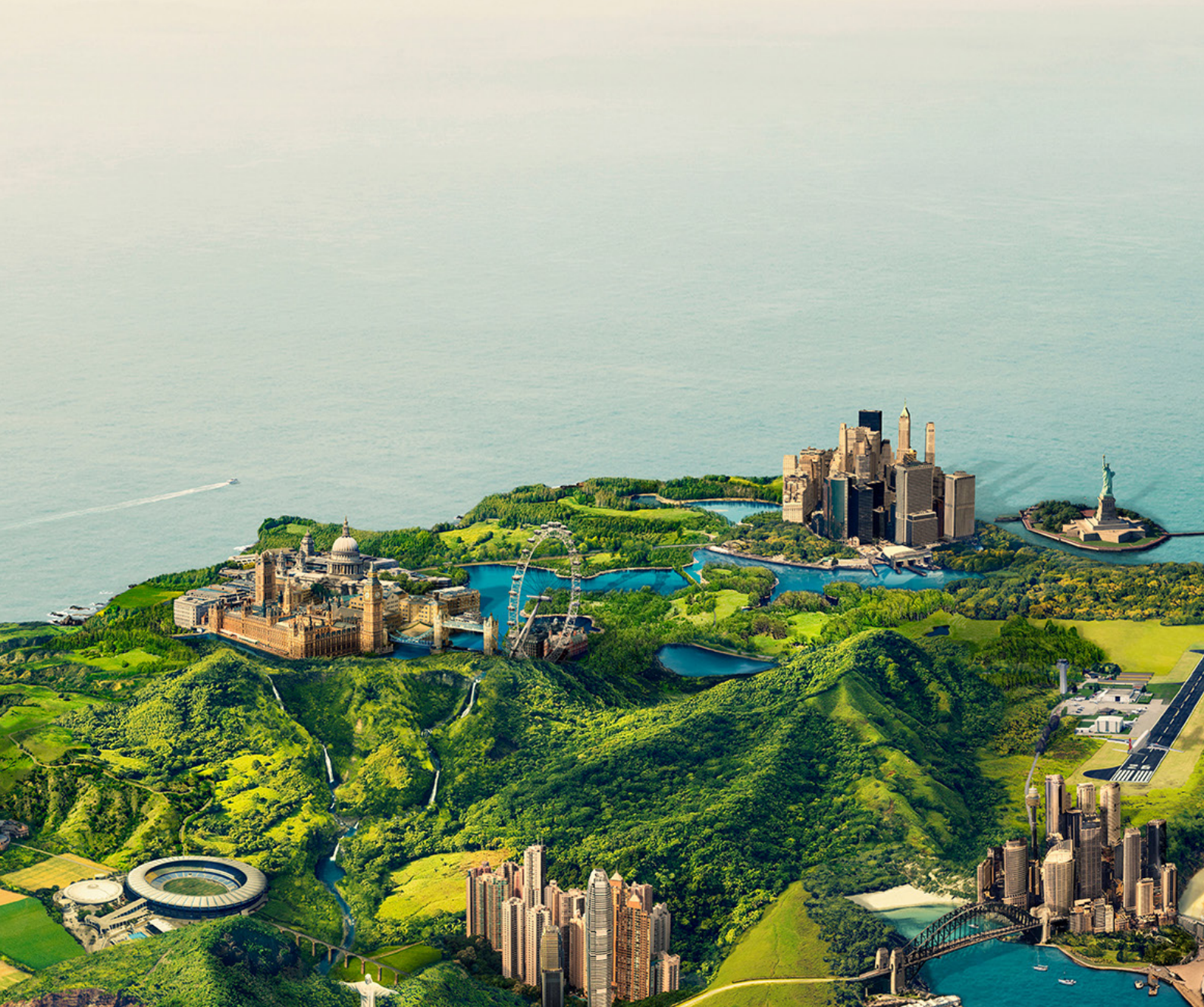
SINGAPORE

LOANS & MORTGAGES



International Property Loan

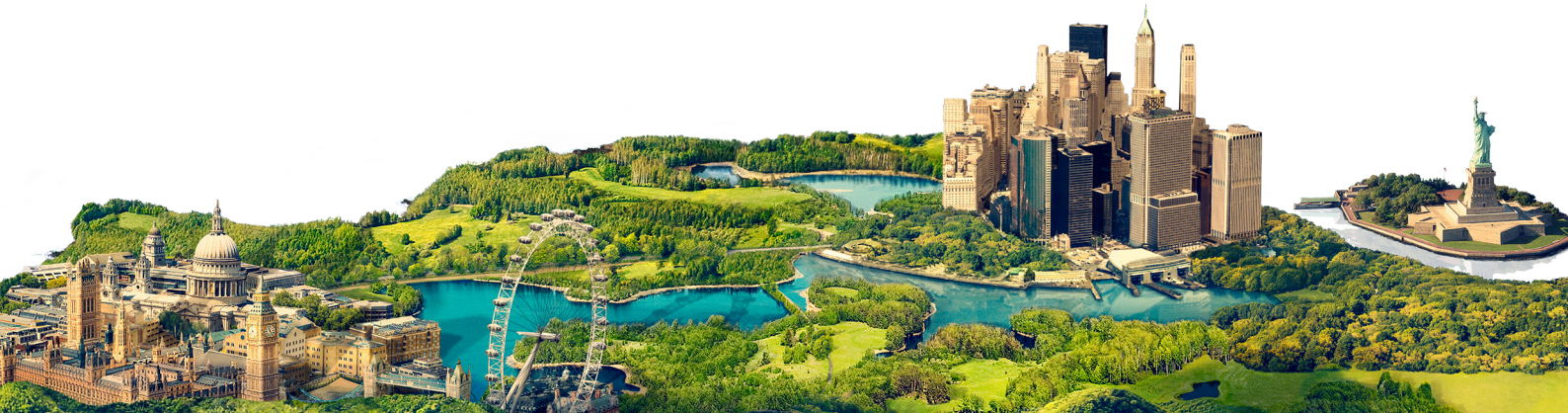
When moving to Singapore, you have the opportunity to look at taking your mortgage with you.

You may own real estate back home (e.g. in the UK, France, Australia or the US) and the interest rate and the terms of the loan on offer in your home country may not be as advantageous as a loan from a Singaporean bank, which generally have cheaper rates.

As an example, the interest rate on Australian dollar mortgages on a variable loan basis can be 1 per cent cheaper compared to a bank in Australia. Although it maybe cheaper, Singapore's mortgage market is very tightly regulated and suffers from a lack of features and benefits compared to products back home. So while you may have cheaper rates, you may not have the option to say pay on interest only terms, or have an offset account attached to your loan.

As with anything, there a pro's and con's to each scenario. Each Singapore bank has its own appetite for international property loans and this varies from market to market. For example, most banks will only lend against properties in certain cities or postcodes in each country. Or one bank may have a policy of not lending to expats however another bank will.

One thing Singapore banks can provide you is the opportunity to borrow funds in a foreign currency – if you have a mortgage on a house in say Australia, that mortgage could be refinanced and converted to a Singapore dollar loan instead of an Australian dollar loan. In most circumstances, the interest rate would be less than the equivalent Australian dollar loan.



However, a word of caution: Lower interest rates usually mean foreign currency risk if your property is in one currency and your loan is in another currency. So you would need to be comfortable that your security – your real estate – is not exposed if there is an adverse foreign exchange rate movement.

We have seen situations where expats have used a foreign currency loan to finance their property in their home country and although the interest savings are attractive they have been left out of pocket when there was an adverse currency movement.

In one particular case, the expat owed the bank more money than their house was worth.

Let's consider the following example:

Expat Moving from Australia to Singapore

Assume an expat's house is worth AUD$2m when they leave Australia bound for Singapore. Also assume they have a mortgage of AUD$1.2m on the same property.

Upon discovering that SGD interest rates are 1 per cent, the expat is keen to move their mortgage into SGD.
On the day of the refinance – the AUD$1.2m converts to SGD $1.32m assuming an exchange rate of AUD$1 = SGD$1.10. This seems fine because the Australian property is also worth SGD2.2m.

Bear in mind, though, that the expat has committed to repaying the bank in SGD the amount of SGD$1.32m.

The expat is vulnerable in this case to currency movements, which may affect the security position of the bank.

Let us assume now that the Australian dollar weakens heavily against the Singapore Dollar – such that AUD$1 = SGD$0.90.

In effect this means that the security the bank is holding is now worth SGD$1.8m, down from SGD$2.1. This happened purely due to exchange rate movements.

The bank is now in a position where they are owed SGD$1.32m but their security is only SGD1.8m. Their security position has diminished from 60 per cent Loan to Value Ratio ('LVR') (that is debt of SGD$1.32m on a property worth $2.2m) to 73 per cent LVR (that is the debt of SGD$1.32m on property now worth SGD$1.8m).

In this case the bank would be expected to ask the expat to send them additional funds to bring the Loan to Value Ratio either to 60 per cent or to a level the bank will accept. In this case the amount of SGD needed to bring the LVR down to 60 per cent would be SGD$240,000.

This would not be a pleasant experience if the expat is unprepared.

Hence beware of cheap interest rates and how you might use them to finance foreign assets such as real estate.

From our experience, what a number of expats have done is to move the mortgage and keep much of the borrowing in their home currency. They potentially use foreign currency to refinance a small portion of the debt; this is done in times of high interest rates in their home country to perhaps lessen the overall impact of higher interest rates.

It is important that you check to see that the terms and conditions of the mortgage in Singapore are comparable to those in the home country.

Other laws relating to consumer protection and enforcement of a loan against the security need to be understood as well as the roll-over and repayment terms.

However, re-mortgaging your home country property in Singapore is something that many expats have done correctly. This can offer a greater level of freedom and flexibility.

Borrowing for Property in Singapore as an Expat

So you've been in Singapore for a while, are enjoying the lifestyle and now plan to stay. You think it may be a good idea to consider buying a property rather than continue renting. While Singapore is a great place to live and work, it is also one of the world's most expensive cities, and it has this honour because property does not come cheap.

Expats (those on employment passes or S-Passes) in Singapore are able to purchase property provided they are on the list of approved property types as directed by the Singapore Land Authority. Once you've found a home that is suitable, the process for a mortgage is relatively straight forward.

First things first - what can you afford?

The amount of money you can borrow depends on many factors – your salary, the Loan-to-Value ratio, how the banks assess your capacity, and more.

There are many affordability calculators online that can help you calculate what your borrowing capacity is in Singapore.

In Singapore, the assessment of how much you can borrow is governed very strictly by the Monetary Authority of Singapore (MAS). Every bank in Singapore must follow these policies when assessing borrowers for a home loan.

TDSR, which stands for Total Debt Servicing Ratio, is a term you will hear about frequently as you go through the process. It is the framework the banks use to decide how much of your total gross income can be used towards all loan repayments (both your existing repayments such as credit cards, car loans, existing home home loans and potential new loans).

The rules state that a maximum of 60% of your total gross income can

be used for your loan repayments. So if you earn a salary of $10,000 per month, in theory you could contribute $6000 per month towards loan repayments.

Each bank may have their own nuances in assessing how much they can lend you, but in general the market in Singapore is quite homogeneous from bank to bank. It therefore often comes down to which bank or banker you feel most comfortable in dealing with, and which bank is offering the best interest rate.

How much will they lend against the property and what are the costs involved?

Most banks in Singapore can lend up to 80% of the purchase price of the property. So as a minimum you would need to have available 20% of the purchase price, plus also have money available to meet the stamp duty costs.

Stamp duty in Singapore for foreigners can be quite high as the government levies an additional 15% duty on property purchases by foreigners.

Let's take an example of a property purchase for $800,000 SGD.

The maximum the bank could lend against this property is $640,000 (being 80% of the purchase price).

The estimated stamp duty payable on a purchase of $800,000 is $138,600.

You, the buyer, would then need to have available savings of $160,000 (the 20%) plus $138,600, coming to a total of $298,600.

Please note: Expats from the United States, Switzerland, Liechtenstein, Norway and Iceland are exempt from the 15% additional stamp duty charge due to the Free Trade Agreements Singapore has with these countries.

On top of stamp duty you will also need to account for:

- Legal fees for a lawyer to negotiate your purchase contracts
- Property Tax, which is calculated as a percentage of annual value of the property
- Income Tax if you decided to rent out the property.

Interest Rates

Most banks offer three types of home loan packages: fixed, variable, and market-pegged rates.

For fixed rates, you reduce the risk of interest rate movements by locking in an interest rate for a fixed term (normally 1-5 years), however if you want to pay ahead or pay the loan out early, there will be penalties to do so. We suggest you obtain legal and/or financial advice before thinking about paying out a loan early.

Loans with variable and market-pegged rates usually allow prepayments and full loan settlement without penalty to the borrower, however the interest can change from month to month.

In Singapore, market-pegged rates are based of the benchmark interest rate which is the SIBOR. This rate is calculated daily and advertised by MAS. Your total interest rate would be the SIBOR base rate plus an agreed upon customer margin above this. For example, the SIBOR benchmark rate may be 1%, and your agreed customer margin is 1.5%, so your total interest charges are calculated on 2.5%. These rates are usually locked in every 1-3 months depending on your agreement with the bank.

What is the process?

In general, the process starts by finding a bank or broker that can help you find finance to purchase local property. Almost all local and international banks in Singapore have a mortgage division.

Most expats will start with the bank they currently have their salary deposited to but they may not always have the best deal so it is very helpful to do some research or talk to a local mortgage broker.

Once you've settled on a bank, it is wise to ask them to do a pre-approval for you. The pre-approval gives you certainty on how much you can borrow from that particular bank, and on what conditions they will lend that money to you.

For the pre-approval application, they will generally ask you for the following documents:

- Copy of your Passport and Singapore Visa (EP, SP, DP etc.);
- Your employment contract and recent payslips, as well as last 2 years Singapore tax returns (if available);
- Statements of your existing loans (car loan, credit cards, personal loans and other home loans);
- Statements of your bank accounts showing salary payments and also the savings you have to use towards the purchase the property;
- Copy of the option to purchase or Sales and Purchase Agreement (if you have already made an offer on a property)

Loan terms can be considered up to 30 years, or age 65, whichever is sooner.

Can I buy a HDB property?

HDB flats are apartments built and maintained by the Housing Development Board (HDB). They are self-contained estates and more than 80% of local Singaporeans live in a HDB flat. To buy a flat directly from HDB, you must be a Singapore citizen, or be an applicant with another Singapore citizen or Singapore permanent resident to form a family nucleus. To buy a flat from the resale market, you must be a Singapore citizen or Singapore permanent resident.

Applying for a HDB Loan

HDB provides a housing loan to eligible flat buyers at a concessionary interest rate, pegged at 0.1 per cent above the prevailing Central Provident Fund (CPF) interest rate. The CPF is the retirement savings fund of Singaporean citizens.

To qualify for a HDB loan, at least one buyer has to be a Singapore citizen, and your average gross monthly household income must not exceed SGD$10,000. A full list of eligibility criteria can be found at HDB's website.

Before applying for a HDB loan, you'll need to obtain a HDB Loan Eligibility (HLE) letter. The HLE letter includes important information such as the maximum loan amount you can borrow, the maximum amount of installment you can pay every month, and the maximum repayment period of your loan.

You can apply for a HLE letter on-line at HDB's website. You'll need the last three months of your payslips, and the latest 15 months of your CPF contribution history. Once your loan eligibility is approved, the HLE letter will be valid for six months from the date of issue.

Applying for a bank loan for a HDB purchase

Alternatively, you may wish to consider taking a housing loan from a bank. As with loans to foreigners, banks also offer fixed-rate loans, variable interest loans, and loans with interest rates pegged to the Singapore Interbank Official Rate (SIBOR).

The advantage of taking a bank loan in the current low-interest environment is that you could potentially pay less than if you took up a HDB concessionary loan.

Applying for a bank housing loan

The process for a HDB loan is almost the same as purchase a private residence. You will still need to approach the bank to secure a pre-approval, however you will need to show your eligibility to purchase a HDB flat.

Once you've decided to sign a loan package with the bank, you'll be given a Letter of Offer that states all the important information such as the loan amount, interest rate and lock-in period of the loan.

Should you buy in Singapore?

Buying property in Singapore has to be undertaken with caution and only after a number of threshold questions have been understood and you have researched the possibility carefully.

A key consideration is that if you have to leave Singapore sooner than you intended, it may not be an opportune time to sell your real estate. The property may have been suitable for you to live in, but it may not be good as a rental property.

Holding it and managing it from your home country may also be difficult, and finally the tax consequences in your home country from deriving rental income in Singapore may make it less attractive to hold the property.

In one case we had an expat client who owned 'landed property' in Singapore. Essentially this means real estate upon which sits a freestanding house. The expat client was requested by their employer to leave Singapore and take up an assignment in another country. Given the particular requirements of Singapore, the expat client was under a legal requirement to sell their property.

This obligation could have caused them significant tax exposure in the country that the expat client was moving to. Furthermore, as the expat client had to sell the real estate at a time not of his choosing the market for real estate was depressed.

In this case, considerable planning time was needed to mitigate tax costs of him selling the real estate and moving to the new country.

AT A GLANCE

- Consider whether Singapore banks may be able to refinance your home country loan at a better rate than in your home country.
- Carefully examine the risks of borrowing funds in a foreign currency.
- Consult with real estate specialists, valuers and lawyers before buying real estate in Singapore as the dynamics of the property market may not be the same as your home market.
- Consider that the level of taxation with respect to holding real estate may be higher or lower than your home country.
- Do not buy real estate without considering what would happen if you had to leave Singapore sooner than you intended.
- Mortgage terms and conditions may not be the same as those in your home country.
- First extensively research taking out loans and buying new real estate in Singapore.
- Make sure you receive proper legal advice about which property you are eligible to purchase in Singapore
- Don't forget to check whether you can obtain mortgage insurance to protect you in case you are unable to pay your mortgage.

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