Eight Things You Need To Know About Refinancing Your Mortgage

By Aaron De Silva | July 10, 2017 7:37 AM MYT

There are good debts, and there are bad debts. Most people will agree that a housing loan is a form of good debt. Yet, given the chance, the majority will choose to pay down their housing loan so that they can speed up the prospect of being debt-free. For example, you or your spouse receives a sizeable year-end bonus. Or one of you decides to cash out on a profitable investment. Perhaps one of you wins the lottery. After splurging some of the windfall, you will probably think of paying off your debts, such as your housing loan.

Or maybe you took a housing loan when interest rates were high. And now that interest rates have dropped, you're considering refinancing to save on your monthly loan repayment. Ignatius Yeo, a mortgage consultant with Find A Home Loan (http://findahomeloan.co), recommends keeping these key points in mind.

1. Find A Home Loan helps you find the most appropriate interest rate package.

Ignatius's clients typically seek him out when they're looking for a lower interest rate package. For example, if you're currently paying an interest of 2.50%, he'll help you find a more attractive package. This means a lower interest rate if you're looking to lower the interest cost on your housing loan.

2. There are various fees involved with refinancing.

There are legal fees and valuation fees involved. Most housing loan packages offered by banks come with a legal subsidy. This is typically 0.20% to 0.40% of the outstanding loan amount. Homeowners will need a law firm to act on their behalf for the refinancing. The bank will need the lawyer 1) to prepare the mortgage documents for both the take-over bank and the homeowners; 2) to notify the existing bank of the switch of financier; 3) to notify the CPF Board if the homeowners are using their CPF to pay their monthly loan instalments. There's also a stamping fee charged by IRAS.

Ignatius has had homeowners go to him seeking a refinance during their lock-in period. This is where he'll help them assess whether – in spite of all these costs, plus the penalty fee – it still makes economic sense for them to do so. For example, if they're paying something like 2.00% but currently what's available is around 1.30%, that's a 0.70% difference – which is able to cover all the costs. Most importantly, it results in an interest cost savings, which is the whole point of refinancing.

3. **When you choose to refinance during a lock-in period, there's a penalty fee.**

Most housing loans come with a lock-in period of zero, one, two or three years. During this period, should homeowners perform a partial or full redemption, there will be a penalty charge, usually about 1.50% of the redeemed loan amount. Of course, with zero/no lock-in period package, they can redeem their loan anytime without any penalty fee.

4. If you want to reduce your loan obligation but choose not to refinance, you can also perform a partial or full redemption.

Assuming the homeowners took a loan of $500,000. One year down the road, say their outstanding loan amount is $490,000. They may wish to reduce their loan obligation. They have a sum of cash, say, $20,000 from their year-end bonus. They can pay down their loan with this money. Or they might want to use their CPF in their Ordinary Account for the same purpose. This would reduce the housing loan to $470,000. This is considered a *partial redemption*.

Another scenario is if the couple has a sudden windfall (for example, winning the lottery) or accumulated sufficient savings and want to pay off the entire loan so that they are free of debt. Paying off the $490,000 is a *full redemption*.

If the couple decides to sell their property, they will have to pay off in full the outstanding loan amount of $490,000 with the sale proceeds. This is also known as a *full redemption*.

In all three scenarios, the banks will charge a 1.50% penalty fee of the redeemed loan amount if this happens within the lock-in period. Outside the lock-in period, there is no fee payable should the couple redeem the loan partially or fully.

5. Once you decide to refinance, there are various rates to consider.

This depends what the homeowners are planning for in the near future and what the banks are offering at the time. Do the homeowners have plans to sell their property to upgrade? Is the property is an investment property or an owner-occupied one? If they plan to sell their property in the near future to upgrade or for capital gain, they may want to opt for a loan package that has no or short lock-in period.

Banks offer fixed rate; board rate; rate pegged to SIBOR; and rate pegged to their respective fixed deposit rate. For the last few years, the latter has been very popular among homeowners as these packages offer a much more stable interest rate. If homeowners don't want to worry about rising interest rates (especially if the property is an owner-occupied one), Ignatius will recommend this option.

Rate pegged to SIBOR has fallen out of favour largely due to the steady increase in SIBOR impacted by rate hikes by the US Federal Reserve. Ignatius may recommend this option if his clients plan to sell their property within the next one or two years, as some of these packages come with zero or one year lock-in periods.

6. We are in a low interest rate environment right now.

We are still in a low interest rate environment. For the past several years, rates have hovered below 2.00% and current rates start from 1.08%.

7. You can refinance if own an HDB flat, and are taking a HDB loan.

If homeowners get tired of paying the 2.6% interest rate that HDB charges, the banks will be more than happy!

8. You can refinance more than one property at a time.

But do note that every refinancing application is subject to the guidelines set by the banks based on the broader framework established by MAS, known as TDSR.