

## Understanding Home Loans in Singapore

### Description



I was chatting with a friend today about how I'm considering investing in REITs, and he reminded me about how the rising interest rates environment are going to impact REITs negatively, since they mostly have high gearing on their properties. Then I realized, oh dear! REITs won't be the only ones affected when the Fed raises interest rates, because that affects our home loans too!

### How Your Home Loan Is Affected by the SIBOR

### SIBOR FOR 2015\* (in per cent)



[Source here](#)

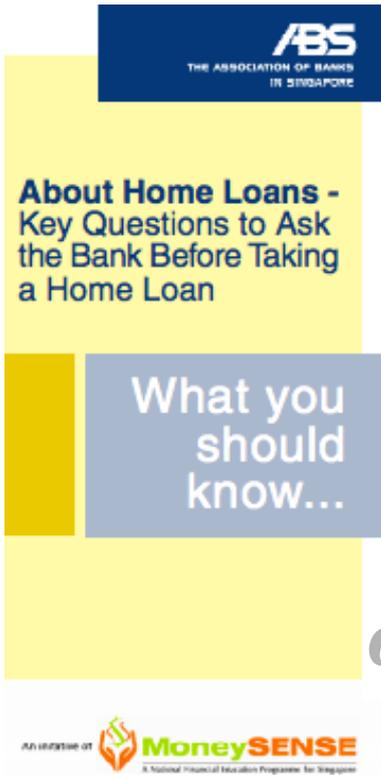
Most home loans are pegged to the Singapore Interbank Offered Rate (SIBOR), which is the rate by which our banks lend to each other. The 3-month SIBOR rate is the most often used standard in such floating rate packages, which means the interest rate you pay on your home loan will be revised every 3 months together with the add-on percentage until the next rate review date.

The SIBOR is tied closely to Fed interest rates. [The 3-month SIBOR rose to 1.13375%, almost 3 times the 0.44437% level seen just a year ago!](#) This was in December, in the wake of the Fed raising interest rates for the first time since 2006. More Fed rate hikes are expected.

The higher the rates, the more we consumers will end up having to pay on our home loans. For example, a common loan package we might encounter could be:

**3M SIBOR + 0.8% (assuming reduced fees as a sign-up promo).**





[Check out more questions you should consider in this other online guide here.](#) Ultimately, the most important question you should ask yourself when choosing a home loan package is: **Can I afford the loan instalments?**

### **Should I refinance my home loan?**

Yes, definitely! If you're willing to do a little bit of homework and comparison, switching your home loans can give you quite a bit of savings as the banks compete to win over customers from each other.

Just remember to consider switching costs, like legal and cancellation fees. I wouldn't recommend refinancing before your minimum commitment term on your existing home loan package is up because these fees can add up to more than the savings you stand to enjoy by switching.

Now that I'm due for signing on a home loan anytime (once we find a suitable house, that is), I really hope the interest rates won't be too high when we're ready. Let's hope the interest rates won't rise by TOO much. I'll continue to monitor the situation.

With love,  
Budget Babe  
**Category**

1. Property