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Loans still available for London property, but banks sound caution

One bank said to be reviewing loan packages while others monitoring status quo

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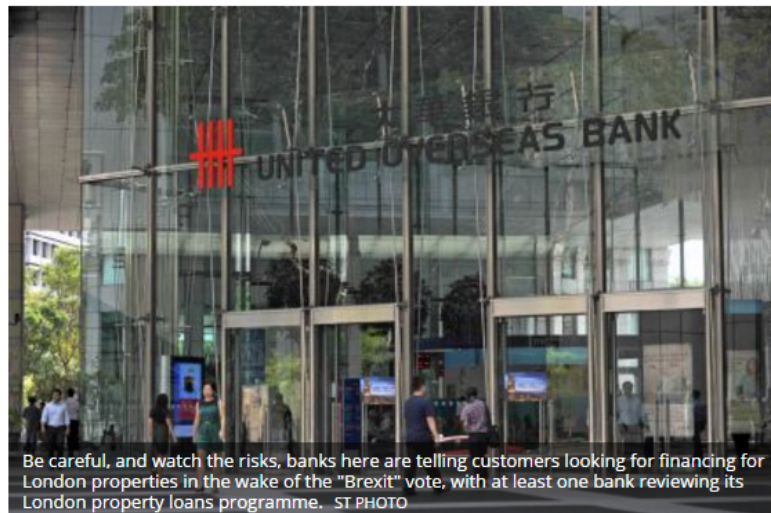
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Be careful, and watch the risks, banks here are telling customers looking for financing for London properties in the wake of the "Brexit" vote, with at least one bank reviewing its London property loans programme. ST PHOTO

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Singapore

BE careful, and watch the risks, banks here are telling customers looking for financing for London properties in the wake of the "Brexit" vote, with at least one bank reviewing its London property loans programme.

Responding to talk in the market that the bank is not taking in fresh loan applications for London properties, a UOB spokeswoman said the bank is reviewing its loan financing business for London properties.

UOB currently provides financing for London properties in Zone 1 to 4.

Other banks say that they will continue to accept fresh loan applications for London properties and have no immediate plans for now to revise their loan packages pending greater clarity from the UK.

DBS executive director of secured lending Tok Geok Peng told BT: "We continue to provide financing for property purchases in London. For customers interested in buying properties in London, we would advise them to assess the situation carefully before committing to their purchases as there could be potential foreign exchange and sovereign risks."

Given foreign exchange risks, even if the value of the overseas property rises, any gains will be eroded if the country's currency depreciates against the Singapore dollar, Ms Tok said. On top of that, there are risks associated with government policy changes.

An OCBC spokeswoman said that it has not made any changes to its London property financing programme for investment properties and is closely monitoring the situation.

A Maybank spokeswoman told BT that the bank is still accepting loan applications for London properties, but where appropriate, it will make necessary adjustments as part of its regular review of financial guidelines.

She cautioned that customers must take note of the interplay between exchange rates and interest rates payable when taking up financing for an overseas property purchase.

The UK's decision to leave the European Union has caused the pound to plunge, and raised concerns over UK property values. Industry players say this could impact the loan-to-value (LTV) ratios for mortgages on London properties, particularly if loans are denominated in Singapore dollars (SGD).

The local banks as well as Maybank and CIMB provide overseas financing for UK properties only in London, with some restricting such financing to Zones 1 and 2. Except for CIMB, which offers Singapore dollar loans for London properties and GBP loans to only private banking clients, other banks offer loans in both SGD and the British pound (GBP).

So far, most DBS customers have opted for GBP loans as their London property purchases are mainly for rental purposes and the rents are in pounds, Ms Tok said. The facility is available to DBS Treasures customers and above, or those with a minimum deposit and/or investment of S\$350,000 with the bank.

For Maybank, customer interest for both SGD and GBP financing is evenly split, the Maybank spokeswoman said. "This is in part due to the current low interest rate environment here as well as the customer's specific financing needs."

Some industry players say that customers looking for London property financing may now opt for GBP loans on expectations that the Bank of England may cut rates in the coming months.

Darren Goh, executive director of MortgageWise.sg, a boutique mortgage consultancy firm, also expects some lenders in Singapore to lower their risk by reducing the LTV to 60 per cent or even 50 per cent for new loans.

But he felt that it is hard to gauge how much London property prices will correct - if they do - given the expectations of heightened interest from Asian investors as the pound weakens.

Cost of funds (COF) - the loan peg for GBP loans - has come off and is expected to soften further, Mr Goh observed. He believes that the most likely near-term impact is for GBP loans to see their interest rates slide as the Bank of England is widely expected to cut rates in the second half of this year in the face of growth concerns further exacerbated by Brexit.

The three-month Singapore Interbank Offered Rate (Sibor) is the peg banks use for SGD loans for London properties.

"In terms of impact from the weakening of Sterling on these SGD loans, a higher loan to value ratio in SGD terms may result," said CIMB Bank Singapore head of retail banking Coreen Kwan.

"Banks may revalue the property and have customers repay part of the loan to reduce the loan to value ratio. However, at CIMB Bank Singapore, we take the necessary steps to not only thoroughly assess the given situation but also advise and discuss with our customers before any decision is made concerning any repayment," Ms Kwan

added.

She told BT that the bank will continue to monitor the situation closely but does not see a need to revise its policies and loan packages yet. "When assessing all our loan applications including that for London properties, we adopt a set of comprehensive credit policies including prudent loan limits and valuation guidelines."

For London properties, OCBC's LTV limit for a SGD loan is 60 per cent, and 70 per cent for a GBP loan. DBS offers a LTV of up to 75 per cent for both SGD and GBP loans; UOB and Maybank both allow up to 70 per cent in LTV for both SGD and GBP loans. CIMB offers up to 80 per cent in LTV for SGD loans.

HSBC Singapore and Standard Chartered Singapore do not offer overseas property financing for retail customers here.

Paul Welch, CEO of London-based property finance broker Largemortgageloans.com, said that existing international owners of London properties should review the interest rates they are currently paying as swap rates - the rate banks pay to borrow money from each other - have already fallen.

The foreseeable impact of "Brexit" in the short term is cheaper mortgages within the month. "We expect that fixed rates in the coming weeks will be at the lowest in history," he told BT.

Clarification note: CIMB Bank Singapore, which earlier said that it does not grant Sterling loans for London properties, has since clarified that it does offer GBP loans but to its private banking clients. The story has been updated to reflect this.