

(This article appeared in The New Paper on 19 August 2002)

ASK DR MONEY

Should I buy home now?

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Q: I am uncertain about the 150 per cent rule and the 120 per cent rule that kicks in from 2008.

Why do we need any more than 100 per cent of the price to pay for a house?

A: First note that the new rules apply:

- if you buy private property or an executive condo or
- if you buy an HDB flat with a market rate loan (30 to 40 per cent of HDB buyers have market rate loans).

Also, the new cash payment requirements apply if you have an existing bank loan or HDB market rate loan and refinance it.

The new rules don't affect you if you have an HDB loan which has a 2.6 per cent interest rate. (These make up 60 to 70 per cent of HDB loans.)

Here is a simplified example to help you understand the 150 per cent rule:

AN EXAMPLE

Say you buy a flat for \$450,000 and pay for it with a \$50,000 cash down payment and a \$400,000, 25-year loan.

- Key point: After 25 years, you would have paid \$250,000 in interest alone.

So the real cost of your property is \$700,000 (\$450,000 + \$250,000) and you will have paid \$50,000 in cash and \$650,000 from your CPF account.

- The new 150 per cent rule which limits use of CPF to that percentage is no problem for you (\$450,000 x 150 per cent = \$675,000) because only \$650,000 came from your CPF.

But you would have a problem if you buy the property after Jan 1, 2008 because you can only use CPF money equal to 120 per cent of the \$450,000 purchase price, which is \$540,000. With the new CPF rule, you must pay \$700,000 - \$540,000 = \$160,000 cash.

You already paid 10 per cent cash (\$50,000) as your down payment. That leaves \$160,000 - \$50,000 = \$110,000 to be paid in cash. You can pay this over the 25-year loan period - this comes to nearly \$400 cash a month.

- Another potential problem is rising interest rates since most fixed-rate mortgages are fixed only in the early years. After that your payments are tied to market rates.

In our example, for every 1 per cent increase in rates you must pay an additional \$200 per month. With the new CPF rules, higher interest rates increase the cash component. So part of the additional \$200 must be paid with cash.

Q: Is it a smart move is to buy now, while banks are lending freely and I can still pay with more CPF and less cash?

A: Maybe not. Private property financing is easy so demand and prices are high. But CPF will slowly raise the cash requirements through 2008. This will push down demand and prices.

Also depressing prices is the new 10 per cent cash downpayment for market rate HDB flats. (This used to be 0 per cent.) This will also be phased in over the next 5 years.

Q: How about if I am selling?

Is this a good time to sell property?

A: I think so. All the demand-friendly incentives are in the market now. The unfriendly incentives will be phased in steadily until Jan 1, 2008.

NOW

If you buy a \$450,000 flat, you can pay no more than 1.5 times \$450,000 or \$675,000 from your CPF. The rest must be paid in cash over the term of the loan.

But this won't affect you as the total cost including interest will be below this amount.

2008

That same \$450,000 flat means you must fork out \$110,000 in cash, or about \$400 a month over 25 years.