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# Ability to Pay

The first step to our ABCs of financial planning starts with an understanding of your 'Ability to pay'. Before you find a flat, it is important to review your finances to determine how much you can set aside each month for housing loan repayment and housing expenses.



# Understanding one's Ability to pay



When buying a flat, it is important that you can pay for the monthly mortgage instalments comfortably.

You can get a clearer picture by tracking how much you earn and how much you spend.

## A flat purchase comes with additional expenses



## You may need to use more cash for future monthly mortgage instalments if



Interest rates rise



Your monthly contributions to the CPF Ordinary Account decrease



The CPF Valuation Limit or Withdrawal Limit has been reached

Do work out your monthly cashflow to know how much you can pay for the monthly mortgage instalments, before you begin home-hunting.

As your ability to pay the housing loan instalments may change over time the years, do take a long-term view and consider the following:

### **Income**

- Your income may be affected by events and changes such as:
  - Job changes or becoming the sole breadwinner
  - Income fluctuations, especially if your income is based on commissions or different sources
- Set aside part of your income for any unexpected situations like a loss of income
- For sustainability, you can only use up to 30% of your monthly income for housing loan instalments. This will enable you to pay off your monthly housing loan without neglecting your daily expenses and the need to save up for your life goals.

### **Expenses**

Cash payments for your regular and ad-hoc expenses such as those listed below:

- Daily personal and household expenses:
  - Expenses on food, transport, education, medical bills, expenses on children and aged parents, mobile phones, taxes
  - Credit card bills, insurance premiums, other loans
- Monthly expenses for your home:
  - Housing loan instalments\*
  - Service and Conservancy Charges
  - Utilities bills, broadband, etc.
  - Property tax (monthly payments only applicable via GIRO)
  - Other maintenance costs

\* When the allowed CPF amount is used up, you have to pay for the balance purchase price and/ or the monthly mortgage instalments in cash.

### **Savings**

Future expenses for your family:

- Children's education and enrichment programmes
- Your retirement needs
- Emergencies

The less you pay in monthly instalments, the more you will have in cash and CPF savings to build up your resilience to emergencies and pursue your goals (e.g. financial freedom and retirement). Check your affordability and minimise the housing loan amount and repayment period to save interest costs.

If the cash outlay to buy a flat and the monthly housing loan instalments are too much of a financial burden, it may be better to give yourself more time to build up your finances before committing to buy a flat. For flat owners who are looking to sell and buy another flat, do re-consider the need for the change and only commit

to sell your flat when you are financially ready to buy another.

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## NEXT STEPS

### **Housing Loan Options**

Understand the different terms and considerations between taking a housing loan from HDB and the financial institutions, for an informed financing decision.

### **Application for an HDB Flat Eligibility (HFE) Letter**

Find out more about the HFE letter and how to apply for one to confirm your eligibility. You may also concurrently apply for an In-Principle Approval from the financial institutions for a housing loan.

### **Finding a Flat**

Find out more about the types of HDB flats available for sale and design features of new flats.

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