



## Tips for Interest Saving on Your Home Loan

By [iCompareLoan Editorial Team](#)



This article highlights some ways to lower the interest payable on your loan.

### **Loan quantum or loan tenure**

The most straightforward way to save on interest payment is to opt for a loan with a lower loan quantum or a shorter loan tenure. The downside is that there will be greater financial outlay (either CPF or cash).

Because with a lower loan quantum, you will have to make greater upfront payment. Whereas with a shorter loan tenure you will have to incur higher monthly installment payment.

The logic is simple. For a lower principal, the interest chargeable falls because it is a percentage of

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the former, and a higher monthly installment payment will reduce the principal faster.

### **Partial prepayment**

You can make prepayment above the monthly agreed amount. This will effectively lower the principal, and hence interest payable. But many loans come with a lock-in period (aka. reimbursement period), typically the first 2 to 5 years of the loan tenure, during which partial or full repayment could involve a penalty of usually at most 1.5% of the re-paid amount. However, some loans do not have a lock-in period or its penalty only applies to full repayment.

(Note: For the aforementioned points, it will involve greater cash outlay; hence if there are other investments you can make with the monies you should weigh carefully if the potential gains can exceed the interest savings from paying off your mortgage faster or opting for a lower loan amount.)

### **Loan type**

#### HDB or bank loan

Keep abreast of interest rate conditions and the economic policies of Singapore's major trading partners. These will affect the interest rates of loans.

As a rule of thumb:

During a low interest rate environment, it might be best to select a bank loan rather than a HDB loan if it happens that you are purchasing public housing. A bank loan will normally offer lower interest rate compared to a HDB loan in a low interest rate climate. But besides the interest payment, there are other deciding factors in taking a loan. For a more detailed comparison between



the two, read these: “[Explaining the Advantages of HDB Loans versus Bank Loans](#)” and “[A Quick Look at the Drawbacks of HDB Loans](#)”.

### Bank loans

For private properties, you can only finance them with bank loans.

With bank loans, you can choose from a selection of loan types. The most common being the fixed rate loan and floating (variable) rate loan.

In general, the rates on a floating (variable) rate loan is lower than for a fixed-rate loan because bankers need to hedge against the risks of keeping rates unchanged. However, during a high interest rate environment, it is possible than the upswings in rates for a floating (variable) rate loan result in greater interest payable compared to a fixed-rate loan. To decide between the two types of loans, you may want to read “[Fixed-Rate Versus Floating Rate Home Loan Packages in Singapore: Which is Right for You?](#)”.

Specifically, for a floating (variable) rate loan, to lower interest rate, you can consider a shorter tenure SIBOR or SOR. As shorter tenure usually has lower rates than the longer tenure ones.

However, shorter tenure comes with faster changes to the rates. For example, for a 1-month SIBOR, banks revise it at 1-month or 3-month interval. Whereas for a 12-month tenure, it is only revised every 12 months.

So when interest rates start to climb, you can end up with higher rate for the 1-month SIBOR.

Below illustrates this

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1-month SIBOR = 0.31%

12-month SIBOR = 0.57%

**3 months later:**

1-month SIBOR = 0.80%

12-month SIBOR = 0.57%

But, at the end of the day, which will cost you more in interest payment will also depend on the spread. Because the interest rate always has a margin added to the SIBOR or SOR. The interest rate payable then is actually X-tenure SIBOR + spread, or X-tenure SOR + spread..

Another way to reduce interest payment is to select an interest offset loan. This is suitable for people with a large amount of idle cash in the bank. A portion of this deposited sum will earn a special interest rate that exceeds what is normally offered for bank deposits. The earned interest can then be used to offset the interest payable on the housing loan.

**Loan features**

Some floating (variable) rate loans have special features like an interest rate cap. This will translate into cost saving in case of an interest spike.

**Refinancing or repricing**

If you currently already have a housing loan, you can always terminate the existing loan and apply for a new one. The aforementioned points can serve as guidelines in your new loan selection.

An ideal time to switch loan package is after the lock-in period, as you will not have to incur a



penalty. Your current financier may offer a free one-time conversion (i.e. repricing) to a package you are eligible for. Or they may charge a conversion fee.

Conversely, you can refinance, which means changing into a mortgage with a *different* financier.

For a detailed discussion of what to look out for in refinancing, check out our other article: “[A Guide to Housing Refinancing in Singapore](#)”. This article also illustrates the cost saving you can enjoy with refinancing, even during the penalty period.

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

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

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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: -

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**Contact us: -**

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

Tel: 6100 – 0608

SMS: 9782 – 8606

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