

Published based on [How To Select Your Singapore Property Mortgage](#).

# How To Select Your Singapore Property Mortgage

Choosing a mortgage can often be a little puzzling. There are such a lot of options to think about: fixed or floating rates, loan term, lock-in periods, subsidies, penalties and other special features. There isn't one "best" mortgage out there "it depends on your requirements and preferences.

Here are the key options you need to consider when making your decision:

### 1) Loan amount

The local banks sometimes give a loan of at least 80% of the property value for first time house purchasers, but the actual amount will rely upon their assessment of your ability to pay back the loan. They generally look at a debt servicing proportion of 35-50% as a ceiling. To calculate this ratio, they sum up your long-term liabilities (including the potential mortgage payment) and divide that by your monthly income. You can check out the cost and home loan payment calculators at Loanguru to guesstimate the maximum amount that you can borrow and your potential standard payment.

Also notice that the bank will only lend you up to 80% of the LOWER of your price or their own internal valuation. So if your price is above their valuation, you will have to top up the difference in notes. As a best practice, you should always get an indicative valuation and in-principle approval from a bank before you commit to a purchase.

### 2) Loan duration

The loan term is the duration of time that you take to utterly repay the loan. Loan terms usually range from 10 to 35 years. The longer your loan duration, the smaller the regular repayment you need to make, but the bigger the total quantity of interest you may finally pay.

Also note that your age might be a limiting factor "banks will typically cap the maximum term up to the age of 65. So if you are 50 years old, you'll only be given a loan period of at least 15 years. Young customers looking to maximize the amount they can borrow will usually choose a 35 year loan duration.

### 3) Fixed or floating rate

Fixed rates offer the borrower security and stableness as the rate doesn't change over a specific period. As IRs are currently really low, if they rise you'll be protected from upward adjustments of your monthly home loan payment. But this comes at a price "fixed rate packages usually charge higher interest than floating rate packages.

Borrowers who think that rates will fall or stay low for a substantial period of time can go for floating rate packages as they can get lower rates up front and their regular payments will fall if interest rates fall.

For floating or variable rate packages, they are often linked to either of the two major benchmark rates: Sibor and the Swap Offer Rate (SOR). These rates are mainly affected by US rates and Singapore banking system liquidity. But do not presume that they may always stay at the lows they now are at (e.g. The SIBOR is around 0.5% now) "in 2007 they were as high as 3.6%! As a guideline, you need to look at your standard payments using rates of 4% to be sure you can still service your home loan in case rates spike up.

### 4) Other special features

Some loans have an interest offset feature, where deposits at the bank can be used to negate the loan sum so you only need to pay the interest on the difference. For borrowers with large amounts of cash that they would like to keep available for other uses at a second's notice (e.g. Investing in the market) this should be a nice option.

Some banks also offer interest-only packages, usually on a case-by-case basis. For these loans, you just have to pay the interest amount for a specified period of time, and after that the loan will revert to a normal interest plus principle loan. This option may be suitable for backers who want to reduce the money outflow in the interest only period.

#### 5) Subsidies, lock-in period and penalties

Most loans come with some aid including the legal, valuation and fire insurance fees. When comparing mortgages, borrowers should check what the varied fee subsidy amounts are. For instance, there is customarily a cap of \$2,000-2,500 on the legal charge, and if your legal charges surpass those you'll have to top up the difference.

The lock-in period you should choose relies on your expectancy of when you'll sell the property and also on your view of where IRs are going. Usually the shorter the lock-in period, the bigger the interest rate. But if you repay the mortgage within the lock-in period, you typically have to pay a penalty of anywhere from 0.75% to 1.5%, which is significant. Some banks can surrender the penalty if you're selling your home (in opposition to just repaying the mortgage), so make sure you check if they will include this clause.

Here's a tip to save you money "infrequently the bank can provide you with a further discount off their advertised IRs, particularly if you've been a longstanding client. Just ask! I have known folk who've gotten a 0.05% discount "that adds up to some significant money.

If you should happen to feel engulfed by all of the different options above, you may consider engaging the services of a financial consultant, who will provide help to filter the right packages for you primarily based on your necessities. You shouldn't need to pay them any fee as they are going to get a commission from the bank if they can successfully prepare a loan for you. Cheerful mortgage shopping!

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