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Are you nearing your CPF home limit?

If you switched from HDB loan to a bank loan, do check when your deadline is

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MOST Singaporeans with a mortgage pay it through automated Central Provident Fund (CPF) deductions.

But for more than 600 home owners, their monthly instalments are done the old-fashioned, painful way: with cash.

And it is not because that is their choice.

They have reached a little-known limit that kicks in, to do with using CPF savings for the mortgage. This limit and another two types of limits might seem mystifying - but are there to ensure one has enough for retirement, which, after all, is the ultimate purpose of those savings.

Many home owners do not realise it, but make no mistake: Most of them will one day reach any of these limits, which vary from individual to individual.

If you have no idea when your time is, you can check it out at the CPF website.

For many, the day of reckoning is a decade or two away. For others, it is lurking just around the corner.

Whichever it is, you would want to prepare way in advance for the time when you have to pay instalments with cash. Typically, for most people, it is a significant sum.

The recently enhanced CPF calculator, which works out when you'll reach the limit, is available at www.cpf.gov.sg

You do not require a password to use it.

Just key in the required information regarding your mortgage, including the amount of CPF savings that you and any co-owner of your property have used up so far.

If you do not have this information, you can retrieve it by logging into your personal account at the CPF website but, of course, that requires a password. If you do not have the so-called SingPass password, you can apply for it online at the CPF website.

Alternatively, you can apply at various government and grassroots offices, whose names and locations are provided on the CPF website.

Do not bother to find out the CPF limit, however, if yours is a new HDB home bought with a concessionary loan from the HDB, as you are not subject to the CPF housing withdrawal limits.

The limits apply if you have switched your loan to one from a bank, though.

That would be the case for HDB home owners who made the switch in the past few years when bank mortgage rates plummeted to as low as 1.2 per cent.

The HDB concessionary rate did not budge below 2.6 per cent as it was pegged at 0.1 percentage point above the interest rate payable on CPF Ordinary Accounts. The latter rate, in turn, was fixed at a minimum of 2.5 per cent.

As an aside, interest rates on bank loans have now risen sharply, whereas the HDB concessionary rate has not crept up at all.

For those who regret switching, there is no avenue that allows them to switch back to HDB loans.

CPF mortgage limits

THERE are three types of CPF limits on mortgage repayment:

- Valuation Limit;
- Available Housing Withdrawal Limit (AHWL); and
- Withdrawal Limit.

The aim is to ensure you have retirement savings, and do not over-use your CPF money till the amount withdrawn is way above the value of your property.

They take effect in the following sequence.

First, the Valuation Limit: You will reach it when the CPF savings used for mortgage repayment and payment towards the property price are equal to the purchase price or the valuation of the property, whichever is lower.

So if you bought a property for \$530,000, but it is valued at \$500,000, the Valuation Limit is \$500,000.

When you have used \$500,000 of your CPF savings for your mortgage, the CPF Board will look to the balance in your Ordinary Account and/or Special Account.

The balance has to be equivalent to half the prevailing Minimum Sum. The Minimum Sum currently is \$90,000, so you have to first set aside \$45,000 in your Ordinary Account and/or Special Account (including the amount used for investment) before you can use any excess CPF savings.

This requirement will get tighter over time because the Minimum Sum will march up until year 2013 when it hits \$120,000 in 2003 dollars.

Beyond the Valuation Limit, the excess CPF savings available for mortgage repayment are known as AHWL.

It is a moving figure. When you have new CPF contributions, the AHWL goes up. When the Minimum Sum rises, the AHWL drops. The AHWL, in turn, is subject to a cap - the ultimate Withdrawal Limit.

This limit applies to private properties bought or refinanced with loans on or after Sept 1, 2002. For HDB flats, the starting date is Jan 1, 2003.

This limit will get tighter for future property purchases and refinancings. This year, it is pegged at 138 per cent of the Valuation Limit; it will fall to 132 per cent next year and 126 per cent in 2007.

The rate of 120 per cent will apply from 2008 onwards.

Once the Withdrawal Limit is pegged to a property, it will not change with any refinancing of the loan.

For CPF members who bought properties before the limit was introduced in September 2002, the limit will be fixed at the time of their first refinancing after September 2002.

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Three checks

- **Valuation Limit:** You will reach it when the CPF savings used for mortgage repayment are equal to the purchase price or the valuation of the property, whichever is lower.
- **Available Housing Withdrawal Limit:** This refers to the excess CPF savings available for mortgage repayment beyond Valuation Limit.
- **Withdrawal Limit:** Applies to private properties bought or refinanced with loans on or after Sept 1, 2002. For HDB flats, the starting date is Jan 1, 2003.

This year, it is pegged at 138 per cent of the Valuation Limit.

Use too much of your CPF and you may rue the consequences

IF THE balance in your Central Provident Fund (CPF) account is growing, rein in your inclination to use it to repay a chunk of your mortgage.

Sure, an early repayment will save you interest on the mortgage but it might have unintended negative effects.

First, find out by how much the repayment would bring forward the day when you have to start paying your monthly instalments entirely with cash.

Otherwise you could be in for a shock, as was the case with Christine (not her real name) and her husband, who are in their 30s.

They withdrew \$48,000 over four years to whittle down their mortgage.

Then in 2004, a letter from the CPF Board told them that, in three months, Christine would reach the limit on CPF withdrawals for her three-room HDB flat.

And because she had nearly depleted her CPF reserves, she did not have enough left to meet the Minimum Sum requirement. She had to start using cash for the instalments.

'If we had not made the lump-sum payments, we would not have reached the withdrawal limit so fast. I now figure that I would have had 14 more years before reaching the limit,' she told The Sunday Times.

She is among more than 600 home owners who are not allowed to use their CPF savings further to service their mortgage and are now paying entirely with cash.

Christine's instalment is only a few hundred dollars, so it is still manageable, but for Mr and Mrs Chan (not their real names), it comes to a hefty \$1,960.

They bought a private property valued at \$530,000 in 1989 with a \$325,000 loan to be repaid over 18 years.

By 2002, five years before the loan period was to end, they had withdrawn \$530,000 from their CPF accounts, reaching the Valuation Limit.

At that point, they did not have enough balance in their CPF accounts to meet the Minimum Sum requirement, and so had to start coughing up cash for their mortgage instalments.

In another case, Mr and Mrs Tan (not their real names) bought a resale four-room HDB flat in 1996. They took out a \$152,000 HDB loan with a 25-year repayment period.

In 2003, to enjoy lower interest rates, they refinanced the mortgage with a five-year bank loan of \$59,856. To their surprise, they reached the Valuation Limit in April this year, and will have to pay cash for the next three years.

For home owners like the Tans, it is not necessarily the end of the road.

In future, if they are able to meet half of the Minimum Sum - this relaxation kicked in from July this year - when they earn higher incomes and make higher CPF contributions, they can resume using their CPF for the housing loan.