Basics of Home Loans Jargon

By SUSAN TEO

Sample DBS Sample HSBC Sample Maybank Sample Standard Chartered

In this article, we seek to offer a simple overview of the features in a housing mortgage Letter of Offer.

What is a Letter of Offer?

After application of a loan, the financing institution will send you a Letter of Offer - a contract that states the terms of the loan offered by the lender - if it approves of it. Typically, the first page will indicate the loan amount and duration of the loan. The subsequent pages, will detail the conditions of the loan, such as the mode of repayment, interest chargeable, penalty for early repayment, etc. Finally, towards the end of the letter, appended is the Acceptance Form which must be returned, duly signed and filled in, to the financing institution for the loan to be processed.

Jargon used differ

"What's in a name? That which we call a rose
By any other name would smell as sweet."

(Romeo and Juliet)

These eternal lines of Shakespeare rings true even in today's context. Quite often, the jargon used by financing institutions varies, but they may mean the same thing. For instance, even the term used to call the loan amount, or the principal, can differ. In the Letter of Offer for Maybank, it is termed as the"loan quantum"; whereas for HSBC it is known as the "facility limit". Or it can simply be called the "loan amount", as for Standard Chartered. See excerpts below.

(b)	**Loan Quantum**	Home Loan - S$330,000 or all outstanding principal and interest owing by you of the subsisting Home Loan from OCBC, whichever is lower. Without derogation to the terms herein, this Home Loan is granted subject to CPF Board's consent of the Bank's charge ranking in priority to CPF Board's charge. In the event the Bank's charge is not granted priority to CPF Board's charge, the Bank reserves the right to review, alter or cancel the Facilities. Any part of the Home Loan which is in excess of the amount required for this purpose shall be cancelled. In the event the total outstanding loan amount to be refinanced to us is more than the above Home Loan quantum granted, the shortfall shall be fully covered by you in cash.

Sample Maybank, page 1

- Housing Loan SGD [redacted]

The facility is to be applied to purchase the *property*. The Housing Loan *facility limit* has been determined as follows:

Adjusted purchase price		SGD [redacted]
Less: Cash	SGD [redacted]	SGD [redacted]
Housing Loan *facility limit*		SGD [redacted]

Sample HSBC, page 1

Loan Amount SGD [redacted]

Sample Standard Chartered, page 1

Common mortgage packages available

There are several types of loan packages in the market today. Most differ in the interest structure and interest rates used. Existing loan types include the "Fixed Interest Rate Mortgage", "Floating (Variable) Interest Rate Mortgage" ,"Interest-offset Mortgage", "Cash Back (Cash Incentive) Mortgage", "Combo/Hybrid Mortgage"and "Interest-only Mortgage". The first three are the more popular ones, so we will deal with them in turn in this article. To read more about the others, go here.

Are the interest rates on fixed rate loans fixed?

Fixed rates loans have interest rates fixed for a limited tenure of the loan, in Singapore usually the first 2 or 3 years only. There are no known perpetual fixed rates in the Singapore's market. The closest you can get is the HDB (Housing Development Board) concessionary loan which interest rate [set at 0.1% above the interest rate of the CPF (Central Provident Fund) ordinary account] can remain constant for long periods, although it is revised quarterly.

At the end of the fixed-rate tenure, the loan becomes a floating (variable) interest rate loan as the interest rates will be pegged below the financing institution's Board Rate or floating rate, which is based on SIBOR or SOR. The Board Rate is a non-transparent interest rate, that is the cost of fund for the institution and a margin. The Board Rate and floating rate cause the variation in the interest amount. In Sample Maybank, page 2, the Board Rate is the Singapore Residential Financing Rate (SRFR). Here, after the initial 3 years, the rates are pegged at 1.15% below SRFR in the 4th and 5th year , and 0.50% below thereafter.

Period	Monthly Rest (p.a.)
1st Year	1.15% p.a.(Fixed)
2nd Year	1.35% p.a.(Fixed)
3rd Year	1.45% p.a.(Fixed)
4th & 5th Year	1.15% p.a. below our prevailing SRFR

Thereafter, interest rate shall be at 0.50% p.a. below our SRFR prevailing from time to time or such other rate as may be determined by us from time to time.

Interest will be computed on a 365-day year.

Sample Maybank, page 2

Understanding spreads and floating (variable) interest rate loans

Before 2007, housing loan packages are pegged to the financing institution's Board Rate, but after a series of complaints by borrowers about the fluctuations and non-transparency in the interest rates, MAS (Monetary Authority of Singapore – Singapore's central bank) tightened the regulations pertaining to mortgage interest rates. In 2007, MAS ruled that these rates must be transparent. Consequently, financial institutions introduced packages which interest rates are pegged to SIBOR (Singapore Interbank Offered Rate) or SOR (Singapore Swap Offer Rate). Both these rates are set by the Association of Banks in Singapore and are publicly available in the media, like The Business Times, among others. SIBOR is the interbank lending rate; whereas SOR is lending costs plus SIBOR and they have different tenors: 1-month, 3-month, 6-month, 9-month and 12-month. The volatility of the rate is usually inversely related to the tenor. Most housing loans here follow the 1-month or 3-month tenor.

Thus today's floating (variable) interest rate loans come in three flavours:

- Interest rates pegged at a discount below the Board Rate
- Interest rates pegged at a margin above SIBOR
- Interest rates pegged at a margin above SOR

Financial institutions may not offer all three types.

The margin that the financing institutions add to the loan is called the spread. For example, for an interest rate of SIBOR + 1%, the +1% is the spread.

After the first few years of the loan start-date, the spread is usually revised upward. For instance in Sample DBS page 1, Sample Standard Chartered page 2 and Sample HSBC page 4; the spread increases from the fourth year onwards. These packages are pegged to the same 1-month SIBOR, but the revision period for each bank may differ. For Sample DBS, Sample Standard Chartered and Sample HSBC, the revision period is 3-month, 1-month and 1-month, respectively.

Period	Interest Rate (p.a)
First year from the Effective Date	0.75% over 1M SIBOR
Second year from the Effective Date	0.75% over 1M SIBOR
Third year from the Effective Date	0.75% over 1M SIBOR
Fourth year from the Effective Date	1.00% over 1M SIBOR
Thereafter	1.25% over 1M SIBOR

Sample Standard Chartered page 2

Features of interest-offset loans

Interest-offset loans are ideal for borrowers with substantial idle cash that can be left in a bank account. For this type of loan, a proportion of the deposit in the account will enjoy the same interest rate as that chargeable for the loan. Borrowers will then have the option of using the interest earned to pay for the interest of the loan. A case in point is for Sample Standard Chartered page 1-2, under the MortgageOne Facility, 2/3 of the deposit earns this special interest, with the rest earning the normal interest.

After we have provided you with funds, two thirds of the credit balance in your MortgageOne account (up to a maximum of your loan) earns the same interest rate that applies to your MortgageOne facility on any particular day.

The remaining credit balance in your MortgageOne account on that day earns normal interest. You can offset the interest earned on your MortgageOne account against the interest payable on the MortgageOne facility. Interest earned on the MortgageOne account which exceeds the interest payable on the MortgageOne facility is applied towards reducing the balance owing for the MortgageOne facility.

Kindly note the following:
(a) Normal interest as referred to above may be found on our website at www.standardchartered.com.sg; and
(b) You are required to maintain a separate loan repayment account for every MortgageOne Facility to enjoy the interest offset feature.

Sample Standard Chartered page 1-2

What is a Commitment Period or Lock-in Period?

The period in which full or partial repayment, that exceeds the agreed monthly amount, of the loan is subjected to a repayment fee (usually a percentage of the repayment amount) is known as the Commitment Period or Lock-in Period. The former can be found in Sample DBS page 2 and Sample Maybank page 2, while the latter can be found in Sample Standard Chartered page 5.

The Commitment Period in relation to the Home Loan shall expire 3 years from the date of first drawdown ("Commitment Period").

You may make partial prepayment of the Home Loan upon giving at least 1 month's written notice or payment of interest in lieu thereof.

However, if such partial prepayment is made within the Commitment Period, you shall be liable to pay a prepayment fee of 1.50% on the amounts prepaid.

Sample Maybank page 2

The repayment fee can be called a commitment fee, redemption fee, partial redemption fee or prepayment fee. In some cases, full or partial redemption may incur zero penalty. This is also termed an open term mortgage. See Sample Standard Chartered, for one such example:

The Lock-In Period in relation to the Mortgage Facilities is 0 months from the date of first disbursement of the Mortgage Facilities or any part thereof.

Sample Standard Chartered page 5

In some instances, no terminology will be given to the commitment period. The Letter of Offer simply states that any early full or partial repayment may or may not incur a repayment fee. As seen in Sample HSBC page 4:

You may repay early any part (or all) of the *balance owing* at any time in accordance with the "Early repayment" clause in the Standard Terms.

Subject to the necessary redemption notice being given, no early repayment fee will be levied for full repayment made at anytime.

For any partial repayment amount made within one year from and including the first drawdown date, an early repayment fee of 1.50% shall apply if the minimum outstanding loan amount after such partial repayment is less than SGD100,000.00.

Sample HSBC page 4

What is a Clawback Period or Reimbursement Period?

The Clawback Period or Reimbursement Period is the period when full redemption of the loan is subjected to a refund of freebies given such as legal and administrative expenses, valuation and insurance premiums. See Sample DBS page 4 for an example of the Clawback Period and Sample Standard Chartered page 5 for the Reimbursement Period.

Legal and Administrative Costs & Expenses
We shall grant you a subsidy ("Legal Subsidy") of a sum up to 0.400% of the aggregate amount of the housing and/or term loans granted here under Facility, subject to a maximum of S$3,000.00. The Legal Subsidy Clawback Period shall be 3 year(s) from first release of the Facility in respect of full prepayment of the Facility, but shall not apply to partial prepayments.

Sample DBS page 4

In some instances, no terminology will be given to this period. The financing institution simply explains that an early repayment will incur a refund of perks. As seen in Sample HSBC page 2.

contribute to legal fees and other *costs* (including stamp fees of up to SGD502.00) to a maximum of 0.50% of the *facility limit* for the Housing Loan or SGD3,000.00 (whichever is lower) (together "Legal Fees"). We will pay this amount directly to the lawyer preparing the security documents and reviewing documents presented to us under the facility agreement. We will pay this once all documents have been executed and stamped and we have received the lawyer's original invoice. However, if you repay the facility in full within three years of the first *drawdown date*, you agree to refund our contribution to Legal Fees when you make the early repayment.

Sample HSBC page 2

What is a Conversion?

Some loan packages offer the borrower a free one-time option of converting their package into another, or a new term package. See the following examples:

We offer you the option (exercisable by you once only and within six months after the date of issue of the *temporary occupation permit*) without incurring any cancellation or conversion fees, to convert the Housing Loan to another of our housing loan packages for which you are eligible. To exercise this right, you must enter into all documents we require to effect the conversion.

Sample HSBC page 3

We will grant you a one-time conversion of the interest rate to a new term loan package, with a waiver of the SGD500 administrative charges subject to at least 1 month's written notice given to us. This is applicable only after the end of the Lock-In Period.

Sample Standard Charted page 8

To wrap things up, ...

If you are confused by the myriad of jargon and conditions, our consultants will be most happy to help you examine the Letter of Offer, using a layman approach, as part of our added service. (Disclaimer: If in doubt, you should always check with a lawyer and NOT hold our consultants accountable for any loss whatsoever, arising from our advice.)

For advice on a new loan, go **here**.

For refinancing advice, go **here**.

References

1. BTINVEST, “Understanding Housing Loans and Mortgages”, Web
< http://www.btinvest.com.sg/personal_finance/home-loan/understanding-housing-loans-and-mortgages/ >

2. HDB, “What To Note”, Web
<http://www.hdb.gov.sg/fi10/fi10321p.nsf/w/HLHDBWhat?OpenDocument>

3. Maybank, “ONE Home Loan Board Rate”, Web
< http://info.maybank2u.com.sg/personal/loans/property-loans/single-board-rate.aspx >

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Property Buyer 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 helping them avoid pitfalls from unscrupulous property agents. (We are not property agents, therefore there is no conflict of interests.)

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