

## A Guide to Housing Refinancing in Singapore

By [iCompareLoan Editorial Team](#)



### **1. What is refinancing and repricing?**

Refinancing occurs when the borrower switches from the current home loan mortgage or a commercial loan mortgage, before the end of its tenure, to another mortgage package offered by a **different** financial institution. It is not to be confused with repricing.

Repricing is the act of switching to a cheaper package with the current financier.

For example, a borrower has a 2% SOR loan package with Bank A. After some time, Bank A introduces a 1.6% SOR package and Bank B introduces a 1.7% SOR package. If the borrower switches to the 1.6% package from the same Bank A, he is re-pricing, if he switches to the 1.7% SOR package from Bank B he is refinancing.

### **2. When do you decide to refinance or reprice?**

The best time to look at refinancing or repricing is when the borrower is also reviewing his

[Join us | Login for Financial Advisors |](#)

SMS us at +65 – 9782 - 8606

Home Loan | Commercial Loan | Refinance Loan | \*Financial Planning | \*Insurance



investment portfolio and insurance portfolio. In order to achieve his financial goals, he will have to look at investment returns as well as expenditure. If a smaller proportion of his installment payments goes toward interest payments, it implies that he is paying off his principle (debt) quicker. So it might make sense for him to take out his home loan statement and check how much he is paying now and what interest rates his bank is charging him.

Or the best time may be, right after reading this article, it only takes the borrower 30 minutes to read and it can potentially save him thousands a year. Where else can the borrower get such good returns on time spent?

When considering whether to refinance or reprice:

As a general rule of thumb, it is usually not worthwhile to break the contract to refinance for loans still within a lock-in period, unless the interest rate differential is substantial.

If the loan is out of the lock-in period but still within a subsidy claw-back period, the home owner may approach his current financing institution for re-pricing of his loan to an existing better package (subject to approval). Some bank's loan packages have a one-time free conversion to a cheaper package while other institutions charge a fee for conversion.

Once the borrower has an offer from the current bank, he can then compare that against other options in the market.

The borrower should be diligent and research on all the available home loans. However, if he prefers some free professional help, he can turn to [www.iCompareLoan.com](http://www.iCompareLoan.com) where loan experts are on hand to assist to help him make an informed decision. iCompareLoan.com maintains over 200



active packages, and provides a detailed home loan report. ([www.iCompareLoan.com](http://www.iCompareLoan.com) is also used by independent financial advisory firms, mortgage brokers as well as property agents to provide detailed home loan analysis for their customers.)

### 3. What are the reasons for refinancing?

#### a. Reduce interest payment

For most people, saving on interest payment is a main motivation for refinancing. Typically, the interest rate for a home loan increases after the first 2 or 3 years. This is true whether for a fixed or variable rate loan. Thus the refinancing numbers is highest after the fixed rate period ends, subject to other considerations.

Below illustrate how much borrowers can save from interest payment if they change to a loan with a lower interest rate.

#### Current loan:

Outstanding loan amount: \$800,000

Interest rate: 3.5% fixed for 3 years

Tenure: 30 years

Year	Monthly Installment	Monthly Principal Paid	Monthly Interest Paid	Annual Principal Paid	Annual Interest Paid	Balance
1	\$3,592.36	\$1,300.01	\$2,292.35	\$15,353.02	\$27,755.27	\$784,646.98
2	\$3,592.36	\$1,346.25	\$2,246.11	\$15,899.08	\$27,209.21	\$768,747.89



3	\$3,592.36	\$1,394.13	\$2,198.23	\$16,464.57	\$26,643.72	\$752,283.33
---	------------	------------	------------	-------------	-------------	--------------

Total interest paid over 3 years is \$81,608

**New loan:**

If you are able to refinance your loan to a lower rate, for example:

Year 1 – SIBOR + 1% (Assume that SIBOR = 0.5%) = 1.5%

Year 2 – SIBOR + 1% (Assume that SIBOR = 1%) = 2%

Year 3 – SIBOR + 1% (Assume that SIBOR = 1.5%) = 2.5%

Year	Monthly Installment	Monthly Principal Paid	Monthly Interest Paid	Annual Principal Paid	Annual Interest Paid	Balance
1	\$2,760.96	\$1,785.33	\$975.63	\$21,277.43	\$11,854.11	\$778,722.57
2	\$2,950.84	\$1,683.53	\$1,267.31	\$20,018.45	\$15,391.61	\$758,704.12
3	\$3,142.08	\$1,597.61	\$1,544.48	\$18,953.58	\$18,751.41	\$739,750.55

Total interest paid over 3 years is \$45,997.13.

The difference in interest payment (\$81,608 – \$45,997.13) is \$35,610.87! Imagine you can pay for 3 Rolex watches or a 2 - to 3- carat diamond ring with this amount.

But, of course, there are other considerations in refinancing such as the person's age, the outstanding loan tenure applicable as well as his/her debt servicing ratio, credit situation and etc.

[Join us](#) | [Login for Financial Advisors](#) |

SMS us at +65 – 9782 - 8606

Home Loan | Commercial Loan | Refinance Loan | \*Financial Planning | \*Insurance

These will be dealt with in another article.

#### **b. Change loan duration**

For some people, they may have an unexpected increase in financial obligation or have suffered a pay cut. This makes servicing of the loan at the current monthly installment amount difficult to sustain. As a result, taking a longer duration loan to reduce on the monthly payment becomes desirable, although the interest payable over the entire life of the loan will be higher.

#### **c. Change in credit standing**

Conversely, for others their financial strengths may have improved since they first took the loan, so they may want to refinance to a shorter duration loan to save on interest payment. Or that they may have improved their credit standing enough to have a wider choice of bank packages.

#### **d. Change in interest rate environment**

If the interest rate environment has become dovish, reducing the loan tenure may not even significantly increase the monthly repayment amount. This can translate to interest savings over the entire life of the loan. For example, paying \$800 per month over 30 years adds up to \$288,000; whereas paying \$850 over 25 years, sums up to \$255,000. (However, do note that this is a simplified example as it simply adds up the interest costs over the years at nominal value without considering the time-value of money.)

#### **e. Change the type of loan packages**

According to circumstances, borrowers may like to change the type of home loan package.



A case in point:

During a low-interest rate climate, savvy borrowers may prefer to capitalise on low interest payments by taking a market-pegged interest rate variable package. But when these borrowers think that interest rates are starting to climb, they may try to change the loan to a fixed rate package for some years so as to be able to lock in lower rates and better manage their cash flow. Fixed rate packages are usually more expensive, but provide the most stability as rates are kept fixed for up to the first 3 to 5 years of the loan tenure. There is no perpetual fixed rate being offered by banks in Singapore at the current moment.

**f. Some refinance to obtain cash out; generally known as equity loan (Not applicable to HDB flats)**

Home owners can secure cash via an equity loan by refinancing. The terminologies of equity loan and term loan are loosely interchangeable, though the correct terminology should be called equity loan. When there is sufficient equity in the property, banks may allow borrowers to take out an equity loan (term loan) secured by the property. A term loan secured against a property cannot be used as down-payment towards another property. This is MAS' way to prevent the risks of property market bubble from forming.

Nonetheless, it is advisable to take a term loan only if the borrower can hope to make a better return from this cash-out to offset the additional interest incurred from the larger quantum loan.

## 4. Things to look out for when refinancing

### a. Clawback and Lock-In period

Most loans have a 3-year timeframe (aka Clawback period), in which early full repayment of the loan can result in a refund of subsidies such as legal and administration cost. Typically, there is also a lock-in period of 2 to 5 years, during which any redemption of the loan will be subjected to a 1.5% penalty of the redeemed amount.

Do note that some loan packages do not have a Clawback period or a Lock-In period.

Anyway, if the loan happens to have these conditions, the borrower will have to consider whether the benefit outweighs the cost of refinancing during the penalty interval.

Returning to our previous example of a \$800,000 loan quantum,

- Estimated interest saving from refinancing = \$35,610.87
- Estimated cost of refund of subsidy = \$3,000
- Estimated cost of early repayment penalty =  $\$800,000 \times 1.5\% = \$12,000$
- Total Saving =  $\$35,610.87 - \$12,000 - \$3,000 = \$20,610.87$

This example shows that refinancing during the penalty period can still result in savings. To calculate the months it takes to breakeven, or reach the total cost of \$15,000, we present it in the below table.

	<b>Monthly Installment for Current Loan</b>	<b>Monthly Installment for New Loan</b>	<b>Monthly Saving</b>	<b>Annual Saving</b>	<b>Annual Saving to Reach the Cost of \$15,000</b>	<b>No. of Months</b>
Year 1	\$3,592.36	\$2,760.96	\$831.40	\$9,976.80	\$9,976.80	12
Year 2	\$3,592.36	\$2,950.84	\$641.52	\$7,698.24	\$5,023.20	7.83
				Total:	\$15,000.00	19.83

The borrower will need 20 months to breakeven. Hence whether it is worthwhile to switch will depend on his financial circumstances.

### b. Having two loans with different expiry dates

For some financing institutions' packages, they come with the condition that all loans have to be redeemed on a specific day. But each loan in the package has a different expiry date; thus borrowers may still have to bear the penalty of repaying the loan with a later expiry date.

An example:

Package A has a

- home loan of \$1,250,000, commencing on 15 January 2009, expiry date: 15 January 2012
- term loan 1 of \$500,000, commencing on 27 February 2009 , expiry date: 27 February 2012

By redeeming the home loan (which has to be done on the expiry date to avoid penalty charges), the borrower will also have to redeem term loan 1 on the same day. As the expiry date of term loan 1 is

27 February 2012, he will incur a 1.5% penalty on \$500,000.

#### **c. Lure of lower interest rate when changing from a fixed to a variable loan package**

Borrowers should be aware that interest rates are prone to fluctuations. Hence they should be prepared for the event of a rise in rates and perhaps check out our interest rate sensitivity calculators [here](#). They should calculate the monthly installment and interest payment for two scenarios: a low interest rate and a high interest rate environment.

#### **d. Years into the current mortgage**

Usually, as the duration of the loan progresses, more of the installment payments will go toward the payment of the principle. This will build up equity. In the beginning of the loan, installment payments tend to go toward the settlement of interest. Hence, refinancing at the later stages of the mortgage may not be a good idea as it restarts the amortisation process. Detailed calculation will be needed to ascertain whether it is worthwhile to switch.

#### **e. Moving house**

If home owners are planning to sell their home within a few months, it is usually unwise to refinance. This is because it takes some time before the savings exceed the costs of refinancing. Secondly, they may incur the penalty of the clawback period or lock-in period of the refinanced loan or legal conveyancing fees, valuation fees and other incidental fees.

### **5. What to do for the refinancing applications?**

Finally, the borrowers shall submit the application forms to those financing institutions which match their financial profile and can provide a lower rate. Documents required may vary. Some banks may



Home Loan | Commercial Loan | Refinance Loan | \*Financial Planning  
<http://www.iCompareLoan.com/> +65 – 9782 – 8606

require the original letter of offer from the first bank, so as to calculate the maximum tenure they can offer (under MAS' rule, refinancing is capped at 35 years). The maximum loan tenure must take into account (minus) previous loan duration already taken.

---

For advice on a new loan, go [here](#).

For refinancing advice, go [here](#).

***Read more articles at***

[PropertyBuyer.com.sg/articles](#)

[SingaporeHomeLoan.net](#)

[iCompareLoan.com](#)

[Join us](#) | [Login for Financial Advisors](#) |

SMS us at +65 – 9782 - 8606

Home Loan | Commercial Loan | Refinance Loan | \*Financial Planning | \*Insurance



## About iCompareLoan Mortgage Consultants

*iCompareLoan Mortgage Consultants* is a research focused independent mortgage broker. We emphasize a consultative approach where we match our client's financial situation with the best fit mortgage loan, not simply a cheap loan.

We also help property buyers in their buying process by helping them avoid pitfalls from unscrupulous property agents. (We are not property agents, therefore there is no conflict of interests.)

We also developed a proprietary home loan reporting tool which provides amongst other things, 23 years SIBOR history as well as 6 years worth of SOR.

### Our Services: -

Home Loans

Commercial Loans

Refinance Home Loan

\* Mortgage Insurance

\* Investment Planning

\* Portfolio Allocation

\* Retirement Planning

\* Provided by our associates who are MAS licensed financial advisors.

## Why use iCompareLoan Mortgage Consultants?

Our service is free as banks pay us a commission upon loan deals completion. Banks in turn save on staffing cost as we are not on their payroll.

[Join us](#) | [Login for Financial Advisors](#) |

SMS us at +65 – 9782 - 8606

Home Loan | Commercial Loan | Refinance Loan | \*Financial Planning | \*Insurance



Home Loan | Commercial Loan | Refinance Loan | \*Financial Planning  
<http://www.iCompareLoan.com/> +65 – 9782 – 8606

**Contact us:** -

Email: [loans@PropertyBuyer.com.sg](mailto:loans@PropertyBuyer.com.sg)

Tel: 6100 – 0608

SMS: 9782 – 8606

URL: [www.iCompareLoan.com/](http://www.iCompareLoan.com/)

[www.PropertyBuyer.com.sg/mortgage](http://www.PropertyBuyer.com.sg/mortgage)

[www.SingaporeHomeLoan.net](http://www.SingaporeHomeLoan.net)

Join as mortgage consultant: [www.iCompareLoan.com/consultant](http://www.iCompareLoan.com/consultant)

Start a Mortgage Franchise: [www.PropertyBuyer.com.sg/mortgage/franchise](http://www.PropertyBuyer.com.sg/mortgage/franchise)

Check if you qualify to join us: [Career at Property Buyer](#)

**GUEST WRITERS** - Do write in at [loans@propertybuyer.com.sg](mailto:loans@propertybuyer.com.sg) (Researchers with the ability to write in the Singapore perspective preferred)

[Join us](#) | [Login for Financial Advisors](#) |

SMS us at +65 – 9782 - 8606

Home Loan | Commercial Loan | Refinance Loan | \*Financial Planning | \*Insurance