

Buying A New Property? Here's An Attractive Home Loan You've Not Heard Of

Description

What's the biggest big-ticket item you've bought?

For most of us, that will probably be our house, which we generally don't have the ability to pay upfront anyway. Therefore, getting a good home loan is essential.

May Day Home Loan Special

Let us reward you this May Day.



This May, enjoy an irresistibly low 1% p.a. fixed rate for the first year!

Sign up from now till 20 May 2016.

1st year Fixed Rate	1.00% p.a. on the first S\$ million
From 2nd year onwards	FHR18 + 1.20% p.a.

I'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 I'm protected from interest rate volatility.

Since we'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 DBS' 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.

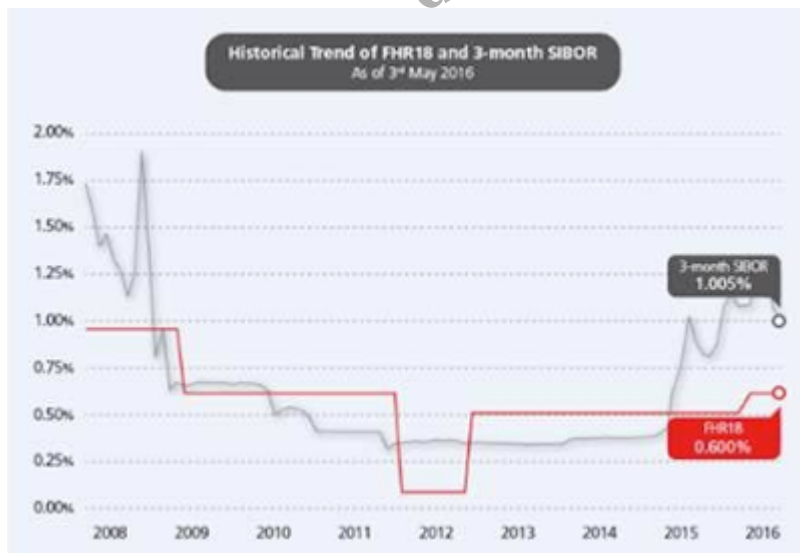
The other home loans, on the other hand, charge interest based on the SIBOR PLUS the bank spread, which are mostly 0.8% to 1.25% for now. Assuming the SIBOR rises to 1.25% next year, that means you can easily expect to pay 2.05% to 2.5%.

SIBOR FOR 2015* (in per cent)



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:

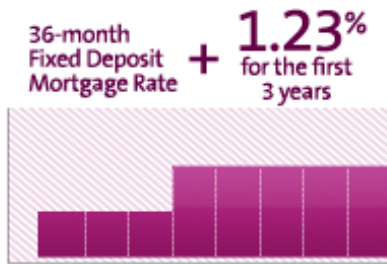


You got to applaud DBS for being innovative and being the first bank to launch home loan rates pegged to first deposit rates. The FHR18 is also transparent and a stable alternative to the 3-month SIBOR. It makes you wonder why no other bank thought of this idea before.

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

How does this compare to the other major banks' home loans?

Fixed Deposit-linked rates



- Rates are pegged to our 36-month fixed deposit rate
- Rates and payments can change with our 36-month fixed deposit rate
- Free conversion to any other package if the fixed deposit rate increases

OCBC's version of the FD-linked home loan packages. The current 36-month FD rate is 0.65% (higher than DBS' FHR18), which has been unchanged since Nov 2011. The prevailing rate thus adds up to 1.88%, which is cumulatively higher than DBS' rate over the next 3 years.

Note: The highest OCBC'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%



Board

Rate Type

2 years

Lock-in Period

1.80%

Interest Rate
(3 year Average)

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

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, I'm definitely convinced.

Wait, what's the catch?

I highly encourage you to read the terms for yourself if you're thinking of taking up this loan, but here's the main concerns that I had while reviewing their T&Cs:

1. There's a **lock-in period of 3 years**, so you can't refinance your home loans during this period to switch to a cheaper package. Fair enough, since most of the other banks' home loans impose a 2 to 3 years commitment. But in consideration of the SIBOR's rise, I doubt there'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 don't qualify for this discount. (Bummer! It makes sense though that they're using this to entice customers of other banks to switch over.) But if you have a new loan application for your next property, you'll still be able to take advantage of this promotion.

3. If you're looking to refinance, you'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 couldn'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 you'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, there's also a risk that **since the FHR18 is an 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 they'll also have to pay out more to consumers on our fixed deposits.

TLDR Conclusion:

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 wouldn't be able to sign on before the deadline since we haven't yet picked a house yet,
but oh well!
With love,
Budget Babe

Category

1. Property

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