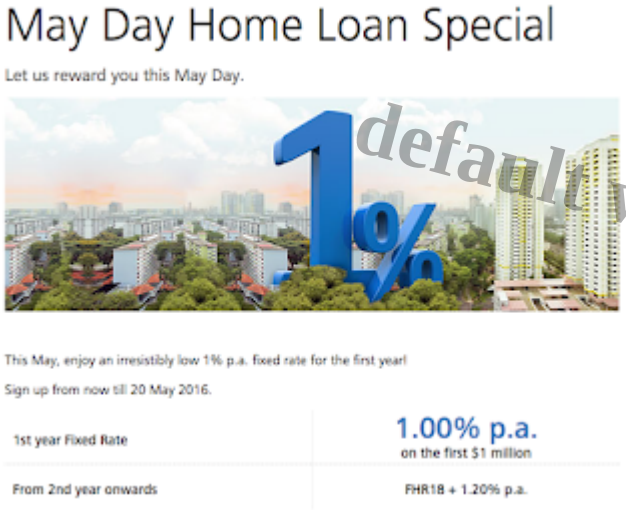
Buying A New Property? Hereâ??s An Attractive Home Loan Youâ??ve Not Heard Of

Description

Whatâ??s the biggest big-ticket item youâ??ve bought?

For most of us, that will probably be our house, which we generally donâ??t have the ability to pay upfront anyway. Therefore, getting a good home loan is essential.



default watermark

Iâ??ve recently been on the lookout for affordable home loans where my regular repayments will ideally be as low as possible. Most Singaporeans opt for a floating rate package, typically pegged to the SIBOR, which have generally offered better value than the fixed rate packages.

However, an ex-colleague just told me about a new home loan promotion by DBS called the May Day Home Loan Special (so gimmicky *rolls eyes*) which seems to offer the most attractive rates so far.

For the uninitiated, please read my other article here about SIBOR and how it affects your home loans first.

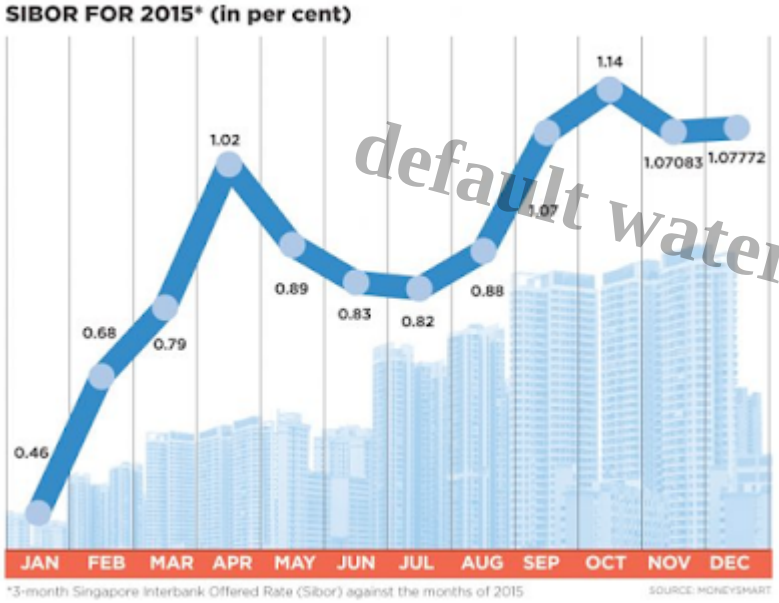
At 1% p.a., this is the cheapest rate currently offered among all the banks now. With the Fed expecting to raise interest rates this year, this fixed rate is fixed in the first year, which means Iâ??m protected from interest rate volatility.

Since weâ??re in a rising rates environment, this largely means that I can expect to pay less on this model compared to the other options out there.

However, this 1% rate expires after the first year. Thereafter, DBS will charge interest based on the FHR18 + 1.2% p.a. Never heard of the FHR18? Well, neither did I until late last year. Essentially, the FHR18 was pioneered by DBS and refers to the rate pegged to DBSâ?? 18-month fixed deposit rate. This is currently 0.600% per year, significantly lower than the current SIBOR of over 1%.

Thus, this DBS promo of 1% for the first year, and 1.8% for the second year onwards (current FHR18 is 0.600%), looks **very attractive** indeed.

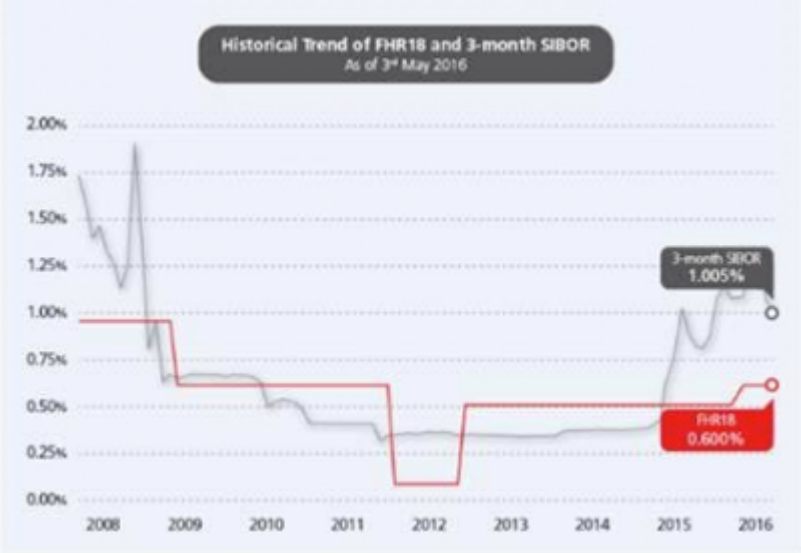
The other home loans, on the other hand, charge interest based on the SIBOR PLUS the bank spread, which are mostly 0.8% to 1.25% for now. Assuming the SIBOR rises to 1.25% next year, that means you can easily expect to pay 2.05% to 2.5%.



default watermark

The SIBOR has been on a continuous uptrend over the past year, and with the Fed looking to raise interest rates, the SIBOR is very likely to continue going up. This is bad news, as a rising SIBOR rate will lead to higher interest payments for us consumers. No thanks.

Comparing SIBOR to the FHR18:



You got to applaud DBS for being innovative and being the first bank to launch home loan rates pegged to first deposit rates. The FHR18 is also transparent and a stable alternative to the 3-month SIBOR. It makes you wonder why no other bank thought of this idea before.

default watermark

For comparison, OCBC and UOB now offers home loans pegged to their FD-rate as well, but at 36 months instead. OCBC and UOBâ??s rate now is 0.65% which is higher than DBSâ?? FHR18.

How does this compare to the other major banksâ?? home loans?



OCBCâ??s version of the FD-linked home loan packages. The current 36-month FD rate is 0.65% (higher than DBSâ?? FHR18), which has been unchanged since Nov 2011. The prevailing rate thus

adds up to 1.88%, which is cumultatively higher than DBSâ?? rate over the next 3 years.

Note: The highest OCBCâ??s 36-month FD rate has been in the last 10 years was 0.925% in Nov 2005.

UOB Variable Rate Package
Starting at 36FDPR + 1.15 = 1.80%

UOB

Board	2 years	1.80%
Rate Type	Lock-in Period	Interest Rate (3 year Average)

UOBâ??s rate at 1.8% on average over 3 years still works out to be lesser than DBSâ?? current promo thanks to the 1% fixed rate on the first year.

default watermark

Rates and Payments

Period	Rate
Year 1	36FDPR + 1.15 = 1.80%
Year 2	36FDPR + 1.15 = 1.80%
Year 3	36FDPR + 1.15 = 1.80%
Thereafter	36FDPR + 1.65 = 2.30%

Not bad at all, Iâ??m definitely convinced.

Wait, whatâ??s the catch?

I highly encourage you to read the terms for yourself if youâ??re thinking of taking up this loan, but hereâ??s the main concerns that I had while reviewing their T&Cs:

1. Thereâ??s a **lock-in period of 3 years**, so you canâ??t refinance your home loans during this period to switch to a cheaper package. Fair enough, since most of the other banksâ?? home loans impose a 2 to 3 years commitment. But in consideration of the SIBORâ??s rise, I doubt thereâ??ll be a cheaper package anytime soon anyway.

2. It is also valid only for **new loan applications**, so if you already have an existing DBS home loan, you donâ??t qualify for this discount. (Bummer! It makes sense though that theyâ??re using this to entice customers of other banks to switch over.) But if you have a new loan application for your next property, youâ??ll still be able to take advantage of this promotion.
3. If youâ??re looking to refinance, youâ??ll need to consider legal and cancellation fees as well. I called up DBS under the guise of being an OCBC customer with an existing home loan to ask how this would work, and while the they couldnâ??t advise me on how much these might add up to *(due to lawyers charging different fees according to type of property and transaction)*, they offered me a minimum $1,500 cash rebate to help offset the costs if my loan amount is above $500,000.

4. The promo is only valid for the first $1 million loan. So if youâ??re taking out a large loan to purchase a luxury house, you can only take the first 1 million at 1% fixed rate, and go for other home loan packages for the remaining sum instead.
5. Now, thereâ??s also a risk that **since the FHR18 is a internally-determined rate, DBS could possibly raise the rate anytime**at their whim and fancy. However, I feel that this is highly unlikely because it would result in a double-edged effect. Higher fixed deposit rates will also incur higher costs for DBS themselves i.e. while they might earn more on your home loan instalments, it also means theyâ??ll also have to pay out more to consumers on our fixed deposits.
TLDR Conclusion:

demo watermark

This DBS promo really is quite an attractive offer. I asked some of my real estate agent friends, who have also told me about how their customers have recently switched over as well.

What I like is that the FHR18 is **lower than the SIBOR rate** and is much easier to calculate and understand. With Fed and SIBOR interest rates set to rise, this potentially reassures us of lower interest rates on our home loan repayments, which is another big bonus.

Just a pity I wouldnâ??t be able to sign on before the deadline since we havenâ??t yet picked a house yet, but oh well!

With love,

Budget Babe

Category

1. Property