

How to feel at home with home loans

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BEFORE you rush to sign up for a home loan deal that promises to make refinancing easier, you should weigh the pros and cons of using variable and fixed rate loans, check out the lock-in periods and take advantage of current-linked account facilities.

In an interview with WEALTH, Ms Annie Lim, managing director at mortgage consultancy Global Creatif Financial, tells us what consumers should look out for before signing on the dotted line.

VARIABLE VS FIXED RATE LOAN

While variable rate loans may appear attractive in the initial period, it may not suit everyone.

“Fixed-rate packages tend to be selected by clients looking for some sort of stability and certainty. Such packages would also enable them to plan their monthly cashflow more effectively,” said Mr Dave Low, general manager of Global Creatif Financial.

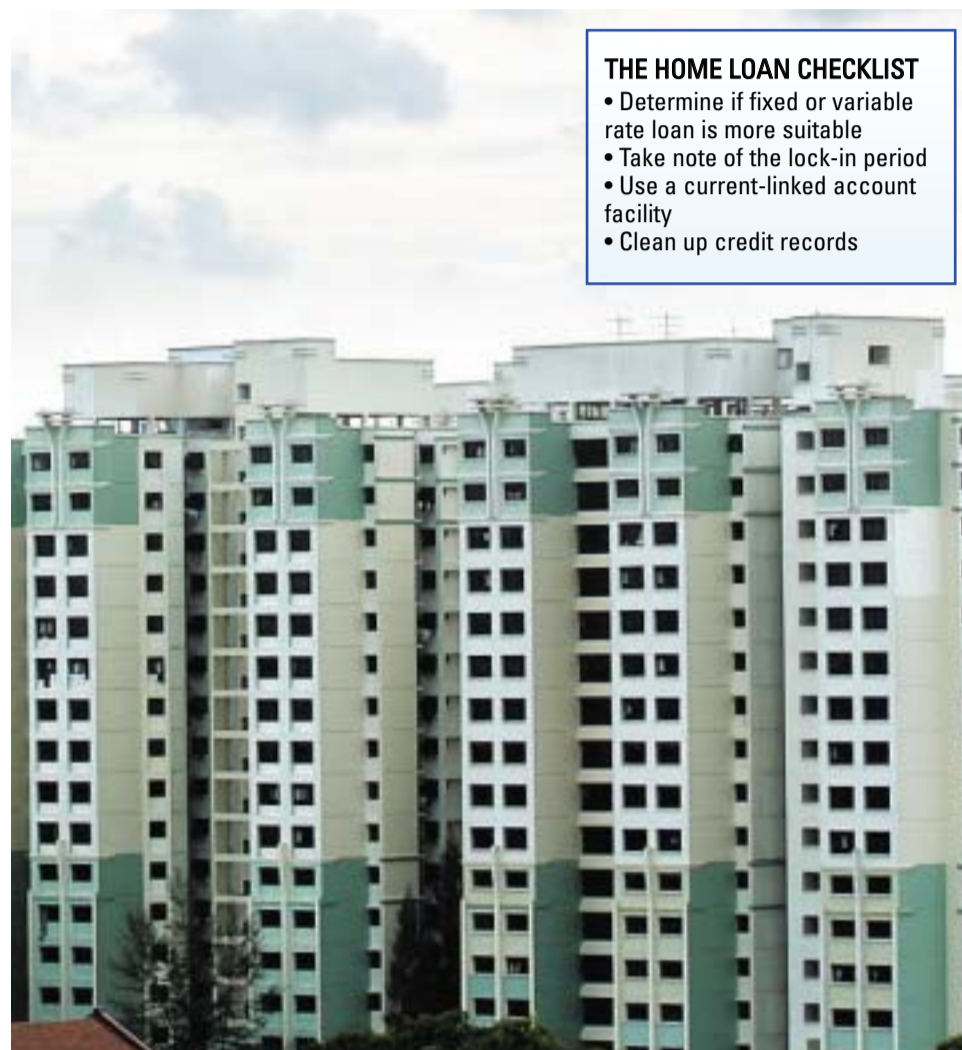
In Singapore, the fixed rates tend to be higher than variable rates. Those who have a higher risk appetite or who have means of earning higher returns for their money elsewhere may wish to take on variable rate loan, he added.

“But consumers have to understand that a variable package may result in interest rate adjustments, which can even be a few times a year.”

USE A CURRENT-LINKED ACCOUNT FACILITY

Many people are also not aware of the availability of a current-linked account (CLA), which is a current account that is tied to your home loan. Funds in the CLA can be used to offset the outstanding mortgage for the calculation of interest payments.

For example, if you have an outstanding home loan of \$400,000, but you have \$100,000 in your CLA, interest owed will be calculated based on the difference, i.e. \$300,000.



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THE HOME LOAN CHECKLIST

- Determine if fixed or variable rate loan is more suitable
- Take note of the lock-in period
- Use a current-linked account facility
- Clean up credit records

Thus, a higher portion of your monthly installment will go into repaying the principal, rather than paying for the interest.

“Instead of having your \$100,000 sit in a fixed deposit earning a lower interest, why not use it for this purpose where it is offsetting the higher interest on the mortgage loan?” said Ms Lim.

Moreover, current linked account holders can draw money out from their current account without incurring any penalty.

In contrast, penalty payments would be incurred in the case of withdrawing money from fixed deposits.

Currently, HSBC, Standard Chartered Bank and United Overseas Bank are among

the banks that offer CLA facilities.

PENALTIES AND LOCK-IN

Home-owners who are considering selling their property in a short time must be aware of a “lock-in” period as well as the “clawback” feature on their housing loan.

The lock-in period is the minimum time period that the borrower is obliged to stay with the bank, failing which a lock-in penalty – of usually 1 per cent to 1.5 per cent of the loan amount – is imposed on the borrower.

The “clawback” feature requires the borrower to repay subsidies and benefits offered by the bank in the event of an early

repayment. These include legal subsidies, fire insurance, administrative charges, cash rebates or any other benefits offered by the bank as stipulated in the letter of offer.

“Bank A may offer to absorb the penalty of terminating your existing loan with Bank B, but take note of the conditions (such as lock-in and clawback) attached to the offer from Bank A,” said Ms Lim.

CREDIT STANDING

Lastly, loan applicants with a history of irregular payments on their credit cards should check their current credit standing with the Credit Bureau (Singapore) or CBS, and act to improve their credit standing, advised Ms Lim.

“We suggest that the client ‘clean up’ their records before applying for loans. Bad payment records would be reflected in the system and may affect home loan applications,” she said.

For \$5.25, you can get a copy of your credit report showing information such as overdue amounts on your existing accounts. According to the CBS, information on existing account status history will be displayed on a rolling 12-month basis.

“The main emphasis is on the more recent payment behaviour. For example, an account – that shows a delinquency seven months ago, but has been current since – would likely have less risk to a lender than an account that shows delinquency in the last one or two months,” said Mark Rowley, general manager of the CBS.

Each bank has a different risk tolerance and, therefore, it is possible for one lender to decline an application and another to approve based on the same bureau data, said Mr Rowley.

For closed accounts, information for the past 12 months of account status history will be displayed in the report for a period of three years from the date of closure.

Information on bankruptcy and litigation would be retained in the credit report for a period of six years from the date it was loaded by the CBS’ member institutions.

Global financial markets will stay volatile until Q3: Merrill Lynch fund manager

MERRILL Lynch Investment Managers senior fund manager Mr Dennis Stattman – who heads a team that manages around US\$22 billion (\$35.18 billion) in global funds – is maintaining a conservative portfolio because he believes financial markets worldwide will stay volatile until the third quarter of this year.

The Princeton-based Stattman said his US\$5.25 billion Merrill Lynch International Investment Funds Global Allocation Fund – which invests across several assets worldwide – is neutral on equities, underweight on bonds and overweight on cash.

Mr Stattman has no plans of changing his asset allocation mix despite the jitters caused by United States inflation and in-

terest rates concerns. But he is “fine-tuning” his portfolio by buying more shares of companies already on his portfolio during market dips.

Mr Stattman said financial markets worldwide have suffered from a series of bad news – including higher-than-expected US core inflation data, a human-to-human bird flu infection scare in Indonesia and more indications that the US Fed may raise interest rates – and investors have become increasingly risk averse.

“What is going on in the markets is a simple reassessment of risk. The early stage of that process is nearing completion, but we expect to be in a choppy period into autumn as investors require

higher rewards for taking all that risk,” Mr Stattman said.

“My sense is the Fed would like to pause and see more data ... But remember, we have a new Fed chairman and the last thing he’s going to want to do is to appear weak on inflation.”

The Fed raised its key interest rate to 5 per cent last month – the second rate increase since Fed chairman Ben Bernanke took office in February, bringing the total of consecutive increases since mid-2004 to 16.

The Global Allocation Fund has been neutral on equities for the past 18 months and has been underweight on bonds for many years. The fund is also overweight on Asian shares.

Asian stock markets provide the best combination of economic growth and value among regional markets the world over, Mr Stattman said. “The beauty of the Asian market is you get (economic) growth, but you don’t have to pay a premium for it.”

He expects Asian stock markets to remain strongly correlated to the US stock market, but expects any downside to be limited by the potential for stronger domestic consumption.

“If there is a sell-off in the US, there will likely be a sell-off in Asia and other places. But my sense is Asia has positive biases like the build-up coming from savings, a dynamic that we don’t see in the US.”

— DOW JONES