The ins and outs of borrowing

Used wisely, borrowing can be highly advantageous. Even the rich are increasingly finding the occasion to borrow, reports TEO HOOI LING.

The business model for private banking today is very different from the early days. In the old days, it was a relationship-based on trust and what is in the best interest of the client. We advised clients on their stocks and real estate investments. We generated mainly advisory fees.

-- Fook Siew Tong, associate dean (entrepreneurship), Nanyang Business School

For countries such as London, the range is more pronounced. Repayment of loan and interest will be in libid. "In this way, clients don’t enjoy only better pricing on their overseas property loan due to the interest rate differential, they are able to manage their exposure to foreign exchange rates," says Mr Bhat.

For clients who have strong views on a particular currency, for example US dollar vs Singdollar, they can also have the flexibility to choose to take up an USD loan for their property in London as their obligation in SGD terms will decrease with the weakening of the USD.

Indeed, with so many loan products to make a decision, needs of the financially savvy, coupled with the low interest rate environment post the financial crisis, says Mr Bhat. “With the exception of the financial crisis years of 2008-2009, we have noticed that clients have employed increased leverage over the last decade in general. The historically low interest rate environment and the relatively benign credit outlook has enabled clients not only to lock in the low rates but also the investment potential return of an investment; and in some instances, relatively liquid funds of the client can be utilised to choose to take up a USD loan for their property overseas property loan due to the interest rate differential, they are able to manage their exposure to foreign exchange rates," says Mr Bhat.

"In an investor has to look at his own yield goals, and overall financial situation before he goes into borrowing because making an extra million or more may not add to his quality of life and not making the extra million may not mean a lower standard of living."