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TITLE: Home loan rates will likely climb next year, warn analysts

SINGAPORE - Analysts warn that Singapore's interest rates will likely climb in March next year, according to a Channel NewsAsia (CNA) report.

This means that loans, which currently range from one to 1.2 percent, will likely increase by as much as 0.3 percentage points by early next year. This comes even if the Singapore interbank offered rate (Sibor) component of mortgage loans remains low. The report said that refinancing loans in the country is increasing but the rising cost of funds offshore, along with banks' profitability, may force banks to increase rates.

"Banks may be forced to increase the interest margin on their housing loans. With the three-month SIBOR at 0.35 percent, even if they add in an interest margin of 0.6 percent or 0.7 percent, the total interest rate would be about one percent — and that, to a lot of banks, means that profitability is affected," said Dennis Ng, Chief Executive of HousingLoanSg.com.

However, John Lee, Head of LoanGuru.com.sg, a free online home financing service, said some banks have already increased their margin, with "one of the local banks having increased their rates twice in the past three months." In contrast, Lee noted that "there are still banks whose cost of funds are very low, so they still can bear with the current low interest rate environment and low profit margins."

"Currently, because the Swap Offered Rate (SOR) is very low, an overwhelming number of applications have been sent to SOR-pegged banks, and it has caused a slowdown in the processing time at banks — more than two weeks for processing compared to the normal two to three working days."

CNA's report noted that banks such as DBS, Maybank and UOB have stopped offering SOR-pegged loans as they turned negative earlier this year, while some foreign banks have had to deal with higher borrowing costs offshore. "It's also worth noting that the low interest rate environment will not last forever, even though it may be for the next year or two," said Tai Hui, Regional Head of Research for SE Asia at Standard Chartered Bank.

"So I think it's interesting to find an opportune time to lock in low interest rates once we start to see some degree of stabilisation and some degree of return in confidence." Analysts said a better gauge of mortgage affordability is to factor in rates of between three and four percent, an indication of where interest rates are headed next year.

Lee noted that some new to market banks are very aggressive in looking to acquire market share and have, in fact, made it with mortgage brokers and property agents support.
"Personally I don't think the majority of banks will increase interest rates anytime soon," he added.

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