

"What is the best loan?"

by Paul Wee | Mar 3, 2014 | Blog |



In a recent dinner with my friends, I was sharing with them my decision to bring my mortgage experience private and work with clients directly.

Invariably, the question came: "What is the best loan?" This is a question I *always* get... but does not have a simple answer.

What does "the best" mean anyway?

Typically, when people talk about "the best", what they mean to say is the "cheapest".

When the market talks about the lowest rates, there are certain assumptions that are not typically mentioned:

- The "cheapest" rates are only the cheapest rates **NOW**; this may change tomorrow, next week, next month or thereafter. Variable interest rates are typically based on a base rate (either SIBOR or SOR) and once these rates move, their relative positions will change;
- "Cheap" rates are typically based on the 3 year average loan rates. Many banks have a "step-up" approach to rates; and these typically increase from Year 4 of the loans. When I mention this to my clients, their strategy would be to refinance in Year 4... which brings me to...
- "Refinancing Risk". One of the (potentially expensive) assumptions is that one will be able to refinance one's loan anytime the rates turn disadvantageous. However, this is not always possible when:
 - Regulatory Changes
 - A very good example would be the June 2013 introduction of the Total Debt Servicing Ratio (TDSR) which had many bank clients "stuck";
 - Fluctuation in Property Prices / Lower Valuations
 - I have seen situations in the past when clients were not able to renegotiate or move their loans when property prices fluctuate;
 - Small loans
 - When loans get too small (usually < S\$200,000), many banks do not take on such loans.

So.. what is the "best"? The best is what suits you and takes into account who you are, and how you manage your finances. Speak with us, and we will be glad to work out something that makes sense!

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About the author

Paul has been in the financial industry for more than 20 years and banking for 15 years. He has started a mortgage brokerage, helping clients think through all the issues related to their mortgages and helping them realize that different housing loans suit different people, depending on their profiles and individual financial circumstances.



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