Tips to Make Your Mortgage Financing a Breeze

By iCompareLoan Editorial Team

Finding the right mortgage can be a stressful experience for novice mortgage hunters, this article attempts to offer simple advice to simplify the process and safeguard your wallet (figuratively, of course!).

Maintain a good credit standing

Always try to maintain a good credit history as some credit-related information is collected by the Credit Bureau (Singapore) and released to credit providers on the Bureau when you apply for a loan. Avoid making late payments or defaulting on any loans with a financing institution, as these will give you a poor credit score, which will lock you out of loans with the best interest rates (as many banks may decline to offer you a loan). The credit report of the Bureau shows the account status history on all the credit facility you have on a rolling 12-month basis. For closed accounts, the status history of the last 12 months before account closure is made available. If you have been

making prompt payments for all your credit facilities in the last 12 months, you will be assigned the best score of 12 "AAAAAAAAAAAA".

Arming yourself with too many credit cards is one way to adversely affect your financial health because it provides a false sense of financial strength when all you are doing is spending on borrowed money. Without financial discipline, you will soon find yourself mired in debt. Be prudent, do not sign up for more cards than you need!

Furthermore even if you don't owe a single cent on your cards, having credit cards reduce your overall loan borrowing quantum.

To check your credit score, you may do so at the Credit Bureau (Singapore).

Correctly assess your financial capabilities

Do not bite off more than you can chew. Buying a large house simply to keep up with the Joneses is not good financial sense. Rather, opt for a purchase that you can comfortably finance even when your financial situation changes for the worse. Use the debt-to-service ratio (DSR) of 30% as a rough gauge of affordability:

DSR = Monthly Debt Service for Mortgage / Monthly Gross Household Income

A note of caution will be in place here. DSR has been criticised for being only a short-term measure of housing affordability (There are other indicators of long and short-run affordability, but these are beyond the scope of this article). In the long run, household income may rise or fall, and so will the debt service. Therefore, you may want to compute DSR for different scenarios. For example, when a household member loses his job or when there is an increase in financial liability (debt service) –

for instance from an unexpected spike in interest rates.

Besides the DSR for mortgage liability, you also have to take into account your overall financial liabilities. Some things to consider: do you have children going to universities or any medical conditions? If yes, when the debt service surges will you be able to service all the debts, still?

At any rate, contingencies can always happen, be sure that you can still finance your mortgage when that happens; lest you may be forced to sell that house - even at a loss.

Shop around for the right mortgage type and financier

Do your homework and study the different loan types available on the market. Financing institutions may introduce new loan features and types every now and then. Some packages available include the fixed rate, floating rate or a combination of both, also known as a hybrid loan. There are also interest-offset loans. To read more about these different loan types, go here. Select the one that best suits your financial and risk profile.

Try to select a loan that will offer affordable interest rates throughout the entire life of the loan, not just in the beginning, if possible. Do not assume you can always refinance or reprice to a cheaper loan package after a few years.

MAS (Monetary Authority of Singapore – Singapore's Central Bank) may introduce new regulations from time to time, which could make borrowing easier or harder. For example, from 6 October 2012, MAS (Monetary Authority of Singapore) mandates that all new and refinanced loans have a 35-year cap on the loan tenure.

In addition, interest rate trend do not remain stationary. When the time for refinancing comes, you

may find yourself in a high interest rate environment. An example follows

Loan Package X has an interest rate of 1.5% for the first three years, and 1.7% thereafter.

Loan Package Y has an interest rate of 1.3% for the first three years, and 2.0% thereafter.

If you started off with Package Y, thinking that after three years you could refinance to a more affordable loan, you may discover - horror of horrors - that the cheapest loan starts at 1.9% now. You would be better off if you had selected Package X right from the start. But, of course, you can wait for rates to drop again before refinancing (incurring higher interest rates for several months or longer). Thus, when faced with alternatives, similar to the example, you will have to carefully consider whether the initial lower rates justify the risks of possibly higher rates a few years down the road.

If you feel lost in the sea of loan types, you can always make use of the free professional mortgage advice and home loan reports at www.iCompareLoan.com, which boosts Singapore's most advanced cloud-based home loan analysis system.

Finally, choose a reputable financing institution. You do not want a case of the financier exercising his right of "margin call" when valuations fall!

Understand the legal and financial jargon

After you have found your ideal loan and made a successful application, you will receive a Letter of Offer from the bank. Scrutinise this document and understand what all the conditions in the loan entail. If in doubt, consult a lawyer. Or alternatively asks the bank to clarify in plain English whatever terms you have problems understanding.

Changing jobs

It is best to make a loan application and complete the loan disbursement before a job change.

Because for some financiers you have to be in the same job for a minimum duration before you will be eligible for a loan.

Adding on new debt

Steer clear of applying for a new loan during the interim period after obtaining an in-principle approval but before loan disbursement. A case in point:

A week after Person A had obtained an approved-in-principle home loan, he went to purchase a car and financed it with a car loan. Two weeks later, the financier who was to grant formal approval for the mortgage discovered Person A had taken a car loan too. Consequently, he substantially reduced the loan quantum. Because of the reduction, Person A could no longer afford the house so the deal fell through and he had to forfeit his 1% deposit.

Therefore it is important to check with a home loans expert before taking on a new loan obligation.

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.

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