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Home loans cheaper as Fed holds off rate hikes

A few major banks have cut fixed and variable home loan rates by between 10 and 20 basis points. Homeowners who have had Sibor-linked mortgages would benefit directly from the recent drop in Sibor accordingly, a mortgage broker says. ST PHOTO: JAMIE KOH

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Fall in three-month Sibor and SOR also sees banks lowering fixed deposit rates

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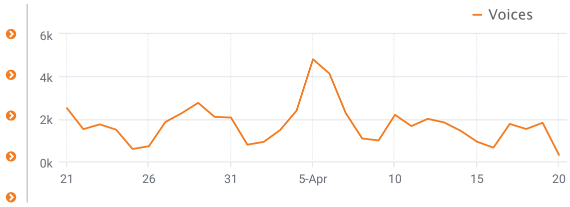
The slow steady rise in interest rates is starting to taper off amid slower economic growth, and homeowners are already reaping the benefits in the form of cheaper mortgages.

The decline comes on the back of the US Federal Reserve's decision two weeks ago to keep interest rate hikes on hold and slow the pace of future increases.

Mr Keff Hui, a broker at Mortgage Supermart Singapore, said: "Overall, interest hike expectations have cooled off a bit, given the slowing economy, and I would view the recent fall-back as a normalisation of the uptrend interest cycle."



The US central bank signalled it would raise rates more gradually than anticipated, given concerns about slow job gains and Britain leaving the European Union.

Fed chairman Janet Yellen had also said that Britain's exit could "negatively affect financial conditions and the US economic outlook".

As the world's fifth largest economy, a recession in Britain would affect the United States economy as well, said Mr Hui, and that may delay rate hikes.

The Fed left its target range for the benchmark federal funds rate unchanged at 0.25-0.5 per cent.

HOMING IN

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FINDAHOMELOAN FOUNDER SEAN LIM

Mr Hui noted that the three- month Sibor (Singapore interbank offered rate) - a benchmark used to set many home loans - has fallen from its peak of about 1.25 per cent to around 1 per cent now.

The three-month swap offer rate or SOR, which is used to price commercial loans, was at 1.36 per cent in March, 0.9 per cent in May and is now trending at around 0.94 per cent, Mr Hui added.

SOR rates tend to be more volatile than Sibor as they are influenced by foreign exchange rates.

Although Sibor and SOR are affected by different factors, they still tend to trend in the same general direction.

Sibor also reflects how much it costs banks to borrow from each other. And since the cost of funds has come down, banks are opportunistic, said FindaHomeLoan founder Sean Lim.

With rates dropping, banks are unable to reap better loan yields and increase net interest margins, which could affect their ability to deliver stable earnings.

Mr Lim said: "Given the drop in rates and weakening property demand, banks are having a price war on home loan packages."

Mr Hui said that in recent weeks, a few major banks have cut rates by between 10 and 20 basis points for fixed and variable home loans.

"Homeowners who have had Sibor-linked mortgages would benefit directly from the recent drop in Sibor accordingly," he added.

Mr Lim noted that a two-year fixed home loan package is now at 1.65 per cent, while from March to April it was at 1.9 per cent; a three-year fixed loan package is now at 1.8 per cent, down from 1.99 per cent in March and April.

And since fixed deposit rates typically follow Sibor, the competition among financial institutions for depositors appears to have cooled for the time being.

Last month, United Overseas Bank was offering 1.6 per cent a year for a minimum 13-month $20,000 deposit but that has dropped to 1.5 per cent a year.

OCBC's rate last month was 1.55 per cent for a minimum 12-month $20,000 deposit but it is now 1.45 per cent.

Hong Leong Finance offered 1.97 per cent a year in December for fresh funds of amounts from $50,000 to below $100,000. That fell to 1.55 per cent last month and is at 1.2 per cent now.

A more dramatic fall came from the State Bank of India (SBI), which offered 1.5 per cent for a 12-month US dollar fixed deposit of amounts above US$100,000 (S$135,540) - a promotion during April and May, which ended on May 31. This has now dropped to just 1.13 per cent for US$100,000 and more.

SBI Singapore said the bank reviews its interest rates periodically and updates them based on its outlook on the market and avenues for deployment, and it also offers preferential rates based on customer relationship.

Ms Elaine Koh, director at Fitch's Financial Institutions, said: "What we've seen is that the banks' loan growth is slowing in the current softer operating environment.

"A lot of the slowdown has been occurring within the banks' trade portfolios, much of which is in US dollars, and therefore the banks have been able to let go of the pricier US dollar term deposits as their funding needs are no longer as high as they were before."

She added that more generally, loan growth in Singapore has also slowed, and both Sibor and SOR easing. "This could ease some of the upward pressure on funding costs in the near term."