DECEMBER 2019

RTD

REALISING THY DREAMS. SOARING AS ONE

E-BOOK 11

MAXIMIZING YOUR FINANCIAL LIMIT

HOME LOAN ELIGIBILITY

Raj and Sue are a married couple who are planning their first residential property in Singapore, and they're exploring all their options. They want to know how much loan they qualify for if they were to buy an HDB, EC, or a private condo.

KEY FACTORS

MAXIMUM LOAN ELIGIBILITY

- **AGE**
  - of all applicants
  - determines your maximum loan tenure
- **INCOME & EXPENDITURE**
  - gross income
  - monthly debt obligations
- **PROPERTY TYPE**
  - HDB
  - executive condominium
  - private condominium

QUALIFYING FOR A HOME LOAN

Get an Approval in-Principle (AIP)

An AIP is a way to gauge how much a bank will lend you based on your income and current liabilities

Getting your AIP from a bank

1 TDSR Calculations

? What was that term?

Total Debt Servicing Ratio (TDSR)

A framework that ensures borrowers aren't overleveraged.

It calculates the percentage of your income that can go into servicing your loan. (Highest allowed is **60%**)

! 3 Restrictions used for calculating TDSR

Income Calculation

TDSR sets limits on how income is calculated.

Variable income is considered only **70%** of what it actually is.

Income-Weighted Average Age

TDSR restrictions now means you can't "game" the system by introducing a younger borrower.

Average age of borrowers is now used to weigh in on **loan tenure**.

Stress Test

Repayment must still be **less than 60%** of income even if interest rates rise to **3.5%**

? What's the difference between TDSR and MSR?

Total Debt Servicing Ratio (TDSR)

Includes **any kind of loans** including home loans

Total debt repayment cannot be more than **60%** of income

Mortgage Servicing Ratio (MSR)

Only home loans for HDBs and ECs

Total monthly repayment for property cannot be more than **30%** of income

2 Documents required

Financial Obligations

Credit card debts, commissions, loans, memberships, etc.

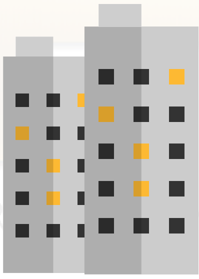
Proof of Income

If Variable — invoices, fees, collected rent, etc.

TDSR

Fixed Income ······ **Income Type** ······ **Variable Income**

60% of total income | TDSR amount | (60% of total income) x 70%

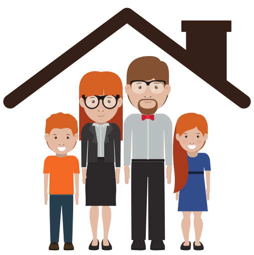


HDB/EC ······ **Property Type** ······ **Private**

Max. property monthly debt obligation as part of gross monthly income*

30% (Half TDSR due to MSR) | 60% (Full TSDR)

*MSR for variable income earners is calculated after the 70% haircut



Owner Occupied ······ **Loan Type** ······ **Investment Property**

Is TDSR applicable when refinancing?

No | Yes

HOME LOAN ELIGIBILITY

Raj,
30 years old

Gross Monthly Income
$4,000

Funds Available
CPF: $60,000
Cash: $50,000
= $110,000

Monthly Expenditure
Credit Card: $1,000
Car Loans: $1,000
= $2,000

Sue,
35 years old

Gross Monthly Income
$4,500

Funds Available
CPF: $100,000
Cash: $60,000
= $160,000

Monthly Expenditure
Credit Card: $1,000
Car Loans: $1,000
= $2,000

REALISING THE DREAMS, SOARING AS ONE

Property Type	HDB	Executive Condo	Private Condo
Max property price	S$292,967.96	S$326,619.31	S$326,619.31
Max loan amount	**S$219,725.97**	**S$244,964.48**	**S$244,964.48**
Down payment & fees	**S$80,300.99**	**S$89,386.83**	**S$89,386.83**
Down payment	S$73,241.99	S$81,654.83	S$81,654.83
Stamp duty	S$4,059.00	S$4,732.00	S$4,732.00
Misc. fees	S$3,000.00	S$3,000.00	S$3,000.00
Total cash or CPF needed	**S$77,300.99**	**S$86,386.83**	**S$86,386.83**
Min. cash amount	S$14,648.40	S$16,330.97	S$16,330.97
Additional CPF or cash amount	S$62,652.59	S$70,055.86	S$70,055.86
Loan tenure	**25 years**	**30 years**	**30 years**

MAXIMIZING YOUR LOAN ELIGIBILITY

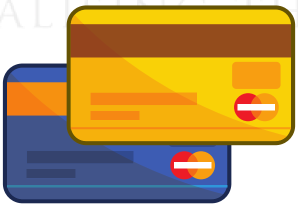
01 Start buying property when you're young

If you're younger than 35, you can qualify for the maximum loan tenure of 30 years, and will be eligible to get the most out of your home loan.

02 Get secondary sources of income

To up your gross income at least 3 months before applying for a loan. You can quit your second job after the loan has been approved.

03 Minimize your monthly debt obligations



- Minimize your credit card expenditure months before the loan application.
- If you need a car/vehicle, buy it only after you get your housing loan.
- You can take on other loans AFTER applying for your housing loan.

04 Opt to purchase a private condominium

If your income permits and you want to maximize the amount of loan you can take, private condos are not bound by MSR (Mortgage Servicing Ratio) unlike ECs and HDBs. Private condos are only bound by TSDR (Total Debt Servicing Ratio) so you have a larger amount of home loan to work around with.

CREDIT SCORE

For at least 12 months before applying for a housing loan, you should make sure your credit score is healthy.

You can obtain a credit report from Credit Bureau Singapore (CBS) that states your credit score by requesting online. Once it's ready, collect it from any SingPost branches, the Credit Bureau office at Shenton Way, CrimsonLogic Service Bureaus or at CASE. It costs $6.42 (inclusive of GST).

WHY YOU NEED A HEALTHY CREDIT SCORE

If your credit score is too low, it would be very difficult for you to secure a bank loan from many banks. And even if you're applying for an HDB concessionary loan, HDB would refer to your CBS credit report if you're not a full-time employee with regular CPF contributions. This is how they'll assess your ability to service your loan before they issue you the HDB loan eligibility letter (HLE).

Reports from the Credit Bureau show your track record in promptness of payment over a 12-month period.

You can 'erase' a bad credit history, marked by late repayments and not meeting minimum repayment sums, by making it a priority to pay your monthly credit card and loan instalments on time for the next 12 months. This will clean up the section of your credit report known as 'Account Status History'.

Other tips to improve your credit score include:

- Not applying for too many credit cards
- Cancelling cards that you don't use
- Paying off credit card bills promptly and in full
- Avoid applying for too many loans in a short period of time

HOME LOAN ELIGIBILITY

So if Raj and Sue both get supplementary income by working part-time for three months prior to applying for their home loan, they can each up their gross monthly income by $1,000.

If they were to plan ahead and not take up any other loans and use credit cards three months **prior** to getting their home loan, then this is what their home loan eligibility would look like:

Raj,
30 years old

Sue,
35 years old

Gross Monthly Income
$5,000

Funds Available
CPF: $60,000
Cash: $50,000
= $110,000

Monthly Expenditure
Credit Card: $0
Car Loans: $0
= $0

Gross Monthly Income
$5,500

Funds Available
CPF: $100,000
Cash: $60,000
= $160,000

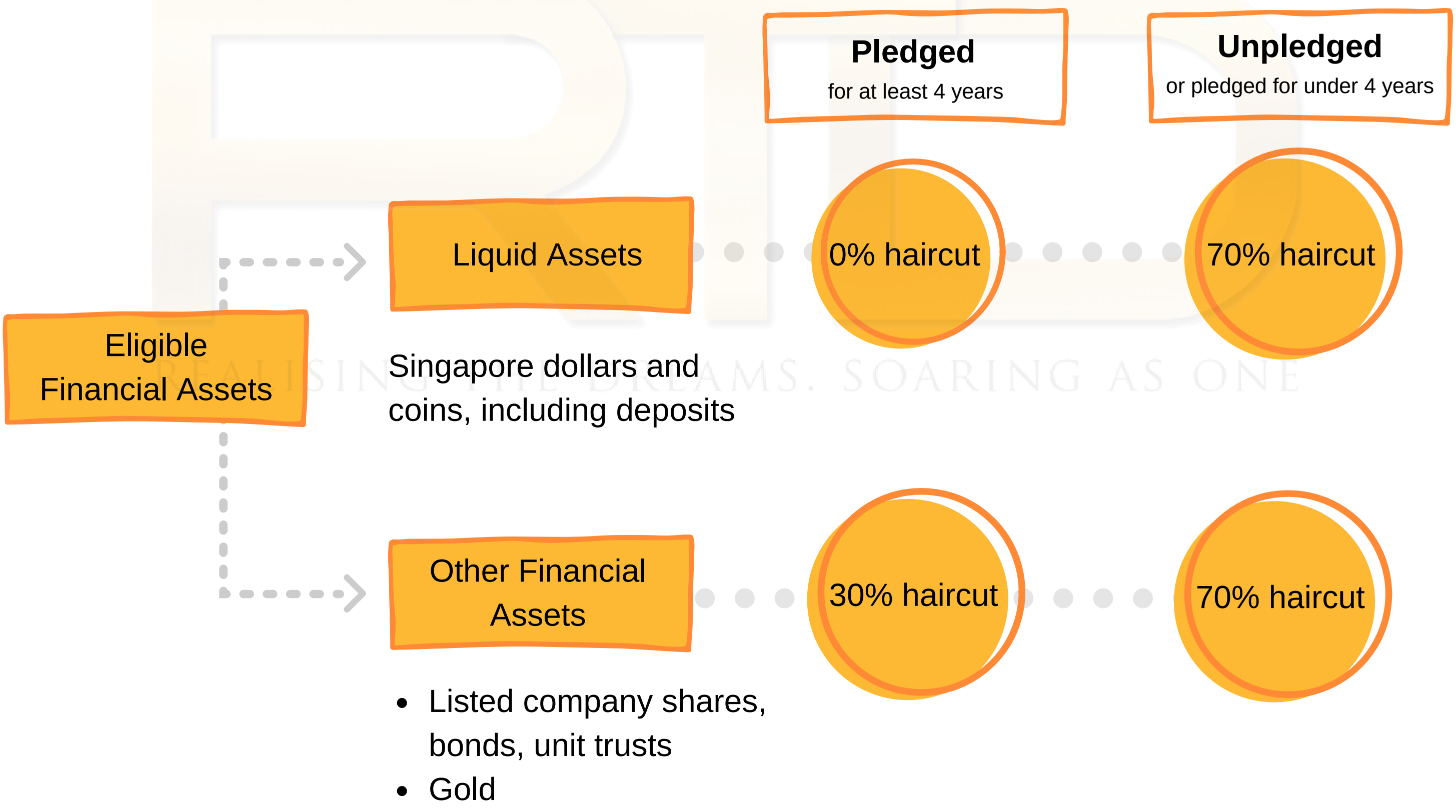
Monthly Expenditure
Credit Card: $0
Car Loans: $0
= $0

Property Type	HDB	Executive Condo	Private Condo
Max property price	S$838,953.71	S$935,318.94	S$1,870,637.87
Max loan amount	S$629,215.28	S$701,489.20	S$1,402,978.41
Down payment & fees	S$232,507.43	S$259,489.73	S$530,085.47
Down payment	S$209,738.43	S$233,829.73	S$467,659.47
Stamp duty	S$19,769.00	S$22,660.00	S$59,426.00
Misc. fees	S$3,000.00	S$3,000.00	S$3,000.00
Total cash or CPF needed	S$229,507.43	S$256,489.73	S$527,085.47
Min. cash amount	S$41,947.69	S$46,765.95	S$93,531.89
Additional CPF or cash amount	S$187,559.74	S$209,723.79	S$433,553.57
Loan tenure	25 years	30 years	30 years

PLEDGING & UNPLEDGING

Now, the Singapore government has re-iterated on more than a few occasions that TDSR, as a policy measure to rein in excessive borrowings by citizens, is structural and is here to stay for good, notwithstanding any of the cooling measures being lifted later on at a more appropriate time.

How else can you increase your financial limit with TDSR in place?



You don't necessarily have to take on supplemental jobs. You can also increase your monthly gross income with your financial assets. We'll take a look at how much you can increase this amount by, using a simple formula.

PLEDGING & UNPLEDGING

Pledged assets are cash deposits that have to be deposited in a fixed deposit with the mortgage lender for the next 48 months (usually dated from the start of your loan).

$$\text{Monthly Gross Income Derived from Assets} = \frac{\text{Asset Value}}{48}$$

So if Raj and Sue have a combined monthly income of $10,500, and they pledge $100,000 for 48 months, they will have $2083.33 added to their monthly gross income, bringing the total sum up to $12,583.33.

What if they don't want to lock down their available cash in a fixed deposit?

Unpledged assets in the form of cash do not have to be placed with the mortgage lender.

$$\text{Monthly Gross Income Derived from Assets} = \frac{\text{Asset Value}}{48} \times 30\%$$

With their combined monthly income of $10,500, Raj and Sue would rather *not* pledge $100,000 for 48 months, so for unpledged assets, they will have $624.90 added to their monthly gross income, bringing the total sum up to just $11,129.90.

If Raj and Sue have well-to-do *parents* who want to help them with an extra $500,000 they have saved in the bank, but are reluctant in locking down their cash in a fixed deposit, then they can just transfer the sum to Raj and Sue, to show the mortgage lender the funds in a presentation of the unpledged amount. After which, Raj and Sue can just return the money.

For example, $500,000 in unpledged assets can add $3,124.99 to their monthly gross income.

PLEDGING & UNPLEDGING

So if Raj and Sue have a combined monthly income of $10,500, and they have unpledged assets of $100,000 on top of $500,000 from their parents, then they would have $3,750 added to their monthly gross income, and the total sum would come up to $14,250.

Their maximum eligibility for a bank loan would be:

Property Type	HDB	Executive Condo	Private Condo
Max property price	S$838,953.71	S$935,318.94	S$1,870,637.87
Max loan amount	**S$629,215.28**	**S$701,489.20**	**S$1,402,978.41**
Down payment & fees	**S$232,507.43**	**S$259,489.73**	**S$530,085.47**
Down payment	S$209,738.43	S$233,829.73	S$467,659.47
Stamp duty	S$19,769.00	S$22,660.00	S$59,426.00
Misc. fees	S$3,000.00	S$3,000.00	S$3,000.00
Total cash or CPF needed	**S$229,507.43**	**S$256,489.73**	**S$527,085.47**
Min. cash amount	S$41,947.69	S$46,765.95	S$93,531.89
Additional CPF or cash amount	S$187,559.74	S$209,723.79	S$433,553.57
Loan tenure	**25 years**	**30 years**	**30 years**

However, **not all banks** accept asset pledging. Some banks still prefer the classic way of property financing with down payments and income. While the asset pledging approach is in line with MAS guidelines, doing so is actually more conservative.

Another consideration is the timing of when you're expected to show or pledge your assets. Almost all banks will want a show of the assets at the point of application. This will cause some discomfort for those who are selling their properties, and using the sales proceeds to pledge and purchase the next property.

Unless you can produce separate assets, application of a loan might not be approved if the funds from the sales proceeds are not with you yet - this applies to in-principle approval too. Pledging will take place during the acceptance of the loan.

Contact me for more personalised advice.

EQUITY LOAN

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Joyce Lim Senior Correspondent

GEARING UP

For those who wish to keep their existing home and do not have excess cash to buy another, an alternative is to "gear up" by taking out an equity term loan to invest in another property.

Such an option is only available for people who own a private property, one that has risen in value.

Consider this scenario: Your condominium is worth $750,000 and you have a mortgage of $250,000. In addition, you have saved $100,000."

You would have the option of paying down your loan with your $100,000 of savings so that you have peace of mind with your smaller outstanding loan, or to take out an equity term loan of $250,000 on your current loan. By 'cashing out' an additional $250,000, you would have $350,000 of cash to invest in another property," says Ms Wong.

She emphasises that this method is not suitable for everyone and advises getting an impartial financial assessment by a qualified third party. The homeowner would have to pay ABSD and can only borrow up to 50 per cent for the second property.

The age of the borrower is another factor to consider.

"It will be quite challenging for those in their late 40s because loan tenure will be much shorter, unless the person has a lot of CPF (Central Provident Fund) to leverage on," says Ms Wong.

Selecting a suitable mortgage that offers a combination of stability and flexibility with interest rates rising is equally important, said Mr Dennis Khoo, UOB's head of personal financial services (Singapore).

When applying for a mortgage, property buyers will also need to take note that their TDSR cannot exceed 60 per cent and Mortgage Servicing Ratio is capped at 30 per cent of their monthly income.

Mr Khoo adds: "For investors in their 20s to 40s, it is important to understand that by having a long-term investment horizon and investing as early as possible, it can help them smooth out the impact of volatility on investment holdings and manage their market risks.

"The first step for investors is always to understand their risk appetite and financial goals, then adopt an investment strategy they are comfortable with."

Source: https://www.straitstimes.com/business/invest/so-you-want-to-buy-a-second-property

EQUITY LOAN

Equity loan is a common way of borrowing a large sum of money at favourable rates by using your private home (or at least the portion you've already paid up) as collateral.

They pretty much have the same definition.

This is Mrs Lee, 58 years old.

Term loan = Home Equity loan = Equity term loan

? What was that term?

Term loan / Home Equity loan / Equity term loan

This is a type of loan where you use the equity of your property as collateral.

Mrs Lee is my long-time client who became my friend. She is semi-retired and owns a private condominium that she's been living in for over 10 years. Their children have grown up, gotten married, and are now looking to buy homes of their own. She wants to help her children out financially, but she doesn't have enough cash on hand. So quite reluctantly, they came to me to discuss how she could sell her home.

I noted that her home held significant sentimental value to them. She bought it with her late husband - it's a home their kids had grown up in. She had friends in the neighbourhood, so she was sad that she had to sell it. Instead of encouraging her to sell her home, I advised her to take on an equity loan.

REALISING THE DREAMS. SOARING AS ONE

If your property has increased in value over time, a home equity loan may be the best way to borrow some money at a low interest rate.

The value of your property is reassessed at the present day and if there's a sufficient increase in value from when it was first, you can loan a portion of that increase in value on top of your existing loan.

This can be done even if you haven't fully paid off your home loan. In effect, you are borrowing from the portion of your property that is fully paid. This is known as cash out refinancing, or mortgage equity withdrawal loans.

EQUITY LOAN

In Singapore, you have to own a private property in order to be eligible for a home equity loan.

If you own an Executive Condominium

You have to wait till your 5-year Minimum Occupation Period runs out.

If you have an outstanding home loan

You can only get the home equity loan from the same bank you have taken the home loan from.

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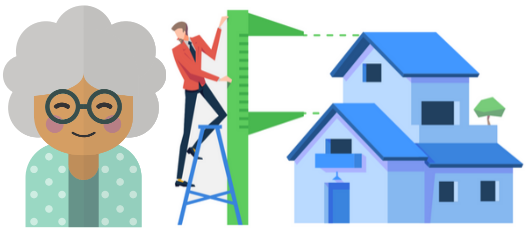
75 years – **Your Age** – **No. of years spent servicing an existing home loan** = **Loan Tenure**



Mrs Lee had the value of her property re-assessed. It now has the value of

$1.25 million

She has an outstanding home loan of

$250,000

She's also used

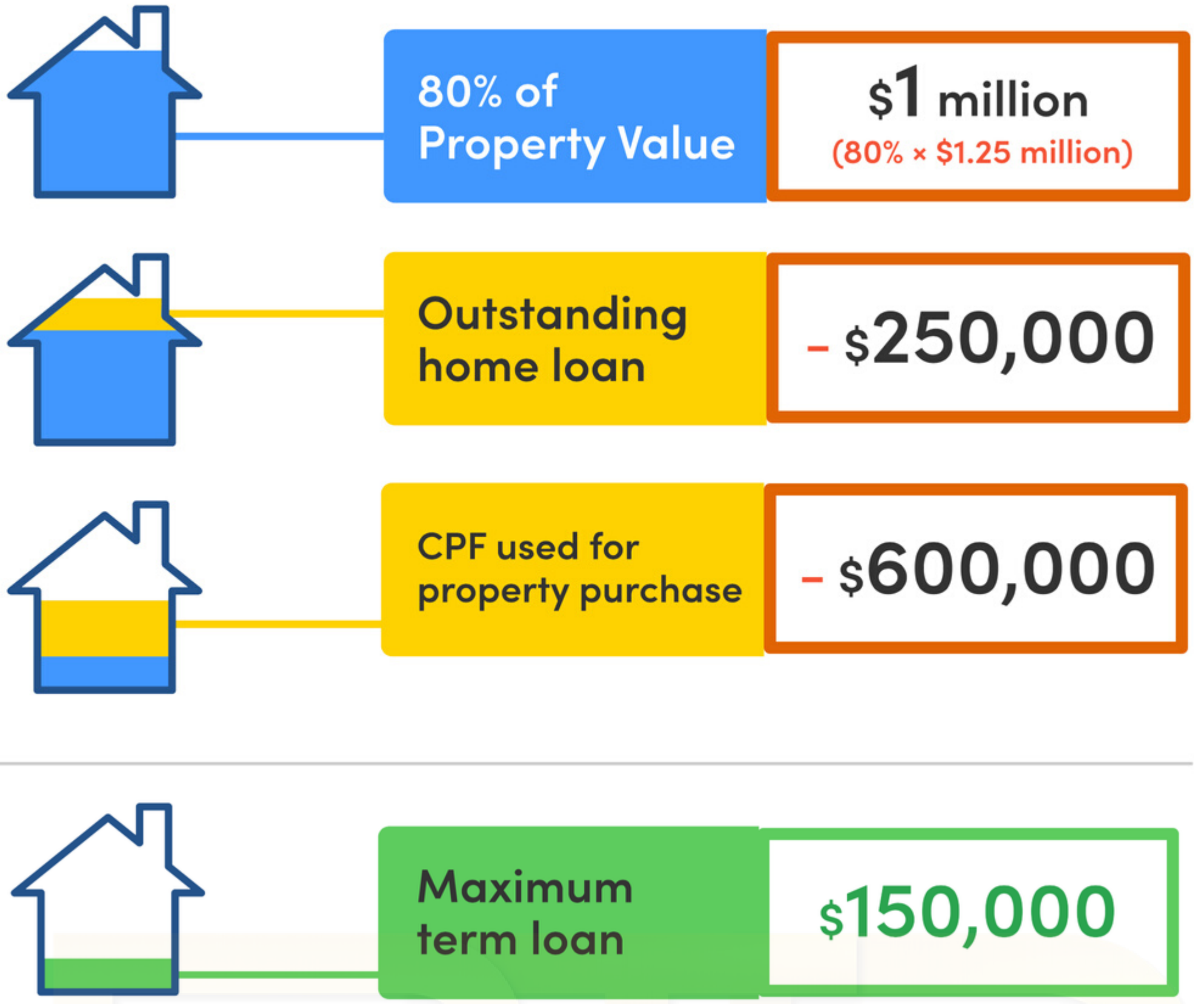
$600,000

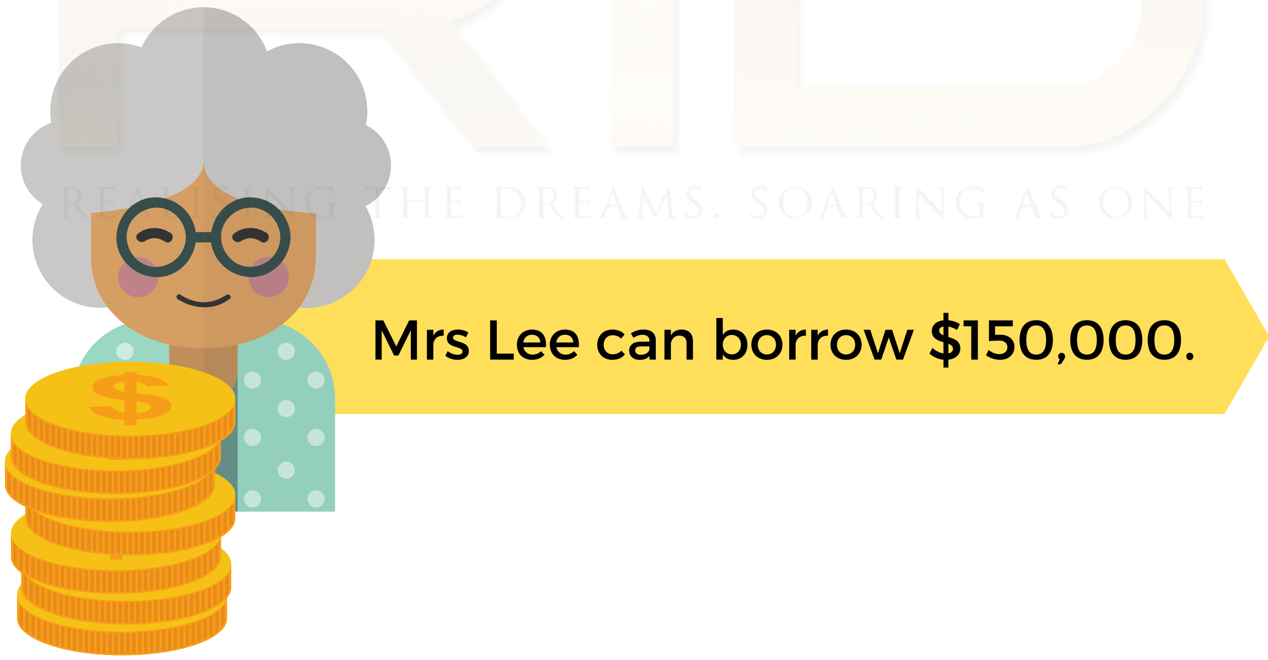
of her CPF for the purchase

of this property so far.

How much can Mrs Lee borrow?

EQUITY LOAN





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EQUITY LOAN

Low interest rates?

An equity loan allows you to borrow a very large sum of money at such a low interest rate, because the consequences of **not** repaying the loan are high – you may lose your home.

If you miss repayments, the bank may initiate foreclosure, meaning they have the right to seize your property and sell it in an auction to recover their losses.

For these reasons, taking on an equity loan should be treated very seriously.

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Some things to note:

1 High upfront costs

The process of property valuation could cost you

$2,000 to $3,000

This is a compulsory step in the process of getting a home equity loan.

2 Home equity loans in Singapore take a while to process

It takes about 2 months to approve;

4 months if you have a home loan with the bank.

3 You cannot use your CPF to pay off the loan

Your cashflow will be affected — make sure you set aside enough funds to pay off the loan.

4 Your home is being used as collateral!

You may lose your home if you don't pay off the loan on time.

If you default on your equity loan repayments, the bank will have the right to seize your property.

Contact me for a detailed calculation of your financial needs.

TENANCY-IN-COMMON INVESTMENT

Single with insufficient funds?

One potential strategy is to jointly invest with another single friend.

You can combine your cash and Central Provident Fund (CPF) savings to start investing immediately, instead of waiting several years to accumulate more savings while facing the prospect of a shorter loan tenure.

The issue with co-investing is that if either party were to get married, they would not be able to apply for a Build-To-Order flat or executive condominium unit, unless they dispose of their investment property at least 30 months beforehand.

If they were to buy a private property as a matrimonial home, they would have to set aside half of the basic retirement sum ($83,000 at the time of writing) in their CPF Ordinary and Special Accounts before the excess savings can be utilised, and will not qualify for an 80 percent mortgage loan if they have an outstanding loan. They will also be liable for Additional Buyer Stamp Duty.

This strategy only works for close friends as you will need their consent to sell the property in future. Moreover, if you intend to settle down within the next three years and must dispose of the investment property, you will need to pay Seller Stamp Duty, so tread carefully.

SUMMARY

We recommend that you sell off your property within 5 years.

Which are the properties that you can see significant growth in after 5 years? Contact us for professional advice.

ANALYSIS

SUMMARY

- Maximize your home loan eligibility
- Get a healthy credit score
- Pledging assets
- Equity Loan
- Tenancy-in-common investment

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These are the few ways in which you can maximize your financial limit.

Contact me now for more information and professional advice on acquiring the best loan for your housing investment needs.

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