The Association of Banks in Singapore

What You Should Know About HOUSING LOANS – Key Questions to Ask the Bank Before Taking a Housing Loan

MoneySENSE

A National Financial Education Programme for Singapore

INTRODUCTION

For most people, buying a residential property represents the most expensive purchase of a lifetime and may require long-term financing to achieve.

This guide provides information on housing loans and the re-financing of housing loans for the purchase of residential property in Singapore (regardless of whether the residential property is meant for owner occupation or for investment).

When you approach a bank about taking up a housing loan, the bank must provide you with a Residential Property Loan Fact Sheet. The Residential Property Loan Fact Sheet contains key features of the housing loan and highlights the implication of possible future increases in interest rates on your monthly repayment instalments.

You can refer to the end of the guide for a glossary of key terms used in this guide.

THE BASICS

What to bear in mind:

- Consider whether you can afford to service the monthly repayment instalments.[1] You can approach a bank for an Approval-In-Principle (AIP) as it is advisable to know the potential loan amount before committing to a property purchase. Take note that an AIP is not binding; the actual loan amount approved may differ from AIP after the bank processes the application

- Assess if you are able to meet the prevailing Total Debt Servicing Ratio (TDSR) threshold before committing to any property purchase. You can refer to Sections 2a to 2d

- Check if you can meet the prevailing Mortgage Servicing Ratio (MSR) limit before committing to a purchase of an executive condominium directly from a property developer or any HDB flat. You can refer to Sections 2e to 2g

- Allow for contingencies including interest rate increases over the term of the housing loan

- Find out your CPF Withdrawal Limit[2] if your CPF savings are used in the purchase

Do Note:

- The bank charges overdue interest if monthly repayment instalments are late

- If you fail to pay your instalments, the bank can recall the housing loan and repossess your property for sale

[1] Refer to the MoneySENSE webpage on "Buying a Home" at www.moneysense.gov.sg. Use the Mortgage Calculator to help you assess what you can afford before taking up a housing loan.

[2] Refer to the CPF Board's website (www.cpf.gov.sg) to work out your CPF Withdrawal limit. Once you reach the limit, you will have to pay the monthly repayment instalments fully in cash.

- The bank may make you a bankrupt if the sales proceeds from your property are less than the outstanding housing loan and interest payable, and you are unable to repay the shortfall

Loan tenure

- The duration of the housing loan is known as the loan tenure or repayment period
- In the case of joint borrowers, banks will compute the income-weighted average age of all borrowers to determine the loan tenure

Pricing Types

The two broad categories are:

- Fixed rate loans
- Variable rate loans

What's the difference?

Fixed Rate Loans	Variable Rate Loans
Interest rate is fixed and cannot be changed in the first few years. This means the monthly repayment instalments are fixed for this period (assuming no further loan disbursements or prepayments during the period and no change in the loan tenure). The fixed-rate period will be set out in your Residential Property Loan Fact Sheet and your housing loan agreement. This is a good option if interest rates are low when you take up a housing loan or if you want to budget with certainty over the initial few years of your housing loan as the fixed interest rate will not change, even if prevailing interest rates rise or fall. After the fixed-rate period, the interest rate becomes variable. The housing loan then works like a variable rate loan.	Interest rate is not fixed but can be varied by the bank at any time. This variable rate is benchmarked against a reference rate that is pegged to publicly available market indicators (e.g. Singapore Interbank Offered Rate (SIBOR), Singapore Swap Offer Rate (SOR)) or determined by the bank (e.g. internal board rate). If the reference rate goes up, so will your housing loan interest rate and monthly repayment instalment. If the reference rate goes down, your housing loan interest rate and monthly repayment instalment should also vary accordingly, subject to the terms and conditions in the housing loan agreement. Generally, for reference rates that are pegged to publicly available market indicators or that are determined by

Fixed Rate Loans	Variable Rate Loans
	a bank, a spread is added or discounted to derive the applicable interest rate. The spread (i.e. discounts or premiums) and reference rate may be subject to change under certain circumstances. Banks are required to clearly disclose the specific circumstances under which i) the type of reference rate or ii) spread or iii) both the spread and type of reference rate may be changed. Refer to Sections 3a, 3b, 4a and 4b to find out more about changes to reference rates and spread as well as what to note about Fixed and Variable Rate Loans. For notification of changes, please read the row below.

Notification[3]

a. Changes to Interest Rates

Banks must inform you in advance (usually 30 days) before they change the interest rate on your housing loan.

b. Changes to Loan Terms and Conditions

Banks must inform you in advance (usually 30 days) before they change or vary the terms and conditions of your housing loan agreement.

You will also need to notify the bank and obtain its consent when you seek to vary the housing loan agreement, such as by repaying or re-financing your loan.

Ask the bank what notification is required for any change initiated by you.

Shop Around to Find the Most Appropriate Package

- Compare alternatives and find the package that best fits your financial circumstances

- Do not be enticed into deciding based on advertisements, headline rates or gifts

[3] The Code of Consumer Banking Practice, issued by The Association of Banks in Singapore (ABS), requires banks to give notification before implementation of any changes to the terms and conditions, interest rates, fees and charges.

- Compare features such as:
  - interest rates
  - lock-in period and fees, in particular penalty fees for early prepayment
  - cancellation fees
  - requirement for Mortgagee Interest Policy
  - bank subsidies for fees for valuation, legal and conveyancing services and fire insurance. Note that you must declare all discounts, rebates or other benefits that you receive from the seller or any other party that have the effect of reducing the purchase price of a property such as furniture vouchers and the payment of stamp duties by the vendor on your behalf
- If you are considering re-financing, check the prevailing interest rates offered by other banks after the lock-in period and compare it with the rate you are currently paying; do also consider the costs associated with re-financing such as legal fees
- When browsing on the Internet for housing loans, note that some of the information may not be the most recent. Always talk to your bank and ask for the latest product information

WHAT TO ASK THE BANK

Now that you know the basics, the following are some key questions you should ask the bank before deciding which housing loan to take up.

ELIGIBILITY

1a. Am I eligible for a housing loan?

Banks have eligibility criteria for prospective borrowers which include:

- minimum income
- minimum and maximum age
- minimum loan quantum
- residency status
- fulfilment of the Monetary Authority of Singapore’s property loan rules and the bank’s internal credit requirements

1b. Am I eligible if I am self-employed or do not have a regular income?

You must demonstrate the ability to service monthly repayment instalments to be eligible for a loan. Each bank will assess your eligibility based on its criteria.

AFFORDABILITY

2a. What is the Total Debt Servicing Ratio (TDSR) framework?

The TDSR framework requires a bank to take into consideration all outstanding debt obligations of a borrower when granting a housing loan to the borrower. It ensures that borrowers do not buy properties which are beyond their financial means and encourages borrowers to reduce their debt servicing burden and vulnerability to adverse economic conditions or a change in interest rates. Please check with your bank on the prevailing TDSR threshold.

2b. When does the TDSR threshold apply to me?

The TDSR threshold will impact you when you apply for the following types of property loans on or after 29 June 2013:

- Any loan for the purchase of a property; and
- Any loan secured on a borrower's equity in a property

The TDSR threshold will also impact you when you re-finance your property loan, except where:

- the re-financing is in respect of a loan for the purchase of a residential property which you are occupying; or
- you commit to a debt reduction plan with your bank at the time of re-financing. Please check with your bank on the details of the debt reduction plan

2c. How is TDSR computed?

- The TDSR is computed as follows:

$$\frac{\text{monthly total debt obligations}}{\text{gross monthly income}} \times 100\%$$

- All your outstanding debt obligations have to be taken into account when computing your TDSR. Debt obligations include all property loans and non-property related loans such as car loans, renovation loans, student loans and credit card facilities

- If you are a guarantor of any loan, a portion of the monthly repayment instalment towards the loan will be taken into account when computing your TDSR. Please check with your bank on the minimum amount that has to be taken into account

- Gross monthly income refers to your monthly income before tax, and includes:

  - your monthly fixed employment income

  - average monthly variable income (e.g. commission, bonus and allowance) from your employer earned in the preceding 12 months, subject to a haircut. Please check with your bank on the minimum haircut required

  - monthly rental income, subject to a haircut. You must also provide your bank with a copy of the stamped tenancy agreement signed by you (as the landlord) and your tenant. The agreement must have a remaining rental period of a certain period at the time of your property loan application. Please check with your bank on the minimum haircut and remaining rental period required

  - certain eligible financial assets, subject to haircuts and amortisation over a certain period of time for conversion into "monthly income streams". Please check with your bank on the eligible financial assets, minimum haircut required and amortisation period

- Gross monthly income excludes any contributions made to your CPF accounts by your employer

2d. What documents do I need to submit to my bank to compute my TDSR?

You should submit to the bank:

- your latest available statement from IRAS and CPF Board

- if you have a monthly rental income, a copy of the stamped tenancy agreement signed by you (as the landlord) and your tenant

- your written declaration on (i) all outstanding debt obligations (e.g. type of loan, outstanding loan amount, monthly repayment instalment, applicable interest rate and loan tenure), and (ii) all sources of gross monthly income in the period of at least 12 months before the time of housing loan application

- any other information that can help confirm your gross monthly income and outstanding debt obligations

2e. What is the Mortgage Servicing Ratio (MSR) limit?

- The MSR limit caps the monthly mortgage instalments at a percentage of a borrower's gross monthly income when he applies for a housing loan for the purchase of an executive condominium (EC) directly from a property developer or any HDB flat. Please check with your bank on the prevailing MSR limit

2f. When does the MSR limit apply to me?

The MSR limit applies to you when you apply for a housing loan to purchase:

- a HDB flat and the option to purchase the HDB flat is granted on or after 12 January 2013; or

- an EC bought directly from a property developer and the option to purchase the EC is granted on or after 10 December 2013

A bank will also compute your MSR if you are re-financing your housing loan for an EC bought directly from a property developer and which is still within the minimum occupation period or a HDB flat, unless:

- you are occupying the EC or the HDB flat; or

- you commit to a debt reduction plan with your bank at the time of re-financing. Please check with your bank on the details of the debt reduction plan

2g. How is MSR computed?

The MSR is computed as follows:

$$\frac{\text{monthly mortgage instalments}}{\text{gross monthly income}} \text{ X } 100\%$$

Your monthly mortgage instalments include your monthly repayment instalments for:

- the housing loan for the purchase of an EC directly from a property developer or any HDB flat, which you are applying for; and

- any other housing loans or mortgage equity withdrawal loans that you have

Gross monthly income for MSR is computed in the same way as for TDSR.

INTEREST RATES

3a. Interest Rates under a Fixed Rate Loan Package: How long will the interest rates remain fixed? Is the subsequent interest rate benchmarked against any reference rate? If so, what is the reference rate?

For fixed rate loan packages, interest rates are fixed and cannot be changed in the first few years. Subsequently, the interest rates will be variable and typically benchmarked against a reference rate (See Section 4a). You may refer to the Residential Property Loan Fact Sheet provided by the bank during the housing loan application process for details.

The fixed rate period can be considered as a promotional period as the rates in this period are generally lower than the subsequent variable rate.

Take note that where the subsequent interest rates are variable, your bank may revise i) the type of reference rate (e.g. 3-month Singapore Interbank Offered Rate (SIBOR), 6-month Singapore Swap Offer Rate (SOR), internal board rate) or ii) spread or iii) both the spread and type of reference rate under certain circumstances. Such circumstances should be specifically set out in your Residential Property Loan Fact Sheet and your housing loan agreement. Please see more on Interest Rates Under a Variable Rate Loan Package below.

3b. Interest Rates Under a Variable Rate Loan Package: Is the interest rate benchmarked against any reference rate? If so, what is the reference rate?

Interest rates under variable rate loan packages are typically benchmarked against a reference rate.

The interest rates of a variable loan package typically comprise 2 components:

(i) Reference rate; and

(ii) Spread

The reference rate may be:

- a publicly available financial indicator, like the Singapore Interbank Offered Rate[4] (SIBOR), Singapore Swap Offer Rate[5] (SOR) or the interest rate paid by the CPF Board on CPF Ordinary Accounts or the bank's internal deposit rates; or
- determined by factors set by the bank (e.g. internal board rate)

See Section 4a for further information.

The spread may be:

- A discount from the reference rate; or
- A premium on the reference rate

Your bank may vary the spread after the lock-in period (if any) depending on the terms and conditions of your housing loan agreement.

Often, the interest rate for the first few years is lower than the subsequent interest rate. This lower interest rate can be considered a promotional rate, with a discount or lower premium on the reference rate in the first few years of the housing loan.

[4] *SIBOR is the rate at which banks borrow from one another.*

[5] *SOR is SIBOR plus lending costs incurred by banks.*

Examples: Table 1

Floating Rate Housing Loans	First year interest rate	Second year interest rate	Third year interest rate	Fourth year interest rate
Package 1: With discount on the reference rate	Reference Rate minus 3%	Reference Rate minus 2%	Reference Rate minus 1%	Reference Rate
Package 2: With premium on the reference rate	Reference Rate plus 0.25%	Reference Rate plus 0.5%	Reference Rate plus 0.75%	Reference Rate plus 1%

The spread (i.e. discounts or premiums) and reference rate may be subject to change under certain circumstances. Banks are required to clearly disclose the specific circumstances under which i) the type of reference rate or ii) spread or iii) both the spread and type of reference rate may be changed. Refer to Section 4a for factors that affect the reference rate for your housing loan.

Refer to the Residential Property Loan Fact Sheet provided during the housing loan application process for details of the interest rates applicable, the lock-in period (if any), and whether the bank can vary the type of reference rate (e.g. 3-month SIBOR, 6-month SOR, internal board rate) or spread or both, under certain circumstances.

3c. When will the bank start charging interest on a housing loan?

A bank will start charging interest only from the date the housing loan is first disbursed. They will not charge interest from any other dates (e.g. housing loan agreement date). Your bank will let you know when the housing loan is disbursed as well as the monthly repayment instalment to make or the interest you have to pay.

REFERENCE RATES

4a. What factors can affect the reference rate for my housing loan? How often can the bank change the reference rate during the loan tenure? Is the reference rate specific to this housing loan? How much notice must the bank give me before a change in interest rate can take effect?

Reference rates differ from bank to bank. Within one bank, reference rates may differ from one housing loan package to another.

All reference rates will vary. Generally, there are 2 types of reference rates:

The reference rate may be:

- a publicly available financial indicator, like the Singapore Interbank Offered Rate (SIBOR), Singapore Swap Offer Rate (SOR) or the interest rate paid by the CPF Board on CPF Ordinary Accounts or the bank's internal deposit rates; or

- determined by factors set by the bank (e.g. internal board rate)

1) Reference rate benchmarked against publicly available financial indicators:

   The publicly available financial indicators adopted as the reference rates are usually not determined by any individual bank. For example, SIBOR and SOR reflect economic conditions, rather than the actions of a single bank.

2) Reference rate determined by factors set by the bank (usually termed as internal board rate):

   A bank may determine its own reference rate for its housing loans, taking into consideration factors such as:

   - prevailing market conditions which impact the bank's business and funding costs at the time the housing loan is taken

   - specific details like:

     - interest rate structure (e.g. fixed or variable rate)

     - loan tenure

     - type of property

     - property development status (e.g. whether completed or under construction)

     - percentage of financing required

The bank can change i) the type of reference rate or ii) spread or iii) both the spread and type of reference rate under certain circumstances. Banks are required to clearly disclose the specific circumstances under which the type of reference rate or spread or both may be changed in the Residential Property Loan Fact Sheet.

Under the Code of Consumer Banking Practice, banks are required to inform you in advance (usually 30 days) before any change in the reference rate or spread can take effect. However, for housing loans where the dates for fixing of the interest rate have been predetermined and mutually agreed between the bank and the customer, e.g. housing loans benchmarked against a reference rate like SIBOR, the notice period for any rate change does not apply. Banks should nevertheless explain the reason(s) for the change in rates.

4b. What are the other key interest rate features that I should take note of? Are they subject to change?

Some housing loan packages are more complex than they appear at first glance. Here are some examples:

- One portion of the loan carries a fixed interest rate while the other portion has a variable rate

- Loans with offsets: the interest earned on a deposit account with the bank goes towards offsetting the interest payable on the loan

Read a bank's marketing brochure, terms and conditions and the Residential Property Loan Fact Sheet to understand how the special features apply. These features may be subject to change which will cancel or reduce the apparent attractiveness of the housing loan as packaged and marketed.

Ask if the bank has the right to change these features and the options available if you do not want the proposed changes.

EFFECTIVE INTEREST RATE

5. What is the Effective Interest Rate (EIR[6]) for the entire loan tenure?

The EIR reflects the cost of interest expressed on an annual basis that you have to bear throughout the loan tenure. The lower the EIR, the lower the interest cost over the housing loan tenure.

The EIR may be higher than advertised rate for the housing loan.

For instance, you take out a $500,000 30-year housing loan with the following interest rate schedule (assuming the current reference rate is 5% per annum (p.a.)):

Interest Rates	
Year 1	Reference Rate minus 3% = 2% p.a.
Year 2	Reference Rate minus 2% = 3% p.a.
Year 3	Reference Rate minus 1% = 4% p.a.
Year 4 onwards	Reference Rate = 5% p.a.

6 In financial terms, the EIR is the internal rate of return computed based on the loan disbursement(s) and monthly repayment instalments over the entire tenure of the loan.

Assuming interest is computed on a monthly-reducing basis and that there is no change in the reference rate, the EIR over the 30 years is 4.62% p.a. If there are no changes made to the housing loan or to the reference rate, you would be effectively paying an interest charge of 4.62% p.a. over 30 years.

The EIR serves as a common denominator allowing you to compare housing loan packages of different interest rates and tenures. When studying different housing loan packages, it is useful to compare both:

(a) interest in the initial years when promotional rates (i.e. usually discounts on reference rates) are charged by the bank or when the interest rate is fixed.

(b) the EIR which reflects the interest cost throughout the housing loan tenure. You can ask the bank for the EIR of your housing loan.

6. Points to note about EIR:

- EIR is computed based on prevailing interest rates, loan disbursement(s), and monthly repayment instalments over the entire tenure of the housing loan
- It will be revised if there are changes to your housing loan, including changes in applicable interest rates. Ask the bank for an updated EIR for the remaining tenure of your housing loan when there are changes to your housing loan
- It cannot be ascertained for a property under construction where the timing of the housing loan drawdowns has not been determined
- EIR can also be expressed for the lock-in period only because you may have the flexibility to change the pricing package after the lock-in period

REPAYMENTS

7. Under the instalment plan for the property loan, what does it mean if interest is computed on a monthly-reducing basis?

Repayment of a housing loan is usually made in monthly repayment instalments. Each instalment consists of two parts: i) principal repayment and ii) interest payment.

The instalment depends on:

- loan principal
- loan tenure
- interest rate
- how interest is computed

The common method of interest computation is on the monthly-reducing basis. This means:

- The principal outstanding is reduced by the principal amount repaid every month
- The interest for the following month is computed on the reduced principal outstanding at the start of each month
- The interest rate charged for the month is the actual cost of using the housing loan in that month

8. What is the instalment payable each month or each year? How much goes into paying interest and how much into paying the principal? Can I get a loan repayment schedule for this loan?

The Residential Property Loan Fact Sheet provided by the bank during the loan application process will provide details on:

- Monthly principal and interest repayment
- Yearly principal and interest repayment
- Estimated total repayment (Principal + Interest) during the entire loan period
- Dollar amount you will pay for every $1 borrowed
- Increases in monthly repayment instalment if interest rates were to increase

You can also refer to the loan repayment schedule (also known as an amortisation table) for more details. Banks will provide such a schedule for the housing loans they offer in hard copy or soft copy on the bank's website.

This repayment schedule will indicate:

(a) Your monthly repayment instalments throughout the housing loan tenure. Use this to assess whether you can afford to take up the housing loan.

(b) How much of the monthly repayment instalment goes towards paying the principal and how much towards paying interest, and the total amount of interest payable for the entire housing loan tenure. The monthly repayment instalment for a housing loan with a longer tenure will be smaller than one with a shorter tenure. However, you pay more interest on a housing loan with a longer tenure or bigger principal.

(c) When the housing loan will be paid off. If you are using your CPF savings to pay your housing loan, it is prudent to pay off your loan by the CPF Withdrawal Age of 55 due to reduced CPF contribution rates after 55.

When considering different loan packages, always compare their repayment schedules. Check the total amount of interest payable during the initial years where promotional rates or fixed rates are offered, and the total interest payable over the tenure of the housing loan.

Repayment schedules:

- Are computed based on prevailing interest rates, assumed dates of loan disbursement(s), outstanding balances and loan tenure; and

- Will be revised if there are changes to your loan, including changes in applicable interest rates or loan tenure or both. Ask your bank for an updated repayment schedule whenever there are changes to your housing loan

If you wish to discuss with your bank the options for reducing the amount of interest payable or paying off the housing loan earlier, you may consider:

- Shortening the loan tenure

- Increasing your monthly repayment instalments

- Reducing the loan quantum by paying off part or all of it early

Do check if there are any charges or penalties for any of the above.

Refer to Sections 10 and 13 on what to ask on revising your monthly repayment instalments and making prepayments.

9. Will I be provided with statements of my housing loan account?

The bank will provide you with an annual statement of your housing loan, detailing transactions like:

- Interest charges

- Monthly repayment instalments paid

- Prepayments made

- Total interest paid during the year

Banks may also provide interim statements upon request, although some may charge for the service.

10. Can I change the monthly repayment instalment amount during the tenure of the housing loan? Would I need to pay any fees or charges? What are the terms and conditions?

Some housing loans offer you the flexibility to change the monthly repayment instalment amount during the loan tenure. However, do not be attracted by a loan package merely because of repayment flexibility. Ask your bank:

- if there are any fees or charges for making a change
- the minimum notice period needed before a change can be effected
- the minimum repayment amount acceptable

Although these facts are usually set out in the housing loan agreement, it is best to find out beforehand.

11a. Will I need to declare the discount, rebate or any other benefit offered by the developer or any other party?

You must declare all discounts, rebates or any other benefits that you receive from the developer or any other party that has the effect of reducing the purchase price of a property, regardless of when you receive the discount, rebate or any other benefit. Examples are furniture vouchers and the payment of stamp duties by the developers on your behalf.

11b. What benefits does this loan provide? Must I repay these benefits if I pay off my loan earlier or refinance it?

The housing loan may come with other benefits like:

- Legal fee subsidy
- Valuation fee subsidy
- Free fire insurance for a limited period

However, if these benefits are given as part of a housing loan package, a bank is required to deduct such benefits mentioned above from the purchase price before computing the loan amount that you qualify for.

It is worth noting, however, that you may have to repay all or some of these benefits if you repay the entire housing loan before the period stated in the bank's terms and conditions. Read the loan terms and conditions carefully to understand how this works for the loan you are considering.

11c. Will I be better off if I use the services of the law firm or insurance company recommended by the bank, even if no subsidy is offered?

Generally, you may benefit from economies of scale and pay lower charges if you use the lawyer or insurer recommended by the lending bank. You may wish to compare fees or premiums charged by other law firms or insurance companies before making a decision.

You may seek approval from your bank to use a lawyer who is not on the bank's panel and note that the legal fees may be higher. Most banks charge an administration fee for insurance taken from an insurance company other than the one recommended by your bank.

INSURANCE ON MORTGAGED PROPERTY

12a. When I take up a housing loan, what are my obligations as a borrower in the event of damage to my mortgaged property?

When your property is mortgaged to the bank as collateral for the housing loan, you are obligated to repair/reinstate the property if the property is damaged, while continuing to pay monthly repayment instalments to the bank.

If the property is an MCST-registered property, you may be required to take up a Mortgagee Interest Policy. If the property is not an MCST-registered property, the bank may require you to include a Mortgagee Clause in your existing fire insurance policy to protect its financial interest in the mortgaged property.

12b. What is a Mortgagee Interest Policy (MIP)?

The MIP protects a bank's financial interest. Some banks may require you to take up a MIP if your private apartment or condominium is mortgaged to them. The MIP covers the outstanding property loan amount and allows the bank to claim for repayment of the outstanding amount, in the event of damage to the property due to an insured event (such as a fire) and the bank has concerns over your repayment ability.

You remain liable for the outstanding amount. Where there is a claim by the bank for full repayment of the outstanding amount, you will need to repay this amount to the insurer. Where the bank claims for partial repayment of the outstanding amount, you will need to repay the insurer for the amount claimed by the bank, as well as to the bank for the remaining outstanding loan amount.

Please note that the bank does not restrict your choice of MIP provider, and any additional insurance coverage offered together with the MIP is optional.

There are banks which do not require MIP. You should ask your bank for further information.

12c. What is the difference between the MCST fire insurance policy and a MIP?

Your Management Corporation (MC) will take up a fire insurance policy to cover the private apartment or condominium estate. Your private apartment or condominium unit will be covered under this policy, commonly referred to as the MCST fire insurance policy. The MCST fire insurance policy is required under the Building Maintenance and Strata Management Act for all private apartments or condominiums. If a private apartment or a condominium unit is damaged by fire, the property's MC will make a claim on the MCST fire insurance policy and use the insurance proceeds to repair the property. The MCST fire insurance policy does not cover the improvements or renovations made to your unit and contents within your unit.

The MIP serves a different purpose to protect a bank's financial interest. It protects the outstanding property loan amount and allows the bank to claim for the repayment of the outstanding amount, in event of damage to the property due to an insured event (such as fire) and the bank has concerns over your repayment ability. Depending on the terms of the policy, the insurer may pay the outstanding property loan amount to the bank. The borrower will then be required to pay that amount to the insurer.

Hence, there is no double coverage.

12d. Why do I have to take up a MIP?

Some banks may require you to take up a MIP if your private apartment or condominium is mortgaged to them. However, there may be banks that do not require you to take up a MIP.

In addition, any other insurance coverage offered together with the MIP is optional. You are encouraged to compare across different banks and take up a housing loan package that best suits your needs.

12e. Can I take up a MIP with any insurance company of my choice?

Yes, subject to the approval of your lending bank. An annual administrative fee may be levied. This is largely due to the insurance renewal request being manually processed.

Please also note that if changes are subsequently made to your housing loan that impact the principal amount outstanding or loan tenure, you may wish to similarly adjust your insurance coverage to reflect those changes.

PREPAYMENTS

13. How long is the lock-in period and what is the prepayment fee? How much notice must I give the bank if I want to pay off part or the entire loan early?

    You may want to make lump sum payments (or prepayments) during the tenure of the housing loan. You must inform the bank in advance before you make such payment.

    Banks may impose penalties or fees when you:

    - Make a prepayment without giving advance notice
    - Settle the outstanding loan in full before the expiry of certain period commonly known as the "lock-in period" or "prepayment period"
    - Make a prepayment during the lock-in period which results in the outstanding principal falling below a stipulated minimum balance
    - Make a prepayment as per penalty terms stated in the housing loan agreement

    Check the terms and conditions of the housing loan or check with the bank about its prepayment rules:

    - Before taking a loan
    - Whenever you wish to make a prepayment if you already have a loan

    It is worthwhile to note that banks typically require a minimum prepayment amount with each partial prepayment request, generally starting from $10,000 and in multiples of $1,000.

FEES AND CHARGES

14. What are the fees and charges applicable to a housing loan?

    Fees and charges may be levied for:

    - Processing the housing loan application
    - Not taking the housing loan after accepting the loan offer
    - Late payment
    - Changing the loan tenure

- Re-financing your housing loan with the same bank or a different bank during the lock-in period
- Prepaying a portion or the full housing loan during the lock-in period or without giving adequate advance notice
- Restructuring the housing loan

Ask the bank for a schedule of fees and charges applicable to the housing loan you are interested in.

DOCUMENTATION & TERMS AND CONDITIONS

15. What loan documentation will I be provided with?

Loan documents provided by the bank include:

- The Residential Property Loan Fact Sheet
- The letter of offer or housing loan agreement
- Terms and conditions governing the housing loan
- Other documents such as declarations on subsidies and other declarations, schedule of fees and charges

Do’s and don’ts concerning loan documents:

- To avoid misunderstanding, only rely on written documentation. Obtain written documentation where possible
- Always take note of the fine print relating to interest rates, fees, terms and conditions, as well as the benefits (e.g. legal subsidy) of the housing loan
- Review all documents before signing them
- Ask the bank staff or your lawyer to highlight critical clauses that you should take special note of
- Ask for an explanation if you are not sure how certain terms and conditions will apply

16. What are some general rights of the bank which I should take note of?

You should take note of the following:

- A bank may require you to pay all or part of the outstanding housing loan without prior notice given to or consent received from you
- A bank could cancel the housing loan without prior notice given to or consent received from you
- Your savings or deposit accounts maintained with the bank may be debited to settle the outstanding amount due under the housing loan
- If there is a "jointly and severally liable" clause in the housing loan agreement where a housing loan is taken out by two or more borrowers, when a borrower dies, disappears or is declared bankrupt before the loan is paid off, the clause enables the bank to claim the entire outstanding amount from the other borrower(s)
- A bank may take certain actions when the value of the property is less than the outstanding loan (this situation is called "negative value" or "negative equity")

Please check the loan documents for the exact terms and conditions as the loan documents may differ from bank to bank.

17. What if the loan's written terms and conditions differ from what has been discussed or provided?

Raise the matter with the bank if you discover any discrepancies.

18. What should I do if I have concerns about changes proposed by the bank to the terms and conditions of my housing loan?

Make sure you understand why the changes are being made. Talk to a bank staff if you are unsure how the change will affect you, or if you are not happy with the change. Do so before the new term or condition takes effect. If the bank agrees to any variation to its proposed changes to the terms and conditions, such variation should be put in writing.

RE-FINANCING

19. What is re-financing? What are the procedures and costs involved if I decide to re-finance the loan?

Re-financing is when you switch to a new housing loan package either with your existing bank (typically known as re-pricing) or another lender.

Review your housing loan once every few years to see if it would be more advantageous to continue with your existing pricing package, particularly so after your lock-in period. Ask your existing bank for re-pricing options, before checking with other banks. Do note that the Total Debt Servicing Ratio (TDSR) framework and the Monetary Authority of Singapore's property loan rules may apply when you re-finance your housing loan. Hence, you may need to submit specific documents to the bank.

Before re-financing, consider if you are better off:

- Sticking to your current housing loan package
- Converting to a different housing loan package with your existing bank or
- Taking up a re-financed housing loan package with a different bank

Ask your current bank whether:

- You will incur a fee for terminating your current housing loan package
- You can convert the loan to one which is more attractively priced, and charges involved
- There will be a lock-in period for the new housing loan package and if so, what is the length of the lock-in period, and charges involved

Ask the bank whose re-financing package you are considering to show how you will be better off with the re-financed package.

Compare:

- An updated repayment schedule for your current housing loan package with that of the re-financing packages you are considering and check the interest payable
- The advertised rates and Effective Interest Rate (EIR) for your current housing loan package and those of the re-financing packages you are considering

Note that the instalment amounts, interest payments and EIR will change once there are changes to the housing loan.

Before committing to a re-financed housing loan package:

- Read the terms and conditions and understand what the new package offers
- Find out the CPF Housing Withdrawal Limit applicable to you when you refinance your housing loan. Check the CPF Board website regularly for updates on the Board's rules on housing

DEFAULT

20. What happens if I default on my monthly repayment instalment for my housing loan?

If you default on your monthly repayment instalment, the bank can:

- Declare "an event of default" and recall the loan
- Charge you a higher rate of interest
- Sue you for the housing loan outstanding or initiate foreclosure (or both) to sell your property to recover the outstanding loan balance and unpaid interest. The bank can also sue you for any remaining sums unpaid if the sales proceeds from the property is insufficient to pay off the outstanding loan
- Bring bankruptcy proceedings against you

To avoid such situations, you should:

- Not commit yourself to a loan package that you cannot afford
- Contact your bank immediately for help when you face an unforeseen financial situation (e.g. sudden job loss) and find it difficult to meet your monthly repayment instalments. Do not wait until you default on your repayments

Use the information in this guide to help you ask important questions, decide on the most appropriate housing loan package, and assess your ability to keep up with monthly repayment instalments.

September 2016

GLOSSARY OF KEY TERMS RELATING TO YOUR HOUSING LOAN

Key Terms	Definition
Approval-In-Principle (AIP)	This is an approved loan amount given by a bank typically based on a borrower's declaration of income and debts. It may or may not be based on the borrower's credit report and assessment of actual affordability. Hence, it is not a binding document and may be subject to other checks in the actual application process. It is typically valid for 30 days.
CPF Withdrawal Limit & Valuation Limit	You may use your CPF savings to pay for part of the property and to service the loan. But there is a cap to the amount of CPF savings you can use if you are using bank financing. This cap is known as the CPF Withdrawal Limit and is set at a percentage of the Valuation Limit of each property.

Key Terms	Definition
	The Valuation Limit is the lower of the purchase price or valuation at the time of purchase. As an example, if the purchase price of an apartment is \$300,000 and its valuation is \$330,000, the Valuation Limit will be \$300,000. If the Withdrawal Limit is set at 120% of the Valuation Limit, the Withdrawal Limit will be \$360,000. Refer to the CPF Board's website (www.cpf.gov.sg) to find out your CPF Withdrawal limit. Once you reach the limit, you will have to pay the monthly repayment instalments fully in cash.
Income-Weighted Average Age (IWAA)	Where there is more than one borrower for the loan, a bank will compute the IWAA of all the borrowers. For example: Borrower A (age 30) earns \$7,000 per month and Borrower B (age 50) earns \$3,000 per month. IWAA = [(30 x \$7K) + (50 x \$3K)] / (\$7K + \$3K) = 36 years
Late Charge or Late Fee	This is a fee payable when the monthly repayment instalment is not received by the due date.
Loan Tenure or Repayment Period	Loan tenure is determined by a bank's credit guidelines and the Monetary Authority of SIngapore's rules.
Loan-To-Value (LTV)	This is the housing loan amount you can borrow quoted as a percentage of the current market value of the property. If the loan is to finance the purchase of residential property, the current market value or the property purchase price (less discounts, rebates or other benefits that you receive from the seller or any other party that has the effect of reducing the purchase price of a property), whichever is lower, will be applied.
Lock-In Period	Period where fees and charges may apply if you do a partial or full repayment of your housing loan, or if you re-finance with your existing bank or a different bank.
MAS Notice 632 on Residential Property Loans	This document issued by the Monetary Authority of Singapore contains rules governing credit facilities secured by residential properties in Singapore. These include rules on LTV, loan tenure, IWAA, prohibition of interest-only loans, treatment of discounts, rebates or other benefits, and the borrower-mortgagor rule, and the guarantor-mortgagor rule. This notice is available for download at www.mas.gov.sg
MAS Notice 645 on Computation of Total Debt Servicing Ratio for Property Loans	This document issued by the Monetary Authority of Singapore contains rules governing computation of affordability for credit facilities secured by properties in Singapore and overseas. The rules prescribe the computation of the Total Debt Servicing Ratio and Mortgage Servicing Ratio. This notice is available for download at www.mas.gov.sg
Mortgage or Charge	The terms "charge" and "mortgage" are often used interchangeably. A charge is a security whereby the owner of a property (mortgagor) gives the right to the bank to resort to the property for payment of the loan if the loan goes into default.

Key Terms	Definition
	A mortgage is defined as including any charge on any property for securing money or money's worth.
Mortgagee	The lending bank is typically the mortgagee.
Mortgagor	The owner of the property is typically the mortgagor. All borrowers of a housing loan are required to be mortgagors of the residential property for the following scenarios: • Housing loan for the purchase of a residential property where the OTP was granted on or after 29 June 2013; • Re-financing of a housing loan for a residential property where the OTP was granted on or after 29 June 2013; • Mortgage equity withdrawal loan applied on or after 29 June 2013; • Re-financing of a mortgage equity withdrawal loan, where the application date of the original mortgage equity withdrawal loan is on or after 29 June 2013; and • Re-financing of a mortgage equity withdrawal loan applied on or after 29 June 2013, where the borrower, mortgagor, guarantor or any other party is different from the original mortgage equity withdrawal loan.
Mortgage Equity Withdrawal Loan	A loan secured on the borrower's equity in a residential property (otherwise known as term loan). The loan may be secured by: • an unencumbered property whereby the bank grants a term loan on the property; or • a property with an existing facility whereby the bank grants an additional term loan facility on the difference between the maximum LTV based on current market value less the existing facility with the bank.
Mortgagee Interest Policy (MIP)	The MIP protects a bank's financial interest. Some banks may require you to take up a MIP if your private apartment or condominium is mortgaged to them. The MIP covers the outstanding property loan amount and allows the bank to claim for repayment of the outstanding amount, in the event of damage to the property due to an insured event (such as a fire) and the bank has concerns over your repayment ability. You remain liable for the outstanding amount. Where there is a claim by the bank for full repayment of the outstanding amount, you will need to repay this amount to the insurer. Where the bank claims for partial repayment of the outstanding amount, you will need to repay the insurer for the amount claimed by the bank, as well as to the bank for the remaining outstanding loan amount that was not claimed. You should approach your bank for further information.

Key Terms	Definition
Re-financing	Re-financing is when you switch to a new housing loan package either with your existing bank or another lender. There are rules to be observed for re-financing.
Re-pricing	Re-pricing is the switching of the interest rate package with your existing bank. It is considered a type of re-financing and hence, subject to rules on re-financing.
Residential Property Loan Fact Sheet	The Residential Property Loan Fact Sheet contains key features of the housing loan and highlights the implication of possible future increases in interest rates on your monthly repayment instalments. When you discuss with a bank about taking up a housing loan, the bank must provide you with a Residential Property Loan Fact Sheet.
Singapore Interbank Offered Rate (SIBOR)	The rate at which banks borrow from one another. The Association of Banks in Singapore publishes the SIBOR at 11 a.m. on each working day. There is a SIBOR rate for each fixed period, for example, the 3-month SIBOR is fixed once every 3 months.
Swap Offer Rate (SOR)	SOR is SIBOR plus lending costs incurred by banks according to a formula.