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HD **Property curb pushes buyers to offshore loans**

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FOR Singaporeans still hoping to snap up overseas properties despite having their borrowing capacity curbed by the total debt servicing ratio (TDSR), some may be considering offshore loans to finance their **purchases**.

“A handful of clients are looking at overseas loans,” said a private banker.

Another relationship manager at a foreign bank said that he has referred some clients to the mortgage department of the bank outside of Singapore. Both could not be identified due to client confidentiality.

Some **property** agents also noted that there have been more enquiries of late from clients for overseas loans.

BT understands that some of these agents tout the idea of an offshore loan to potential buyers of overseas properties if they have maxed out their capacity to borrow.

The TDSR caps an individual’s total monthly loan repayment at 60 per cent of gross monthly income, taking into account **property** and non-**property** related loans, as well as onshore and offshore loans.

But banks outside of Singapore are not obliged to report to Singapore’s credit bureau, so the responsibility to declare overseas loans rests largely on the individual. It remains unclear how leveraged Singaporeans are in terms of offshore loans, given the absence of data.

The picture also becomes less clear in the case of interest-only loans, which allow borrowers to service only the interest cost in their monthly instalments for a period of time and then possibly refinance the principal when it is due. Such home-loan packages are available in Britain and Australia but have been disallowed in Singapore since 2009.

As far as the Monetary Authority of Singapore (MAS) is concerned, banks in Singapore need to obtain a written declaration from the borrower on all outstanding credit facilities that would include loans from overseas banks, and conduct verification checks, an MAS spokesman said.

For now, Singapore banks are seen to have toed the line.

Joseph Wong, OCBC Bank head of consumer credit risk management, told BT that in assessing customers’ applications for overseas **property** loans, the bank takes into consideration both the onshore and offshore loans that customers have.

Linda Lee, executive director for deposits and secured lending at DBS Bank, said that the bank offers overseas property financing to “a very selective group of customers, as overseas property purchases require a higher level of financial literacy”.

Despite the introduction of the TDSR, the number of applications for overseas property loans from DBS has not let up, Ms Lee said. This group of clients is aware of the need to avoid over-stretching themselves.

All three local banks provide property loans for purchases in popular locations such as London, Malaysia and Australia. OCBC also provides home loans for properties in Tokyo and New York, while UOB offers loans for Thailand and China properties.

Bank of China (BOC) is also eyeing the mortgage pie here, offering Singaporeans loans for purchases in less-considered places such as Edinburgh in Scotland.

Arguably, Singapore’s relatively low mortgage rates – thanks to its low interbank rate – make it more attractive from a rental-yield perspective to obtain Sing dollar loans from Singapore banks.

The appeal of offshore loans also rests on various factors, including exchange rates and cost of funding.

With Japan being a hot spot now with its upcoming Olympics 2020, BOC Tokyo is offering loans for homes at about 2.8 per cent interest, but the borrower needs to be physically present in Tokyo to sign the loan approval.

OCBC is offering a Sing dollar loan for Japanese properties at 3.1 per cent interest, and 3.6 per cent interest if the loan is yen-denominated.

Australian banks’ home loan rates are around 5 per cent, so with rental yields of Australian properties hovering at 4-5 per cent, buyers would need to seek tax optimisation on the income tax paid out of the rental income.

A Sing dollar loan from a Singapore bank for an Australian property would have an interest of close to 3 per cent – however, the loan will certainly be factored into the TDSR.

Data from Colliers International shows that sales of overseas properties to Singaporeans grew 13 per cent in the first quarter from a year ago.

Such transactions are set to rise amid a movement towards global launches, whereby units are made available to both local and foreign buyers at the same time, said Peter Allen, sales and marketing director at Londonewcastle, a London-based luxury residential developer.

Nina Davies, Colliers International operations director, told BT that the agency focuses on marketing projects that the Singapore banks are able to provide financing for.

Cherrin Loo, head of international residential sales at Savills Singapore, observed that for projects with a low quantum of less than $1 million, many buyers do not require loans as they can afford to pay it all in cash.

Savills typically ties up with local banks that attend its exhibition of overseas properties. “We understand there are some clients that have existing banking relationships with overseas banks and so they may engage them,” Ms Loo said.

Investors who buy property and obtain financing outside of Singapore should consider the regulatory framework governing their purchase and financing agreements, including the protection they can expect, said an MAS spokesman.

“They should also be mindful of other risks associated with cross-border property purchases, such as foreign exchange and interest rate risks,” he added.

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