

Sunday Times, Sept 18, 2005

## **CPF property rules: 4 things you may not know**

**It pays to be familiar with housing rules as this could save you money and heartache**

**By Leong Chan Teik**

ONE home-loans package charged 2.6 per cent interest. Another was as low as 1.2 per cent.

No prizes for guessing which one many people went for in the past two years or so.

The first package was an HDB concessionary loan. The second, a bank loan.

But your winning guess is something of a booby prize - the interest rates on bank loans have now risen sharply, while the HDB loans rate has not budged at all.

Bank rates fluctuate according to the price banks pay to borrow the money they lend out, but the HDB rate is pegged at 0.1 percentage point above the interest rate on Central Provident Fund (CPF) Ordinary Account savings.

The latter rate, in turn, is based on the 12-month fixed deposit and savings rates of local banks.

The CPF Board recently computed the bank deposit and savings rate to be 0.59 per cent but is continuing to pay 2.5 per cent for your Ordinary Account because it is the minimum stipulated in the CPF Act.

Bank interest rates for housing loans vary according to whether they are fixed or floating rates.

For example, fixed rates for loans up to 80 per cent of the value of a property now stand at around 2.75, 3.75 and 3.5 per cent for years one, two and three, respectively.

Paying such higher interest is only one of the woes of loan converts.

For they also now have no avenue to switch back to HDB concessionary loans.

Some borrowers may not know that a limit on the use of CPF savings for housing applies to them, says Mr Dennis Ng, a certified financial planner and co-founder of mortgage broker Leverage Holdings.

For HDB concessionary loans, the CPF limit does not apply at all, which is why Mr Ng says he has advised HDB clients with such loans not to switch to bank loans.

This is an example of home owners being unfamiliar with CPF rules, which in the first place are not exactly the easiest to understand or keep track of.

Says Mr Ng: 'Any hiccups or mistakes you make because you are unaware of the rules may have serious repercussions on your financial future.'

Do you know the following?

## **CPF withdrawal limit**

GONE are the days when you can rely on your CPF savings to pay for your mortgage until the end of its term.

Since January 2003, if you buy a private property, or refinance your HDB loan with a bank, or buy a HDB flat with a bank loan, you are subject to a cap on the CPF savings you can use for the mortgage.

This year, the cap - also known as the CPF withdrawal limit - is 138 per cent of the so-called valuation limit, which is the lower of the valuation or purchase price.

The CPF withdrawal limit will fall to 132 per cent and 126 per cent next year and 2007, respectively, for purchases made in those years.

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

**Beware:** At some point in the future, you can expect to pay cash for your entire mortgage instalment.

If your loan's interest rate is 5 per cent from the third year onwards, be prepared to cough up cash as early as after the 20th year, says chartered financial consultant Leong Sze Hian.

'How many Singaporeans can service their housing loans entirely with cash after two-thirds of a 30-year loan period?

'Home buyers may like to consider carefully before buying,' he says.

The scenario he sketched is not as dire right now.

It applies from 2008 when the CPF withdrawal limit - now at 138 per cent - hits rock bottom at 120 per cent.

On the other hand, things are worse than many home owners realise.

The reason: En route to the CPF withdrawal limit, home owners will reach the milestone of 100 per cent of the valuation limit.

Whether they can use their CPF savings further for their mortgage depends on whether they have enough money in their Ordinary and Special Accounts to be set aside for the cash component of the Minimum Sum.

This cash portion amounts to \$45,000 currently and will rise to \$60,000 by year 2013.

If this requirement is met, what CPF savings is available for the continued servicing of the mortgage is known as the Available Housing Withdrawal Limit (AHWL).

It is not the easiest calculation to make, but thankfully, the CPF website has a worked example at [www.cpf.gov.sg](http://www.cpf.gov.sg)

Beyond the AHWL, the ultimate limit is the CPF withdrawal limit which, as stated above, is currently 138 per cent of the lower of the valuation or purchase price of the property.

## Buying old property

FANCY that old apartment in bustling Chinatown?

Prior to July 19, you could not use your CPF savings to buy a private residential property whose remaining lease was less than 60 years. Now you can.

**Beware:** To begin with, you can use CPF savings only if the property has a remaining lease of at least 30 years.

Even then, you cannot just buy any old property. The remaining lease must be at least enough to cover you until you reach 80 years old.

So if you are 35 years old, the property must have a remaining lease of at least 45 years at the point of purchase, says Mr Ng of Leverage Holdings.

In joint purchases, the age of the youngest owner using CPF savings for the mortgage repayment will be used to determine the minimum lease required.

Note that banks still do not give financing for the purchase of properties with a remaining lease that is less than 60 years, says Mr Lim Kok Guan, managing director of Home Advantage, a mortgage broker. Only Hong Leong Finance does, he adds.

**Beware:** Unlike normal property purchases, you will be more restricted in how much you can use your CPF savings to pay for private residential properties with remaining leases of between 30 and 59 years.

The percentage is calculated according to this formula: Remaining lease when the CPF member is 55 years old divided by lease at the point of purchase multiplied by 100.

So if you are aged 35 and buy a property with a remaining lease of 45 years, the maximum CPF savings you can use is only 56 per cent of the valuation limit, says Mr Ng.

## **After age 55**

IF YOU use the monthly contributions to your CPF Ordinary Account for repaying your mortgage, chances are you will have little surplus in your account.

On reaching 55 years old, you are required to set aside the Minimum Sum, which is for you to withdraw monthly from age 62.

**Beware:** The Minimum Sum currently is \$90,000 of which the minimum cash component is \$45,000.

The Minimum Sum will rise to \$120,000 by year 2013 with a minimum cash component of \$60,000. The Minimum Sum comprises your savings in the Ordinary and Special Accounts.

For example, says Mr Ng, if on reaching 55 years old, you have \$20,000 in your Ordinary Account and \$40,000 in your Special Account, you have met the requirement. But you cannot use any of that money for mortgage repayment.

The harsh reality is you have to pay cash for the mortgage instalment.

## **Buying second property**

SINCE July 19, the maximum loan you can borrow from the bank has been raised from 80 per cent to 90 per cent of the valuation of the property.

**Beware:** Note that from July next year, the use of CPF savings for second and subsequent properties will be restricted.

Only the surplus Ordinary Account savings after setting aside the Minimum Sum cash component can be used for mortgage repayment.

In addition, the applicable CPF withdrawal limit is not 138 per cent - as applies to first properties bought this year - but 100 per cent.

**chanteik@sph.com.sg**