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**ASK DR MONEY**

## Should you switch from HDB loan to bank loan?

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**Q: I now have an HDB concessionary loan charging 2.6 per cent. I saw in a newspaper that I can switch to a bank loan and save money. Should I do it?**

**A:** No. About 65 per cent of HDB loans are at concessionary interest rates, charging 2.6 per cent. You are fortunate to have such a loan and should keep it. Here are three reasons for keeping it:

(i) The savings from converting to a bank loan are small. I calculate you will save only \$2 per month. (See table below.)

<b>Loan amount</b>	<b>Type of loan</b>	<b>Interest rate</b>	<b>Monthly payments (30 years)</b>	<b>Monthly savings with Bank Loan</b>	<b>30-year savings with Bank Loan</b>
	Bank Loan* Market Rate	2.57%	\$598	-	-
\$150,000	HDB Loan Concessionary Rate	2.60%	\$600	\$2 (\$600-\$598)	\$700
	HDB Loan Market Rate	3.75%	\$695	\$97 (\$695-\$598)	\$35,000

*\*Bank rates are calculated as the weighted average of the published 30-year rates for the 7 largest banks making HDB loans. The median of these 7 average rates is 2.56833 per cent.*

(ii) Banks are thought to be less kind-hearted than HDB, so there is the risk of foreclosure if you default on your loan.

Foreclosure means the bank will hold a forced sale of your home. From the sale, they will take the amount you owe the bank. They will return to you whatever is left over.

(iii) Most importantly, you can't go back to HDB if bank rates suddenly rise above HDB's 2.6 per cent concessionary rate. This is likely to happen as our economy improves over the next year or two.

**Q: I have an HDB market-rate loan charging 3.75 per cent. Should I give it up and refinance with a bank?**

**A:** Yes. I would do it. There are about 90,000 HDB market-rate loans, charging 3.75 per cent.

You can refinance and get a bank loan. These average 2.57 per cent. The difference will save you a bundle.

For a \$150,000 30-year loan, you will save \$97 per month by paying 2.57 per cent instead of 3.75 per cent. Over 30 years, your \$97 monthly savings adds up to \$35,000. (See table above.)

**There is one risk.**

If you fall on hard times and default, the banks may be less kind-hearted than HDB. Banks may repossess your flat.

In my opinion, it is worth the risk. You should still switch to a bank loan.

Banks have just started making loans for HDB flats. It is too soon to know how banks will act, but I think they will treat defaulters gently.

**Q: Are there any upfront costs I must pay if I switch from HDB to a bank loan?**

**A:** Yes, legal fees. POSB, OCBC, UOB, Hong Leong Finance, Standard Chartered and Maybank have the best deals for HDB loans. Their rates are all about the same.

But it's a different story when it comes to legal fees. Most banks offer a legal subsidy of 0.4 per cent up to a maximum of \$2,500.

For a \$150,000 loan, the bank's contribution toward your legal costs is  $\$150,000 \times .004 = \$600$ .

Lawyers will try to charge you between \$2,000 and \$3,000 for conveyancing fees. If the lawyer charges \$2,000 and the bank pays \$600, then you must top-up \$1,400.

**Forget that!**

Tell your banker: 'I would very much like to borrow from your bank, but only if the lawyer works within the legal subsidy.'

That means you want a lawyer to charge \$600, which the bank will pay. You pay nothing.

This is possible. As of Feb 1 this year, lawyer fees for property transactions become negotiable. Lawyers can drop their fees as low as they want.

It is most important that you do not negotiate with the lawyer on their fees. Let the bank do that. Banks have enormous bargaining power with the lawyers while you have almost none.

If the bank won't do this, shop around at other banks. It is possible to pay little or nothing for legal fees when you refinance your HDB loan with a bank.