Know Your Mortgage Options!

"Change is the only constant in life"

Heraclitus (Greek Philosopher 535-475BC)

This saying continues to hold true 2,500 years after it was first uttered. And is never truer for home owners with the recent volatility in mortgage interest rates. Given that literally anything could happen over the 20 – 30 year duration of one's mortgage loan, it is vitally important to understand the various tools you can apply in your mortgage strategy.

Board Rate Packages

The board rate package is so defined as the interest rates are based on an internally defined "board rate". The rates will be measured as a certain margin or discount off the board rate such as :

Year 1 :	Board Rate +/– x%
Year 2 :	Board Rate +/– y%
Thereafter :	Board Rate +/- z%

The initial years of the packages are normally "teaser rates", which tend to be lower than the interest rates of subsequent years.

One important feature to note is that the board rates are determined internally by the respective financial institutions (FIs); there is no discernible basis of calculating the board rate. Fis can change the board rates by serving customers a minimum notice period of 30 days.

Calls for an alternative to the board rate package became stronger in 2006, when board rates were increased some 5-6 times during the year, in spite of lower interbank rates.

The market saw the introduction of the market rate rates such as SIBOR (Singapore Interbank Bid-Offer Rate) and SOR (Swap-Offer Rate).

Market Rate Packages

The SIBOR and SOR base rates are determined by ABS (The Association of Banks in Singapore) using an objective methodology, which is public information. There are different tenures for these rates, including the 1, 3, 6 and 12 month time periods.

The pricing structure is similar to that of board rate packages, although the FI's pricing would be measured only as a margin or mark-up to these rates. The interest rates would look like this :

Year 1 :	1/3/6/12 month SIBOR/SOR + x%
Year 2 :	1/3/6/12 month SIBOR/SOR + y%
Thereafter :	1/3/6/12 month SIBOR/SOR + z%

Continued Variability

Whatever the package, both the board-rate and market-based rate packages will still be subject to change over time. The main difference is the degree of For some, this variability does cause some discomfort.

Fixed Rate Loans

Fixed rate loans, like its name implies, means that the rates are fixed and do not vary. However, unlike such loans in countries such as the United Kingdom and Australia, the fixed rates are available for a period of 1-5 years. For the countries mentioned earlier, tenures for fixed rate loans can go up to 30 years.

After the initial fixed rate period, the interest rates are then quoted on a board-rate or market-based rate basis. The packages would typically look like this :

Year 1 :	x% (Fixed)
Year 2 :	y% (Fixed)
Thereafter :	1/3/6/12 month SIBOR/SOR + z% **OR** Board Rate + z%

What Is The Best Strategy?

As has been previously covered above and in another article, there is no one perfect loan. Instead, one should tailor the approach to one's person circumstances, profile and inclinations. Speak with someone truly independent such as ourselves… and as Heraclitus has stated above, needs to be reviewed periodically to truly adapt to our situation in life.