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**ASK DR MONEY**

# **Take a big home loan, and don't pay it off early**

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**Q: I READ in The Sunday Times that financial planner Suze Orman recommends paying off your housing loan quickly, even before credit card debt.**

Is it a good idea?

**A:** No. I think it's a bad idea.

Ms Orman, the personal finance editor of CNBC, offers money advice on her weekly TV show.

She was featured in The Sunday Times last week in the article, It's not the CPF, stupid. (I'm still trying to figure out: What's not the CPF?)

She suggests two money moves you should make before the year is out.

**No 1: Pay off the mortgage sooner than later.**

Once you've got rid of your largest monthly expense, you'll feel better. You don't have to worry about foreclosure.

**She puts this ahead of paying off your credit card bills, which is her No 2 money move.**

Her advice makes more sense in the US, where mortgage rates average 6 per cent. In Singapore, we are fortunate that our interest rates are among the lowest in the world and much lower than those in the US.

\* In fact, mortgage money is so cheap, I advise you to take out as BIG a home loan as possible, for as LONG as possible. Do not pay it off early.

\* Second, you should pay off all other debts before your housing loan because those interest rates are much higher.

Examples are credit cards (24 per cent), personal credit lines (12 per cent) and car loans (5 per cent). These cost you much more than the 2.6 per cent interest on an HDB concessionary rate housing loan.

\* Third, even if you have no other debt and have lots of cash lying around, you should still not pay off your housing loan.

That's because you can invest and earn a higher return than the cost of your loan.

True, a unit trust that invests in stocks will bring you more risk, but, in the long-run, you can expect annual returns of 12 per cent or more on stocks. Even a low-risk bond fund, yielding 3 to 4 per cent, earns more than HDB's 2.6 per cent interest rate.

\* Finally, remember HDB loans are a one-way street.

Once you repay them, you can't go back to borrow more, like you can when you refinance a bank loan.

**For HDB market rate loans, it is a slightly different story.**

There are about 170,000 of these, charging 3.5 per cent interest.

You should not pay off this loan, but move it from HDB to bank financing.

On a \$200,000 loan, you can expect to save about \$1,000 per year over 30 years.

The table shows some interesting facts about home loans.

The big point is that ALL housing loans are great deals because they cost you less than other types of borrowing.

Contrary to Ms Orman's advice, I say: 'Keep your housing loan for as long as you can. Don't pay off even one dollar, one minute sooner than you have to!'

<b>Housing loans</b>			
	<b>Interest rates</b>	<b>Number of loans</b>	<b>Percent of total</b>
<b>HDB (concessionary)</b>	2.6%	350,000	57%
<b>HDB (market rate)</b>	3.5%	170,000	28%
<b>HDB (bank rate)</b>	1.5% to 3%	20,000	3%
<b>Private (bank rate)</b>	1.5% to 3%	75,000	12%
<b>Total</b>		<b>615,000</b>	<b>100%</b>