

Fixed Interest Mortgage - Worthwhile considering?

by Paul Wee | Apr 1, 2014 | Blog | 0 comments



A recent article in the Straits Times discussed the Fixed Interest Mortgage and how its popularity has increased.

The 3-month SIBOR (Singapore Interbank Bid-Offer Rate) is at the 0.40568% level, up from the 12-month low of 0.37083%. This works to an increase of 9.3%. This does look significant, doesn't it?

Breaking down the numbers

Current vs the historical 12-month low

For our example, let us use a long term spread of 1.25% over the base rate of the 3-month SIBOR. In other words, total interest rate is now $1.25\% + 0.40568\% = 1.65568\%$.

Applying this interest rate against a S\$1 million loan over a period of 30 years, the monthly instalment works to S\$3,526.40.

What happens when we applying the 12-month interest rate low of 0.37083% to the same computation? The total interest rate works to 1.62083%. The monthly instalment? S\$3,509.48.

So the difference of this 9.3% increase in 3-month SIBOR works to a 2.1% increase in total interest rate, and a **S\$16.92 (or a less significant 0.28%)** increase in monthly instalment (See table below for a quick summary)

	Current	12-month-low (a)	Difference (b)	% increase[(c) = (b)/(a)]
3-month SIBOR	0.40568%	0.37083%	0.03485%	9.3%
Spread	1.25%	1.25%	-	-
Total Interest Rate	1.65568%	1.62083%	0.03485%	2.1%
Monthly Instalment	S\$3,526.40	S\$3,509.48	S\$16.92	0.48%

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The Fixed Interest Mortgage

The ST article also mentioned a Fixed Interest Mortgage package where the interest is pegged to a Fixed Interest Mortgage of 1.88% for a period of 3 or 5 years.

Let's see if this makes sense.

Let's continue to use the long term interest spread of 1.25% for the 3-month SIBOR package to look at the numbers.

For both the SIBOR and Fixed Interest Mortgage Rate package to "equalize", the highest level that the 3-month SIBOR can reach is 0.62% (1.88% – 1.25%). This means that the 3-month SIBOR has to increase by **52%** in order to make it "worthwhile" to move to a Fixed Interest Mortgage package.

The instalment on a 1.88% fixed interest mortgage would also work out to an immediate increase in monthly instalment to S\$3,636.48 in our example, representing a 3% increase.

Does this mean then that Fixed Interest Mortgage does not make financial sense given that it appears to be expensive?

Far from it. Just like the fact that not everyone uses the same brands (or types) of cars, computers or toothpaste, whether or not the Fixed Interest Mortgage is suitable for you is dependent on you; your attitudes, expectations of the future and personal financial objectives.

For example:

- Do YOU expect market interest rates (SIBOR) to rise? (*I don't*)
- Can you sleep at night if your interest rates are subject to change? (*I can*)
- Is it IMPORTANT for you to know exactly how much you are going to pay for your mortgage? (*For me, it's not*)
- What are your PLANS for your property? Are these plans expected to materialize in the short, medium or long term?
- Is your property OWNER-OCCUPIED or RENTED out?
- Are there any other REASONS that will affect your choice of whether to take a Fixed Interest Mortgage?

So what's next?

The questions above are a good starting point when looking at one's mortgage options. There are other steps one could (and should) take in the evaluation process:

- Use a loan calculator to understand the available mortgage options. You can use the one on the [main page](#) of wiseloans.sg;
- Work with a reliable independent mortgage professional to complete a mortgage audit, which should incorporate the questions in the section above.

Feel free to [contact](#) us if you have further questions, or if you need help to evaluate which mortgage option makes sense for you!

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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