

## REFINANCING: Make Your Next Move Your Best Move

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### Refinancing

How much does one know about what it means and how it works?  
How can it be beneficial to individuals like you and me?  
Are there real values in refinancing?  
Is it a very cumbersome process?  
Are there any hidden costs?

Many people thought that refinancing is simply about lowering the interest rates of the current loan that they are servicing. Perhaps of greater accuracy, is to define refinancing as a process of bringing the current interest rates to that of the first year's rate as much as possible. This is often done by obtaining a new loan to replace your current loan.

Although individuals refinance to hopefully push their present interest rate down to a lower one, some take up refinancing as they are motivated by other factors, like having found a preferred bank or attracted to the bank's product features. These consumers are not really keen on getting the lowest rates in town, but like to enjoy the benefits that banks provide in order to stay competitive. Assuming all else constant (*ceteris paribus*), by moving to a lower interest rate will generally allow you to lower your installment amount.

Another reason why individuals refinance is due to the Home Equity Loan Refinancing. This category of refinancing can include re-mortgaging or refinancing with a term loan. The former refers to a situation where a property is fully paid up, and that the homeowner decides to pledge the property to the bank to obtain cash out.

The latter refers to a situation where the property is not fully paid off but has equity value and the financing bank allows a cash draw-out in the form of a term loan. The cash derived may be used to finance the child's college education, home improvements, a vacation, to pay off debts or simply to invest for potentially better yields. The interest rate payable on the term loan is usually the same as the mortgage loan rate. However, term loan is only permissible if the value of the loan against the value of the property is generally in the range of about 80% (Loan to Valuation Ratio = 80%).<sup>1</sup>

A more sophisticated Home Loan Product is the Current Linked Account (CLA). The current linked account can be refinanced from time to time given that the client's financial circumstances can change over time. This type

of loan is generally suitable for clients who wish to shorten their loan tenure by simply maintaining their monthly installments and capitalizing on the product features. Generally this will benefit clients who can either park a single lump sum amount in the Current Account or linked their salary/income account to the Current Account.

Hence, based on daily interest rates, the financing bank will then do a matching of the Home Loan Account against the Current Account. Home Loan Interests is only payable on the difference between the Home Loan Account and Current Account.

The Refinancing Process particularly one that allows you to take additional Term Loan can be really helpful for Debt Consolidation purposes. Instead of owing multiple credit cards or overdraft facilities at sky-high interest rate, the cash out from Mortgage Term Loan can be used to settle all the outstanding debts; in a way this is like consolidating the debts and hence paying them off. Comparing to the skyrocket credit card interest rates, the Term Loan rates is equivalent to Home Loan rates, and of recent years particularly, home loan rates have been favorable to the advantage of the client.

When was the last time you had your home loan or even your car loan refinanced? Refinancing your loans under the right conditions can bring you significant savings. It is not a very cumbersome process if you go through the proper channel with a professional in the mortgage industry. One of the latest professions in the financial sector is the emergence of Accredited Mortgage Consultants (AMC) who works with a panel of banks in Singapore. These mortgage professionals provide objective and non-biased advices to all their clients, regardless of their income level.

Should you are considering to get a mortgage loan or refinancing your loans, you will be well rewarded for doing some "homework", as well as seeking the advice of the professionals before making any decision that will affect probably the next 10 to 20 years of your life.

<sup>1</sup>Terms and Conditions apply. Must also take into account other factor such as total CPF usage for the property in question.