



Prepayment charges on Housing Loan



MOST banks offer home loan facilities for their customers to purchase or refinance their properties. A typical housing loan requires a customer to pay a fixed monthly installment on a fixed due date. This is assuming there are no changes in interest rates, otherwise the

installment amount and loan period could change.

Prepayment

When a customer wants to pay in excess of the fixed monthly installment, the excess amount is

termed as "prepayment".

Generally, there are two types of prepayment:

a) Partial Prepayment

It is when the customer makes prepayment in the form of a lump sum but does not fully settle or repay the entire outstanding loan.

b) Full Prepayment

Prepayment which fully settles the outstanding housing loan amount.

Considerations on Prepayment

Different banks may have different terms and conditions imposed on prepayments. Normally, these terms

and conditions are clearly stipulated either in the product brochures, letter of offer or in the loan agreement.

For partial prepayments, some banks may require pre-notification or may impose some restriction on the amount to be pre-paid while others may impose a penalty fee. However, there are also banks that do not impose such restrictions as part of their product features intended to help customers save interest.

Full prepayments are usually subject to penalty charges, which are also known as "early settlement penalty". Banks will usually stipulate a minimum loan period that the customer must maintain his loan there, commonly for a period of two years, but could be longer depending on the Bank. If full prepayment is made within this time period, an early settlement penalty will be imposed. After the required minimum loan period has passed, banks normally would not charge any early settlement penalty, even if the loan does not satisfy the original loan period.

Waiver of Penalty Fees on Prepayment

On a case-to-case basis, some banks may consider reducing or waiving the penalty fees based on the following business reasons:

- Existing loan customer who is selling the property to another buyer who is taking up a loan with the same bank, i.e. continuity of business.
- The loan customer is settling the loan and replacing it with another loan application of a property which is similar or larger in amount.
- Compassionate financial reasons. The existing loan customer has some financial difficulties and is forced to sell the property at a loss.

However, one should note that banks are not obligated to waive or reduce penalty fees, which have been clearly stipulated in the loan agreement contract.