

# Hybrid home deals catch on

House buyers likely to get a mix of fixed and floating rates as economy recovers

By THEAN LEE CHENG  
leecheng@thestar.com.my

**H**OME buyers may see the introduction of more hybrid packages by the banking sector to fit today's economic climate despite the current low interest rates, said RHB Banking Group.

Its head of retail banking Renzo Viegas says customers should expect to see more hybrid packages as the economy turns for the better.

"We expect to see more of these hybrid packages," says Viegas. These packages combine fixed rate for a particular tenure which subsequently convert into a floating rate after the expiry of the fixed rate tenure.

"Customers rarely opt for fixed rate for the entire tenure. Another variation could be floating rate with a cap on maximum interest rate," he said in an email interview last week.

But for the time being, floating home loans will continue to be more popular than fixed rate packages. Viegas says that just over 10% of RHB's market size of RM13.1bil are under fixed rate pricing.

"Floating rate packages are more attractive than fixed rate home loans as the base lending rate (BLR)/overnight policy rate (OPR) outlook is flat. There are no signs of an increase in BLR/OPR in the near future," he adds.

Last week, Australia's central bank became the first among the Group of 20 nations to raise interest rates since the height of the global financial crisis. This was followed soon after by a statement from Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz that Malaysia's interest rates still need to support the country's economic recovery.

The leaning towards floating rates underscores the current sentiment in the country - that interest rate will remain low.

Viegas says the average loan pricing in the market is 3.75% (BLR - 1.8%) compared to fixed rate packages at 4.85% being offered by some insurance companies. As interest rate rise, fixed rates will tend to be more popular as they offer stability. However, the disadvantage is, customers will not be able to enjoy any savings through reduction in the interest rate when there is any reduction in the BLR/OPR, he said.

Viegas says the banking group will reduce installments immediately in order to pass the benefit to customer when there is a reduction in the BLR/OPR.

He says fixed rate packages are more suited for individuals who want to forecast their cash flows accurately as they may not be able



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to fork out additional installments if the interest rate increases, and among younger customers who want a longer loan tenure.

Floating rate packages are more suited for customers opting for a shorter loan tenure of less than 10 years since historically, BLR in the last 10 years or so has not shown significant movement.

Over at HSBC Bank Malaysia Bhd, general manager, personal financial services, Lim Eng Seong says the London-based bank has always made available both packages irrespective of the economic climate.

"During the 97/98 Asian financial crisis, the

BLR hit a peak of around 12%. Since then, the BLR has been on a downward trend. It is this trend that has contributed to the popularity of floating rates over the past decade," he says.

He says each option has its benefits, depending on the needs of the individual customer. The bank offers a fixed rate option under its Amanah Home Financing-i series.

Lim says the biggest benefit of floating rate is that it is cheaper than fixed interest rates by at least 1%-2%.

"Even if the floating rate rises above the fixed rate, it is likely to be for a period of time

only and not for the entire loan tenure. Furthermore, if the floating rate falls, you enjoy more savings.

"The main disadvantage of a floating rate is that your monthly instalment may fluctuate and thus affect the planning of your personal finances and budgeting.

"On the flipside, fixed rate loans offer certainty in that your EMI (equated monthly instalment) is fixed for the entire tenure of the loan and does not fluctuate, which makes budget planning easier," he says.

Like RHB, HSBC's floating rate options have been more popular although there have been request for fixed rate loans.

Lim says that in a declining interest rate environment, a floating rate loan makes better economic sense.

"In an increasing rate environment, fixing your rate may be a good option but bear in mind, fixed rates usually cost more than floating rates. Hence, it would only make economic sense if interest rates are likely to increase by more than the difference in costs between the fixed rate and floating rate, and if it is likely to stay that way for the majority of the loan tenure," he says.

HSBC fixed rates begin from 6.85% for the entire tenure with no lock-in period and customer pay costs.

Its floating rates start from BLR - 1.75% for first five years. Thereafter, it is BLR - 2.10%, subject to a five-year lock-in period. Customers pay costs.

Citibank declined comment while Maybank did not return email.



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