MR GILBERT Goh Keow Wah recently sold his condominium unit when he got tired of paying nearly $2,800 a month for his mortgage.

The bulk – 85 per cent – of that went to paying the interest, he said. “Most people would be shocked to know that of our repayment, only about $300 was principal repayment while close to $1,700 was interest servicing. Our loan amount hardly moved,” he wrote in the Lifebox column of this newspaper last Sunday.

His letter sparked scores of postings on several Internet finance forums. Some writers said they did not realise so much of a repayment could go to cover the interest cost.

A writer at www.asfunds.com suggested that everyone should clear his home loan in 10 years or less. Among his ideas for achieving this is to repay some of the capital every few months, when one has spare cash or Central Provident Fund (CPF) savings.

But some financial experts The Sunday Times spoke to disagreed with a “pay up as fast as you can” approach. In the first place, Mr Goh’s experience of having his interest cost amounting to 85 per cent of his mortgage repayment is rare.

Figures of about 60 per cent and below for the initial period of a loan are more common – according to a Sunday Times calculation and checks with mortgage experts.

That is based on the following loan assumptions:

► Loan of $300,000 repayable over 30 years; and
► An interest rate of 3 per cent a year in the first three years and 3.75 per cent in subsequent years.

Those interest rates reflect market rates as they are roughly the average of rates charged by some packages available at DBS Bank and United Overseas Bank (UOB).

One thing to note is that typically, the interest portion of a mortgage repayment is highest in the initial years, declining to practically nothing at the end of the repayment period, says Mr Bryan Ong, a senior associate manager at real estate firm PropNex. So even if 85 per cent went to paying the interest on Mr Goh’s mortgage, this percentage would tumble over time.

Anyone keen on reducing his interest payment could opt for a shorter loan tenure. If the tenure were 15 years for the mortgage package cited above, the interest portion would be 35 per cent in the first year and would decline from there onwards.

Aside from a long loan tenure, another cause of high interest components is simply the interest rate charged on the mortgage.

In his letter, Mr Goh did not say what rate he was charged but when contacted, he said it was 6.25 per cent.

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Invest surplus cash for better returns

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It is always wise to invest your money wisely and carefully. This is especially true when it comes to investing in fixed deposits and Singapore Government bonds. By doing so, you can earn a higher return than putting your money in a bank account that earns minimal interest.

A common strategy to increase your returns is to invest in fixed deposits and Singapore Government bonds. By doing so, you can earn a higher return than putting your money in a bank account that earns minimal interest.

However, it is important to remember that investing in fixed deposits and Singapore Government bonds comes with some risks. For example, if interest rates rise, the value of your fixed deposits and Singapore Government bonds may decrease. Therefore, it is important to diversify your investments and consider investing in a range of assets to minimize risk.

Pay up slowly?

SO MUCH FOR the numbers. When it comes to the cost of buying a house, it is important to consider factors such as location, size, and price. It is also important to consider the cost of maintaining a house, such as property taxes and insurance.

In addition to the cost of the house, it is important to consider the cost of living in the area. This includes factors such as the cost of utilities, food, and entertainment. By considering these factors, you can make a more informed decision about which house to buy.

Conclusion

In conclusion, investing in fixed deposits and Singapore Government bonds is a wise strategy for earning a higher return on your money. However, it is important to consider the risks associated with investing in these assets. By considering these factors, you can make a more informed decision about how to invest your money to maximize your returns.