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Refinancing your home loan?

## Watch CPF limits

by Larry Haverkamp/Dr Money  
(mail@AskDrMoney.com)

If you're a homeowner, check out these two dates:

- (i) 1 Sep, 2002 if you own a private property and;
- (ii) 1 Jan, 2003 if your flat is a resale HDB or a new HDB financed with a bank loan.

If you had bought your house after these dates, there are limits on how much of your CPF money you can use to pay your home loan.

I call these the 'CPF limit dates'.

How these dates affect your refinancing decision is a bit complex.

We start simply then gain speed. Pick up what you can.

### LESSON 1

Depending on when you bought your home, the CPF Board may require you to pay with cash in the final years of your mortgage.

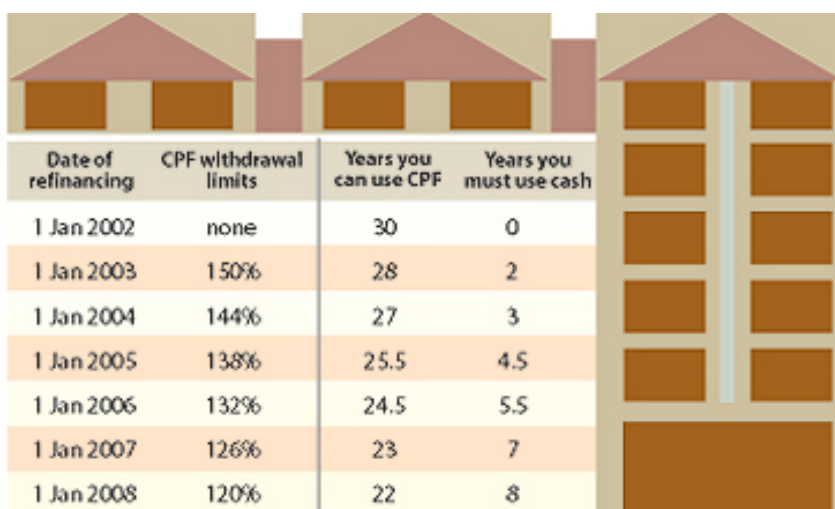
The only exception is new HDB units bought with concessionary rate loans. You can pay for them using no cash and all CPF money, regardless of the date of purchase.

CPF restrictions go by names like valuation limit (VL), available housing withdrawal limit (AHWL) and CPF withdrawal limit.

VL and AHWL are to make sure you have the minimum sum in your special account. Only your CPF withdrawal limit is affected by refinancing.

CPF withdrawal limits become more restrictive the later you buy your home. They increase yearly and reach a max for homes bought after Jan 1 2008. (See the table below.)

Once you buy your home, you can relax. The CPF limit dates are locked in and will not increase over time. But there is one exception - refinancing - which I will tell you about shortly.



Date of refinancing	CPF withdrawal limits	Years you can use CPF	Years you must use cash
1 Jan 2002	none	30	0
1 Jan 2003	150%	28	2
1 Jan 2004	144%	27	3
1 Jan 2005	138%	25.5	4.5
1 Jan 2006	132%	24.5	5.5
1 Jan 2007	126%	23	7
1 Jan 2008	120%	22	8

*Note: The example assumes a \$250,000 property bought before 1 Sept 2002, a 20% downpayment, of which 15% is from your CPF account, 30-year loan at a fixed rate loan of 4.3% and mortgage payments of \$1,000 a month. It also assumes the owner has met his special account minimum sum. Rounding is to the nearest half year.*

## LESSON 2

Let's say you have a 30-year loan on your home that you bought in July 2002. That's before the CPF limit dates, so they don't apply.

On the other hand, if you bought a home this year, it's long after the CPF limit dates and you may face restrictions.

For example, you may be able to pay for your 30-year home loan with CPF money for just 22 years. Then you must use cash for the final eight years.

The CPF Board gives six months' notice before you hit your CPF withdrawal limit and must stop using CPF money to pay your home loan. That is helpful, but it is better to prepare now.

If you don't have cash when the time comes to switch, you run the risk of a loan default and could even lose your home.

## LESSON 3

The general rule is you don't have to worry about CPF restrictions if you bought your home before the CPF limit dates.

The big exception is refinancing.

Let's say you bought your home in 2001, before the CPF limit date. Then, you can repay your home loan using only CPF money and no cash.

In 2006, you refinance your home loan.

Get ready for a surprise - refinancing changes everything. It locks you into the withdrawal limits for 2006.

By the way, you can keep refinancing in 2007, 2008 and for as long as you like. You'll remain locked in the 2006 CPF withdrawal limits.

Another example: You bought your home in 2003 and refinance it in 2008. In this case, the refinancing doesn't matter because you bought it after the CPF limit dates so the withdrawal limit for 2003 applies and not the stricter one for 2008.

The rule is that as soon as you receive a CPF withdrawal limit - either through purchase or refinancing - you are locked in. The withdrawal limit will not change if you refinance after that.

## LESSON 4

All this makes refinancing a difficult decision for someone who bought a home before 1 Sep 2002.

It's a trade-off: You may want to refinance in order to get a lower interest rate. But refinancing could limit the use of CPF money for your home loan payments.

Even if you can move to a lower interest rate, it may not be worth it if you anticipate difficulty servicing your home loan from cash.

It is not an easy decision and depends on:

- (a) the date you bought or refinanced your flat;
- (b) the lower of your flat's price or valuation;
- (c) your monthly CPF contribution, and
- (d) the CPF money you have used so far to pay for your home.

The best source of information is at [www.cpf.gov.sg](http://www.cpf.gov.sg) and then go to online calculators.

Plug in your personal data. It will calculate the effects of refinancing and the date you must start paying your home loan by cash.

**LESSON 5**

If you plan to refinance a home you bought before the CPF limit dates (September 2002 and January 2003) took effect, do it now.

This will lock in this year's CPF withdrawal limit.

You can then refinance again if interest rates fall.

This is because no matter how many times you refinance, you are subject to the CPF withdrawal limit at the time of the first refinancing only.