TIPS

Reconsider if you have resources to afford the home you have in mind if:

✔ the monthly instalment of the loan you are considering exceeds the maximum monthly loan instalment computed in Worksheet 2;

✔ you do not have resources to fund the down payment; or

✔ CPF online calculations indicate that you will reach the CPF Withdrawal Limit sooner than you desire.

Note that the more you set aside for funding your home, the less you would have for other purposes such as providing for insurance protection, your children's education and your retirement. Be prudent and buy a home that is within your means

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MoneySENSE Worksheet on Buying a Home & Taking a Home Loan

Produced by:

An initiative of:

Introduction

For most Singaporeans, buying a home is probably the biggest financial commitment we will ever make. This MoneySENSE guide takes you through areas that you should consider when buying a home, and includes a worksheet to help you assess affordability before buying a home.

1) Determine What You Can Afford

Before buying a home, determine your budget to ascertain the type of property you can afford. Your budget will be influenced by your available resources to fund the upfront costs as well as your ability to pay ongoing mortgage instalments and expenses.

- **Available Resources**

Your available resources may include:

- Your cash savings,
- Your CPF Ordinary Account savings, and
- Sales proceeds (net of outstanding loan) from your current home if you are selling it to help pay for the new home.

- **Upfront Costs**

The upfront costs of buying a home include:

- The down payment which is typically 10% of the property's value,
- Stamp duty[1], legal fees[2], transfer fees and other related costs in connection with the purchase
- Housing agent commission and fees (if you use their services), and
- The extent of renovation and furnishing required.

You can use your CPF Ordinary Account savings for 5% of the down payment, stamp duty, legal fees, transfer fees and other related costs incurred in connection with the purchase.

[1] Stamp duty is a government tax. It is payable by a buyer who buys a property in Singapore. The stamp duty payable is calculated on a scale: 1% on the first $180,000; 2% on the next $180,000 and 3% thereafter.

[2] Legal fees could range between 1% and 1.5% of the property purchase price.

- **Ongoing expenses**

Before you take up a home loan or mortgage, consider your ability to repay the monthly instalments. As a general guide, your total monthly long term debt payments should be less than 35% of your gross monthly income.

Besides the monthly mortgage payments, take note of other regular expenses that you will incur after buying a home. These include payments for property tax, fire insurance, mortgage insurance, conservancy or maintenance fees. These payments cannot be paid with your CPF savings.

✍ **Things to note when using CPF for housing**

CPF Withdrawal Limit and Valuation Limit

There is a cap to the amount of CPF savings you can use if you are buying a private property or an HDB flat with a bank loan, or refinancing your HDB loan with a bank. This cap is known as the CPF Withdrawal Limit.

The CPF Withdrawal Limit for 2006 is 132% of the Valuation Limit (VL). The VL is the lower of the purchase price or valuation at the time of purchase. The limit will be reduced by 6% every year until it reaches 120% in 2008[3].

Once you have reached the CPF Withdrawal Limit, you will not be allowed to use further CPF savings and have to pay the remaining home loan in cash.

The CPF Withdrawal Limit and VL do not apply to those who take up HDB Concessionary loans to buy new HDB flats. The CPF Withdrawal Limit also does not apply to those who take up HDB Concessionary loans to buy resale HDB flats.

When your CPF used for housing reaches the VL, you can continue to use CPF only if you have set aside the prevailing CPF Minimum Sum cash component in your Special and Ordinary Accounts. This is to ensure that CPF members have at least the Minimum Sum cash component set aside for retirement. Remember that CPF is basically for old age needs.

[3] Private properties with remaining leases of between 30 – 59 years will have lower limits; the percentage limit is derived by:

$$\frac{\textit{Remaining lease when the member is 55 years old}}{\textit{Lease at the point of purchase}} \times 100$$

☞ Here is a simple example to illustrate how the CPF Withdrawal Limit works:

If you buy a $500,000 apartment in 2006 and pay for it with an $80,000 down payment (comprising $25,000 in CPF and $55,000 in cash) and a $420,000 25-year loan.

Assuming a fixed interest rate of 3.5% p.a, at the end of 25 years the total loan amount (principal + interest) that you have paid is $630,786.

The 2006 CPF withdrawal limit of 132% means that the total amount of CPF that can be withdrawn to pay for the purchase price of the property and mortgage payment is $660,000 (or 1.32 x $500,000).

The 132% limit is thus not a concern for you as the amount paid to the bank ($630,786) plus CPF withdrawn for down payment ($25,000) is less than the maximum CPF that can be withdrawn for mortgage ($660,000).

But if you buy a $750,000 apartment and pay for it with an $80,000 down payment (comprising $25,000 in CPF and $55,000 in cash) and a $670,000 25-year loan, you would have a problem.

Assuming a fixed interest rate of 3.5% p.a, at the end of 25 years the total loan amount (principal + interest) that you have paid is $1,006,253.

You need to set aside some cash as you can only use your CPF equal to 132% of the $750,000 purchase price, which is $990,000. **This means you need to pay $41,253 [i.e. $1,006,253 (total loan amount) + $25,000 (CPF withdrawn for down payment) – $990,000] of the mortgage payment in cash.**

Lower CPF Contribution Rates for Older CPF Holders

Note that a lower percentage of your monthly CPF contributions will be allocated to the Ordinary Account as you grow older. Thus your Ordinary Account may not be sufficient to pay the monthly mortgage and you will have to pay the difference in cash.

If you are using your CPF savings for mortgage payments, it will be prudent to pay off your mortgage by the CPF withdrawal age of 55. Do not deplete your CPF for housing as this may leave you with little savings left for your retirement.

TIPS

✔ Be practical and do not stretch your budget too much. Do not rely solely on your CPF Ordinary Account savings to fund the purchase of your home as it is mainly for your retirement needs.

✔ Be proactive and find out how much you can afford before you commit to a home loan. Use the tools in the CPF website (www.cpf.gov.sg) to find out whether you may be affected by the CPF housing withdrawal limits.

2) Shop Around for a Home Loan

A home loan is a long-term commitment. Do your sums carefully before committing to a loan.

- **Obtain A Few Quotations**

Study the different loan packages and compare features like whether it is fixed or floating rate loan, the effective interest rate and advertised rates[4], subsidies for valuation fees, legal fees and fire insurance.

- **Talk To A Banker Or Financial Adviser About Your Housing Financing Needs If Necessary**

- **Ask more questions and shop around**

Do not just read the headlines. Always take note of the fine print and ask for a brochure listing the full details of the home loan. Banks have different loans, so don't take the first one available. Ask for the option that fits your financial circumstances.

- **Read the terms and conditions**

Understand how the loan works before taking it up. Find out if there are any penalties or costs (e.g. pre-payment fee for paying part or the whole loan early, cancellation fee for not taking up or drawing on the loan after accepting it.)

Banks may offer complementary credit products or credit facilities such as discounted rates on renovation loans if they are taken with home loans. Some may offer a line of credit through a credit card which comes in a package together with the home loans.

You should assess if the product is suitable and meets your needs. Take time to understand and read the terms and conditions of taking up the additional products or package.

TIPS

✔ Keep your loan term short or take a smaller loan amount to minimise the interest paid on the principal amount of the housing loan.

[4] The Effective Interest Rate (EIR) is the actual interest rate charged for using the loan facility. The advertised rate for a loan is the applied rate (AR). EIR may be higher than AR due to the way interest is calculated.

Things to note - Fixed Rate Loan versus Floating Rate Loan

The two most common types of home loans in the market are the fixed rate loan and the floating rate loan.

Fixed Rate Loan

A fixed rate mortgage requires a monthly loan payment that is the same for a fixed period. This is a good option if interest rates are low when you get a mortgage or if you want to budget with certainty over the initial few years. But do note that this fixed mortgage rate will not change if current rates fall.

Floating Rate Loan

A floating rate mortgage allows the interest rate on your loan to vary with prevailing interest rates. If rates go up, so will your mortgage rate and monthly payment. If rates go down, your mortgage rate will drop and so will your monthly payment.

A strategy worth considering may be to stick with a fixed rate loan to safeguard against raising interest rates. And if rates drop, switch to a floating rate loan to take advantage of lower rates. But before switching, do check if you will incur a charge for terminating your existing loan.

Things to note - Bigger Loans Come With More Interest Payments

With the changes in housing financing regulations in July 2005, the minimum down payment for private properties is now 10%[5] compared to 20% previously. The remaining 90% can be financed by a bank loan.

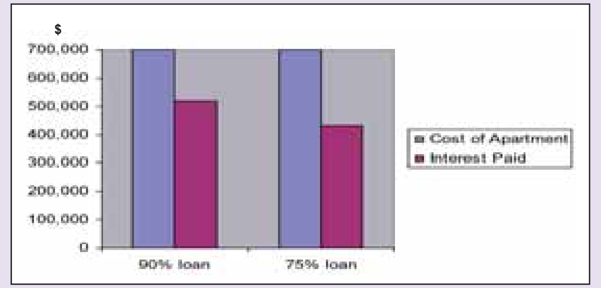
While you may opt to pay a 10% down payment instead of a 20% down payment, take note that you will need to incur more interest charges. The interest rates may also be higher for loans with lower down payments.

[5] Buyers of private property need to pay cash for the first 5% down payment and can use CPF savings to cover the other 5% (previously they needed 10% cash and 10% CPF). With effect from 1 January 2006, this 5% cash - 5% CPF ruling also applies to buyers of HDB flats financed by a bank loan (those taking the HDB concessionary loan can use their CPF in full for down payment).

Here is a simple example to compare interest charges for two loans

If you take a 90% loan ($630,000) for a $700,000 apartment, you will have paid a total of $519,162 in interest alone after 30 years (assuming a fixed interest rate of 4.5% p.a.). The interest paid is 74% of the cost of the $700,000 apartment.

If you take a 75% loan ($525,000) for the same apartment, the interest paid is reduced by $86,527 to $432,635. The interest paid is 62% of the cost of the apartment.



In taking a 90% loan, besides paying more interest and using up your CPF funds for loan payment quicker, you forfeit the opportunity of investing the $86,527 that went into paying the additional interest with the higher loan quantum.

3) Pay Your Loan Promptly and Review it Regularly

- **Pay Your Loan Promptly**

Your home loan or mortgage is a loan secured against your home. You might lose your home if you do not keep up with the mortgage payments.

So you should always pay your mortgage instalments on or before the due date. This will also help you avoid incurring late payment fees, additional interest charges and having to settle payment in arrears.

- **Early Repayment**

If you have saved a fair bit or have extra cash, it will be worthwhile to pay off part or the entire mortgage early. This will help save on the interest payment.

However, take note that the bank may not allow early settlement before a certain period. It may also impose penalty fees. Before taking a loan, check if such terms are present. If you already have a loan and wish to make early repayment, check with the bank first if there are such penalties.

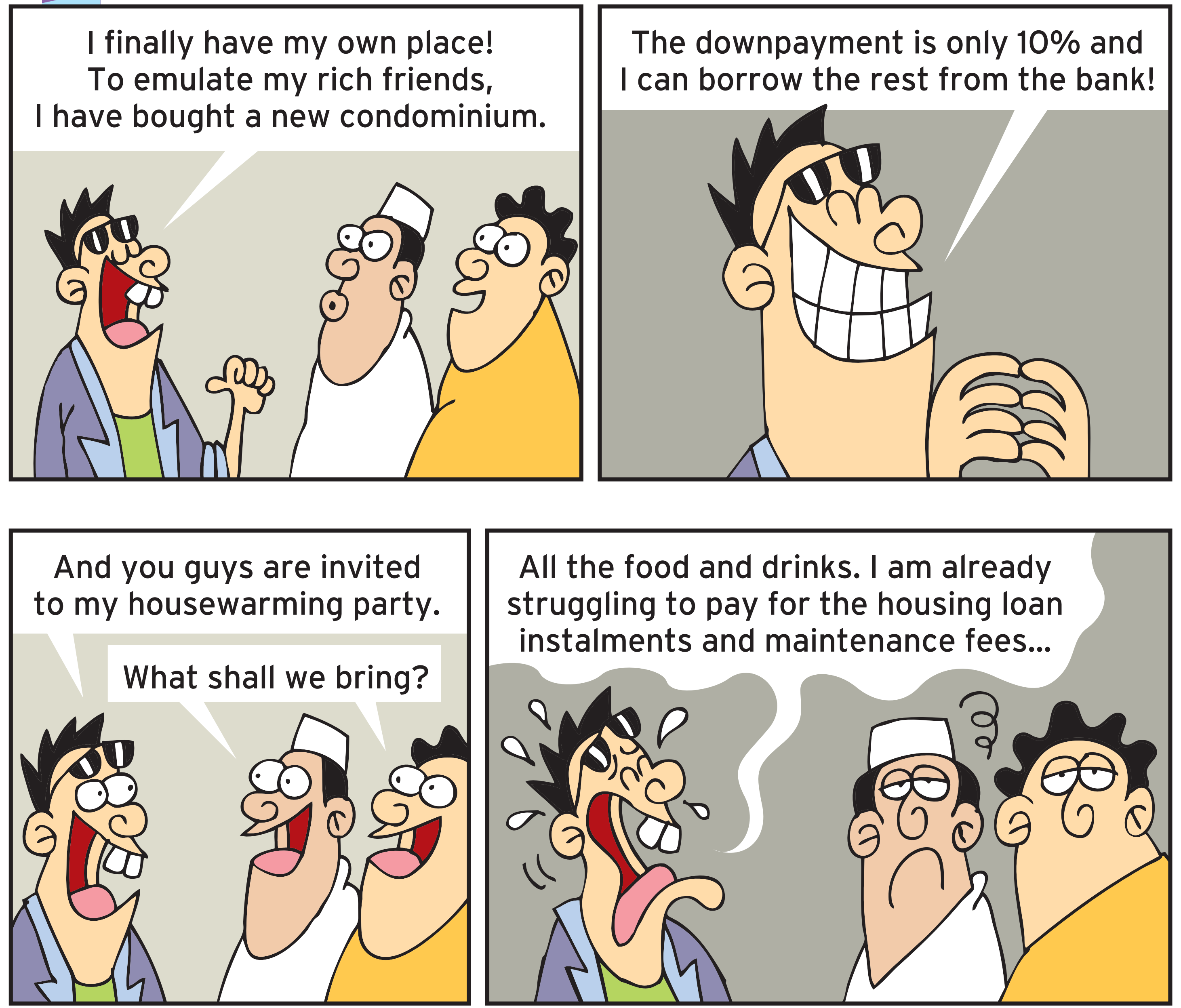
- **Refinancing**

Review your mortgage once every few years. Check if you can get a better deal by switching to a new lender (this is called refinancing). Before refinancing, check if you will incur a charge for terminating your existing loan and the new lender to show how you are better off with a refinanced loan package. Read the terms and conditions and understand the loan package before committing to it.

Note that you may be subject to a CPF Withdrawal Limit which corresponds to the date at which your loan is refinanced. This could limit your flexibility to use your CPF savings to finance the loan.

TIPS

- ✔ Aim to pay off your home loan by age 55.
- ✔ As a guide, your monthly long term debt commitments should not exceed 35% of your monthly income.



TIP: Don't try to keep up with others. Live within your means. Buy a home that you can afford.

Worksheets to Estimate Affordability

It is important to examine your financial resources first to determine what type and size of home you can afford. Use the simple worksheets below to estimate your affordability before committing to a new home. Use the worksheets below for a quick analysis. For a more thorough analysis of how much CPF funds you can use for housing and when you can expect to reach the CPF limits, use the online calculators in the CPF website (www.cpf.gov.sg).

Worksheet 1: To estimate how much loan you need to take

Cost of Property	$
Purchase price of home you are considering	
Legal fees	
Stamp duty	
Transfer fees or survey fees	
Housing agent commissions (if applicable)	
Renovation and furnishing costs	
TOTAL UP FRONT COST (A)	

Available Resources	$
Cash and savings	
Available CPF savings for housing	
Sales proceeds (net of outstanding loan) if you are selling your current home	
CURRENT RESOURCES (B)	

NET BALANCE (A) – (B)	

The Net Balance (A) – (B) is likely to be funded by a home loan or mortgage. Find out how much your monthly instalments would be if you take up a loan. Assess if this is a comfortable amount you can afford. Use Worksheet 2 below to compute.

Worksheet 2: To estimate the maximum monthly loan instalment

As a guide, your total monthly long term debt payments should not exceed 35% of your gross income. For example, if you have a $4,000 monthly gross income, your total regular monthly debt payment (including a mortgage payment) should not exceed $1,400 ($4,000 x 0.35).

Gross monthly income **(C)**	$ ____________
Qualifying Percentage **(D)**	X 0.35
Maximum monthly home loan and other debt payments **(E = C x D)**	= $ ____________
Less: Current monthly long term debt payments (e.g. car loan payments) **(F)**	$ ____________
Maximum monthly home loan instalment **(E) - (F)**	$ ____________