SINGAPORE: With global interest rates trending downwards, some Singapore homeowners are hoping to see a similar move in mortgage rates.

This is especially after the Singapore Interbank Offered Rate (SIBOR) hit its lowest level in almost four years in late December - at 1.5 percent.

However, some analysts have said that the banks may not be willing to lower rates, in light of the current volatility in global financial markets.

Global interest rates are trending downwards, with the US Federal Reserve cutting its benchmark by one and a quarter point over two weeks recently.

The SIBOR has also been slipping - hitting its lowest since 2004 in recent months.

SIBOR is the rate at which banks lend to each other and it usually affects mortgage rates.

Some market watchers have said that they expect to see further downside.

Jimmy Koh, Vice-President, Global Markets and Investment Management, UOB Group, said, "We'd probably see Sing rates by the middle of the year maybe about 1.25 percent and probably hovering around this level as we hit towards the end of the year."

Currently, the SIBOR is at 1.67 percent, down from 3.44 percent a year ago.

Some homeowners are hoping that this could translate into lower mortgage rates.

However some analysts said they do not expect to see any adjustment soon, given the current global credit crunch.

Thio Chin Loo, Senior Currency Strategist, BNP Paribas, said, "In this downturn, because of the uncertainty of the scenario, banks would be quite unwilling to cut rates too quickly even if SIBOR rates were falling. So I think there is going to be a lag still, but what they will promote is probably these flexible packages that are pegged off SIBOR yields."

The pressure, though, will be on the banks to move.

Professor Annie Koh, Associate Dean, Singapore Management University, said, "If enough customers are (saying)...we can see the transparency of the SIBOR, why isn't housing loan rates coming down', the banks have to come in and say 'okay maybe we were pegging it to last year's interbank rate. The revision should be coming in now'.

"So new loan rates will probably be a lot more competitive because it's so clearly shown to the rest of the world what the SIBOR rates are at right now."
Experts also said SIBOR-pegged packages are attractive, especially if there is an option to convert to fixed rates.

Professor Koh said, "You should ask the bank, is there an option where I can take the first 3 years on a floating loan basis...and I like the option to convert from floating to fixed."

Loans pegged to SIBOR can be beneficial in the short term as the SIBOR is expected to decline further to about 1.25 percent by mid-year, remaining steady until the year-end.

However, analysts have said that inflation is a risk to consider.

BNP Paribas' Thio said, "I don't dismiss that higher inflation could actually push rates up further down the line and that those who are on these flexi-package could be exposed."

Meanwhile, the Big Three banks told Channel NewsAsia that in fixing mortgage rates, there are other factors to consider, apart from SIBOR.

These include long-term market trends, operating costs as well as pricing competition.

The average mortgage rate in Singapore stands at between 3.75 percent and 4.5 percent.

Koh Kar Siong, Managing Director and Head of Secured Loans, DBS, said, "Our mortgage packages are pegged to publicly benchmarked rates such as Sibor and CPF Ordinary Account rate, and they will move in tandem with market rate movement.

"Customers no longer have to worry about paying higher interest rates as the mortgage rates will always be aligned to the market."

A UOB spokesperson said, "We are monitoring the situation and note that pricing of mortgages are long-term financial commitments, and we strive to provide stable mortgage rates to our customers.

"We would like to highlight that other than cost of funds, operating costs and credit spreads would also have to be considered."

Gregory Chan, Head of Secured Lending, OCBC, said, "Lending rates for the fixed and variable rate home loan packages are determined based on a number of factors which include longer term market rate trends, pricing competition as well as specific details of the loan package, for example the type of property, property development status among others.

"We will review the situation before making any decisions on adjusting the rates of our packages." Meanwhile, some analysts said the rates are already low, but they do not discount that banks can cut rates.

Robert Prior-Wandesforde, Senior Asian Economist, HSBC, said, "Those fixed rate mortgages are actually at fairly low levels already. They didn't rise a huge amount previously when market interest rates were increasing, and correspondingly they haven't obviously fallen much this time.

"Looking ahead, I would expect with the kind of deposit growth that the banks are seeing, I wouldn't be surprised to see mortgage rates perhaps edge down a little bit in the next few months." - CNA/rs