for a housing loan. For salaried employees, banks will require the latest payslip and tax assessment as well as the latest 12-month CPF contribution history statement. For the self-employed or for those whose income is purely commission based, the latest two years' tax assessments will be requested.

For property buyers without the standard income documents required by banks – for example, those who are in between jobs or self-employed for less than two years – applying for in-principle approval will give them more time to prepare for any additional documents that may be required by banks.

◆ Ensure that the property is affordable

How can you know if a property is within your means? The general rule of thumb is to maintain a debt service ratio of not more than 35 per cent of monthly income. For a household income of \$10,000, you should try to keep your monthly repayment for all debt – which includes home loan instalments and other loan repayments – within \$3,500. As a further safeguard to ensure that you do not over-borrow, you may also check on yourself by working out the MSR. For the same \$10,000 income, based on a MSR of 30 per cent, the monthly housing loan instalment should preferably not exceed \$3,000.

Home buyers are also cautioned by MAS to prepare for possible increases in interest rates. The present low interest rates may create the misconception that properties are affordable. However, we cannot assume that interest rates will stay at the current level forever.

Most of the home loan packages offered in the market currently are pegged against the three-month Singapore interbank offered rate (Sibor), which has been below one per cent since 2009 and is likely to remain low for the next one to two years. However, historically, Sibor hit as high as 4.5 per cent on average during the Asian Financial Crisis of 1997-1998.

The housing loan rates that banks offer to home buyers are higher than Sibor as banks will add on a mark-up. The mark-up ranges from 0.75 to 1.5 per cent currently (as at Feb 18, 2013). Based on the three-month Sibor of 0.38 per cent as at the same date this will translate into a home loan rate of about 1.13 to 1.88 per cent. If Sibor were to increase to 4.5 per cent, the home loan rate will be higher, at 5.25 to 6 per cent instead, after adding the mark-up. Based on the current interest rate of about 1.1 per cent for a 30-year loan of \$500,000, the instalment works out to be \$1,631 per month. If the interest rate rises to 2 per cent, the monthly instalment will go up \$217 to \$1,848. The increase in instalment can be as much as \$1,367 per month if the interest rate increased to 6 per cent. However, if the loan quantum were to double to \$1,000,000, the additional payment per month will double as well.

No one will know how high interest rates can rise. When it happens, would you have sufficient cashflow to sustain the increase in interest rates, bearing in mind that housing loan payment is just one of your many other financial commitments?

It is therefore important to start right by ensuring that we do not over commit. As a last "defence", we should also set aside sufficient funds equivalent to around six to 12 months of the monthly home loan payments. This is not only to prepare for possible hikes in interest rates, but to safeguard against any unforeseen circumstances.

◆ Fixed or variable rate home loan packages?

Fixed rate packages generally come with fixed rates for the first few years. Currently, the longest fixed rate available is for up to the first five years. There is no bank offering fixed rates throughout the loan tenor in Singapore. Fixed rates would be suitable for borrowers who prefer certainty and peace of mind, and are averse to fluctuations in rates. Given the current low interest rates, you can lock-in at a competitive rate of about 1.25 per cent fixed for the first two years.

Variable rate, as the name implies, means the rate is subject to changes at any time. For example, if the package is pegged to three-month Sibor, this means the interest rate will be re-set every three months. At the end of each three-month period, depending on what the Sibor is, you may be paying more or less accordingly. These variable-rate packages will be suitable for borrowers who are of the view that interest rates will remain low in the short term and are comfortable with fluctuations. Currently,

you can enjoy a lower rate of about 1.13 per cent.

Another reason some borrowers opt for variable rate packages is the flexibility of making full or partial repayment of the loan. Some of these variable packages do not impose any lock-in period where you are penalised for any premature exit from the packages.

◆ Prepare to pay for the various costs/fees that come with a housing loan

In the past, banks offered freebies or subsidies to help borrowers pay for part of the legal fee and valuation fee relating to the purchase of properties. Not anymore. Most banks have withdrawn such benefits, making it on par with getting a loan from the HDB (for public housing flats), where all fees are payable by home buyers.

Once the loan contract is signed with the bank, borrowers should note that any cancellation of the loan before it is fully drawn down is subject to a cancellation fee. Banks

Stress test

Can you bear the interest rate hikes?

Based on the \$500,000 loan amount over 30 years

INTEREST RATE	1.10%	2.00%	3.00%	4.00%	5.00%	6.00%	TOTAL INCREASE
Monthly instalment	\$1,631	\$1,848	\$2,108	\$2,387	\$2,684	\$2,998	-
Increase in monthly instalment	-	+\$217	+\$260	+\$279	+\$297	+\$314	+\$1,367

Based on the \$1,000,000 loan amount over 30 years

INTEREST RATE	1.10%	2.00%	3.00%	4.00%	5.00%	6.00%	TOTAL INCREASE
Monthly instalment	\$3,262	\$3,696	\$4,216	\$4,774	\$5,368	\$5,995	-
Increase in monthly instalment	-	+\$434	+\$520	+\$558	+\$594	+\$627	+\$2,733

Source: www.HousingLoanSG.com

generally charge a 1.5 per cent fee on the loan amount that is cancelled for properties that are completed or a 0.75 per cent fee for properties that are still under construction.

After the loan is drawn down, depending on the conditions of the package, if the loan is partially or fully repaid prematurely, the banks may levy a penalty fee on the loan amount that is repaid. Currently, the penalty fee charged

by most banks is 1.5 per cent.

There is a possibility that a borrower will be subject to both the cancellation fee and penalty fee. This happens when the property is still under construction where the loan is disbursed in stages. Note that these fees are to be settled in cash.

The writer is co-founder of www.HousingLoanSG.com, a mortgage consultancy in Singapore

ADVERTISING FEATURE



A PRECIOUS FIND

Combining a prime location with luxurious finishings and a move-in condition, this freehold condominium is an ideal property for investors and owner-occupiers alike.

Nestled along Bukit Timah Road in a sprawling land size of almost 300,000 sq ft, The Cascadia, with its many strong attributes, is a rarity in today's property market. Not only is the 536-unit freehold development sited in an exclusive residential enclave surrounded by sought-after schools and amenities, the condominium is immediately available for purchasers to enjoy or lease for rental income.

UNIQUE VALUE

Recent transacted prices at The Cascadia are mostly in the range of about \$1,600-\$1,800 psf, with values holding well due to the project's excellent location, design and amenities. Given that many 99-year leasehold properties are going for \$1,500-1,600 psf, with some selling at up to \$1,800 psf, The Cascadia stands out as a gem of a find. Not only will savvy investors immediately recognise its unique value, its potential value is also expected to grow with more amenities coming its way.

This newly-built condominium gives owner-occupiers the chance to see the development's luxurious living environment for themselves and move in right away if they so desire. Meanwhile, investors can lease the property out and enjoy immediate rental yield.

A selection of units, from two- to four-bedroom apartments, is available. They spread across different levels, ranging from ground floor units to exclusive penthouses, with many offering a quiet facing in this prime neighbourhood.

SUPERB LOCATION

An established residential enclave, Bukit Timah is home to upscale condominiums and Good Class Bungalows, with nothing less than the 81-hectare Bukit Timah Nature Reserve as its green lung.

And now, this covetable neighbourhood is set to become even more desirable with new amenities coming its way.

For one, the future King Albert Park MRT Station, to be ready in 2015, is within walking distance of The Cascadia, giving residents easy access to the rest of Singapore. King Albert Park itself is also earmarked for redevelopment into a mixed-use project, promising even more exciting new concepts to residents.

These will join the slew of amenities & conveniences in the vicinity, including shopping and dining options at The Grandstand (former Turf City), Bukit Timah Plaza, Coronation Plaza and Holland Village, as well as fine dining restaurants at Greenwood Avenue.

Of course, Bukit Timah is also well-known for its many top schools and tertiary institutions. These include Methodist Girls' School, Raffles Girls' Primary School, Nanyang Primary School, Nanyang Girls' High, Hwa Chong Institution, National Junior College, Ngee Ann Polytechnic and Singapore Institute of Management. In addition, international schools such as the Canadian International School, German European School, Hollandse School and Swiss School are also located in the area.

FABULOUS FACILITIES

At The Cascadia, a pristine environment meets modern architecture, with 13 towers of 10 storeys each set amidst pools, gardens, greenery, pavilions and a large variety of sporting and lifestyle facilities.

Residents can enjoy a good workout on the condominium's two tennis courts, badminton court and jogging path, or in its 50-metre lap pool, gym, basketball practice area, adult fitness zone and



elderly fitness area. Thereafter, relax by the koi pond, in the spa pool on in-water chaise lounges or unwind with friends at the clubhouse with its two good-sized function rooms and adjacent barbecue arbor.

Children will love the fun pool and kids' pool, as well as the play area, and of course, exploring the open spaces and gardens throughout the development.

For all that it has to offer, from location, amenities, finishing and facilities to pricing and immediate availability, The Cascadia sets itself apart as a cherished find in today's property market – and the answer for the smart investor.



Sales gallery at 925 BukitTimah Road #01-10 • Open daily from 10am - 6pm
For enquiries, please call: 9002 6060 Darren Teo (CEA No. R0269022)

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