

Lower Mortgage Interests - In ONE Simple Step!

by Paul Wee | Jun 4, 2014 | Blog | 0 comments



If the mortgage package is already enjoying very low rates, it seems there is nothing anyone can do to lower mortgage interests.

Right? Actually, this is **NOT** the case.

In terms of mortgage interest rates, the interest rates in Singapore are among the lowest in the world. The indicative 3-month **SIBOR** rate is currently at about 0.404%. Together with mark-ups of 1% to 1.25%, the mortgage rates still end up below 2%.

Even with such low rates, there are strategies to bring your mortgage interests down further, with a little ingenuity and planning.

Mortgage Interests Reduction - A Simple but Powerful Example

Name of Owner	Richard
Loan Size	S\$1,000,000
Annual Interest Rate	1.50%
Total Mortgage Interest Payable	S\$242,432.55

So, what can one do to lower the Mortgage Interests Costs?

This may seem to be rather obvious, but the one simple step I am sharing with you is this - Do regular prepayments on your mortgage!

I am sharing this simply because almost all the people I speak with do not do this.

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Partial Prepayments - An Under-Utilised Tool

Mortgage loans in Singapore have a minimum repayment amount of S\$10,000. Let us see what happens when Richard makes a repayment of S\$10,000 once every 2 years for the first 10 years; that is, he makes total repayments totalling S\$50,000 over a period of 10 years (S\$10,000 x 5 times). The Mortgage Interest would then look like this:

Total Mortgage Interest = S\$232,855.41, representing a S\$9,577.14 or 3.95% saving.

Over the life of the loan, the savings do not look very substantial. At this point, I would like to explain what typically happens when a partial repayment is made on a mortgage loan. Within the terms and conditions of the mortgage loan, there is usually a clause which explains that the remaining of the principle would be recalculated over the remaining tenure of the loan. However, most banks allow their customers to hold the monthly instalments constant.

Keep Your Monthly Mortgage Instalments Constant

In our example, when Richard makes his first partial prepayment, the instalment will reduce from S\$3,451.20 to S\$3,414.74, a S\$36.46 or 1.05% reduction. But let's see what happens if Richard were keep his instalment constant at S\$3,451.20 after each of his partial repayment,

Total Mortgage Interest would reduce to S\$221,589.65, a **S\$20,842.90 or 8.60% reduction** in total mortgage interest costs from his original loan!

These Savings Are Just The Tip Of the Iceberg

Do note that I have only assume a monthly savings of S\$417 over 24 months in order to make biannual repayments of S\$10,000. Imagine how much *more savings* on mortgage interests can be attained when:

- Monthly savings are higher;
- Partial repayments are done much more regularly;
- Opportunities for refinancing avail themselves and better mortgage interest terms are achieved;
- Partial repayments are done over the full period of the loan tenure, rather than just the first 10 years!

Come to Us; We Can Help!

This is just one of many of the analyses that we customise for our clients at wiseloans.sg.

Remember, saving on your Singapore Mortgage Loans is not just about refinancing your loan to another bank. While this may be one strategy, only a full assessment and understanding of your individual circumstances will allow a mortgage strategy to be tailored to your needs.

Please do bear in mind that different loans would have differing Terms and Conditions and your mortgage strategies may differ depending on your individual circumstances.

Go on, [contact us](#). The results might just surprise 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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