

REFINANCING IN A RECESSION

The recent economic downturn has resulted in many of us tightening our belts. For most of us, this means having to forgo our annual overseas holidays, having to downgrade from going to restaurants to having our family meals at food court. Needless to say, everyone is looking for ways to reduce their spending. Very often, we often overlook the very obvious method (and also substantial) savings – **Refinancing!**

What exactly is the “refinancing” business all about?

Well, refinancing simply means to replace your current housing loan with another – obviously one with a much lower interest rate!

Most of us in Singapore are proud owners of our own home and we would have had taken up a housing loan at the time of purchasing our home.

Question to ask yourself – “When was the last time you took a good look at your housing loan statement?” “Are you still enjoying the promotional rates offered by the bank?”

For most of us, we would usually take up a housing loan at the time of purchasing our home. Being all excited to be proud owners, we are occupied with ideas of how to renovate & decorate our new home. We quickly sign the 10-page letter of offer filled with legal jargons provided to us by the bank officer so as to seal the deal. We are the least bit affected by the bank officer’s notification that the loan period is for 25 years.

Little do we realize, that for the majority of us, our current housing loan is secured by a mortgage based on the promotional rates offered by the bank at the time of taking up the loan. These promotional rates would only be low for the first couple of years (maximum 3 years), thereafter, the rates would have gotten progressively higher.

Can we really save money by refinancing? What are the real savings?

Generally, we CAN REALLY SAVE money by refinancing!

Below is an illustration of what the real savings are.

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CURRENT SITUATION – Loan Amount \$600,000/- @ 5% p.a.

Year	Current Rates	Current Instalment	Total Payment Per Year
1	5%	\$3,507.54	\$42,090.48
2	5%	\$3,507.54	\$42,090.48
3	5%	\$3,507.54	\$42,090.48
4	5%	\$3,507.54	\$42,090.48
5	5%	\$3,507.54	\$42,090.48

NEW PROMOTIONAL RATES OFFERED BY BANKS

Loan Amount \$600,000/- @ 1.99% (1st year); @1.99% (2nd year) & @1.99% (3rd year)

Year	Current Rates	Current Instalment	Total Payment Per Year	REAL SAVINGS!!
1	1.99%	\$2,068.00	\$24,816.00	\$17,274.48
2	1.99%	\$2,068.00	\$24,816.00	\$17,274.48
3	1.99%	\$2,068.00	\$24,816.00	\$17,274.48
4	5.00%	\$3,507.54	\$42,090.48	\$ -
5	5.00%	\$3,507.54	\$42,090.48	\$ -

TOTAL REAL SAVINGS FOR 3 YEARS \$51,823.44

But before you take the plunge, you should factor in the cost of refinancing.

Firstly, you need to check if there is any penalty (usually 0.5% to 1% of outstanding loan amount) would be imposed if you terminate the existing housing loan early.

Secondly, you would incur legal fees if you refinance the loan with another bank, however, as the new bank would usually provide a legal subsidy, the amount payment out-of-pocket would be minimal.

Final Tip: You should check with your current bank to review your loan rates. Most banks would allow their existing customers to convert to the “new package”. In that way, you will be able to enjoy the promotional interest rates without too much hassle and trouble.

What We Do

Business Law – We advise businesses in all stages of its life cycle - from start-up and growing it through acquisitions and restructures; to retiring from the business by selling or handing it over to the next generation. Your business too will face different funding, organizational and legal challenges as it goes through different stages of its life cycle.

Estate Planning – You have worked your whole life to establish your estate, why not take the time to protect it. A proper estate plan will protect your loved ones from having to deal with the troubles and costs involved with probate court. We make Estate Planning easy to understand. We help create a legally binding directive that helps your loved ones when it counts the most. We offer guidance to help simplify the process for your loved one. No matter the size of your estate, we provide an entire plan designed for your individual needs.

Our Approach

Our Approach is Simple

Personal. Honest. Decisive.

We provide frank, insightful analysis and practical solutions.

We don't believe in doing anything less.

The information contained here is only intended to provide general information on the subject covered. Nothing in this publication should be treated as specific professional legal advice concerning any particular business, operational or other situations with which you might be faced. Please seek professional advise before taking any action.

If you need a trusted legal advisor at hand to help you navigate the complexities of the law and to keep you safe from unsuspecting pitfalls, contact us.

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