SC-STS

SIBOR TRANSITION TO SORA
FAQs FOR CONSUMERS

1. What is SORA (Singapore Overnight Rate Average)?

SORA has replaced the Singapore Interbank Offered Rate (SIBOR) and Swap Offer Rate (SOR) as the key interest rate benchmark for Singapore dollar (S$) interest rate contracts.

SORA is calculated and administered by the Monetary Authority of Singapore (MAS). It is published as a daily rate and a series of 1-month, 3-month and 6-month compounded rates on the MAS website at https://eservices.mas.gov.sg/statistics/dir/DomesticInterestRates.aspx. The Compounded SORA rates are calculated as the compounded average of daily SORA readings over the relevant 1-month, 3-months or 6-months periods before each publication date, reducing the effects of rate volatility.

SORA is a robust and transparent benchmark anchored on actual market transactions and underpinned by a deep and liquid overnight interbank funding market. It is determined based on the volume-weighted average rate of borrowing transactions in the unsecured overnight interbank Singapore dollar cash market in Singapore between 8.00am and 6.15pm.

2. Can I choose to retain my property loan referencing SIBOR, and not switch out of it?

As SIBOR will be discontinued after 31 December 2024, you are strongly encouraged to contact your bank early to explore available options:

- Option 1: Prevailing property loan package offered by your bank
- Option 2: SORA Conversion Package (“SCP”) at the spot-spread
- Option 3: Wait for automatic conversion to the SCP in June 2024 at the historical median spread

If you do not switch out your SIBOR-based property loan to an alternative loan package by **30 April 2024**, your bank will automatically convert it to the SCP at the historical median spread in June 2024, 6 months ahead of SIBOR discontinuation (i.e. Option 3). This is to allow time for an orderly transition out of SIBOR loans by banks and customers, and to ensure that all outstanding SIBOR loans are converted before SIBOR is discontinued.

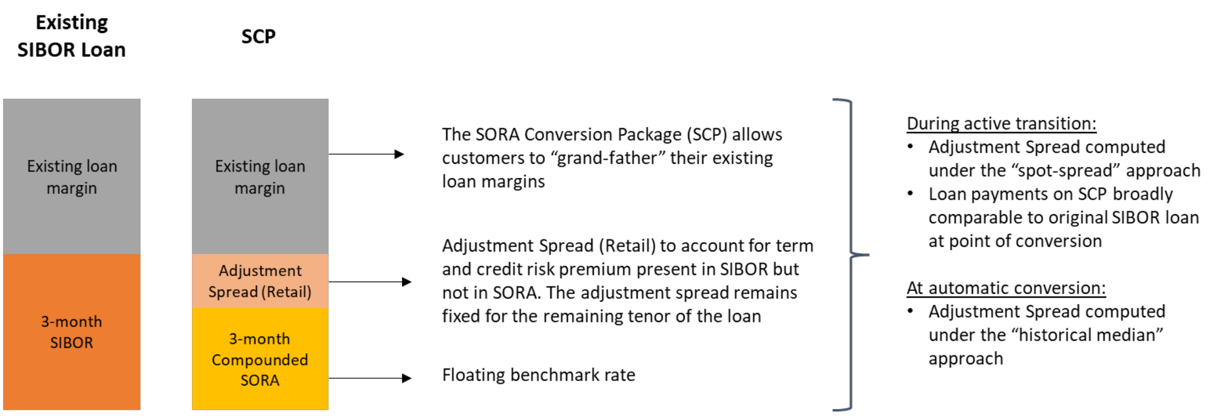
3. What is the SORA Conversion Package?

Banks are offering customers with existing SIBOR loans a switch to the SORA Conversion Package at no additional fees and no additional lock-in period.

The SCP seeks to directly convert your existing SIBOR-based loan to a SORA-based loan. The key components of the SCP are:

- **Your existing SIBOR loan margin** will remain unchanged;
- **3-month Compounded SORA**, is a floating interest rate benchmark published by MAS (see above FAQ);
- **Adjustment Spread** will be added to account for the difference between SIBOR and 3-month compounded SORA.

Diagram 1: Illustration of SORA Conversion Package (SCP)



You should note that there are differences in the computation of the Adjustment Spread, depending on the timing of your transition.

(i) Active Transition Phase (1 September 2023 to 30 April 2024)

The interest payment on your loan will be calculated based on:

3-month Compounded SORA + Your existing SIBOR loan margin + Adjustment Spread (spot-spread)

where the Adjustment Spread (spot-spread) is computed as the average difference between the applicable SIBOR and 3-month Compounded SORA in the preceding three-month period.[1] The Adjustment Spread (spot-spread) is floored at zero.

The Adjustment Spread (spot-spread) is published by ABS Benchmarks Administration Co ("ABS Co") on the first business day of each month[2], and will apply for customers transitioning to the SCP in that particular month. E.g. the spot-spread published on 1 December 2023 will be used for customers who actively transition to the SCP in December 2023. After the transition, the adjustment spread remains fixed in your loan, for the remaining tenure of the loan.

(ii) Automatic Conversion (In June 2024)

The interest payment on your loan will be calculated based on:

3-month Compounded SORA + Your existing SIBOR loan margin + Adjustment Spread (historical median)

where the Adjustment Spread (historical median) is computed as the historical median between the applicable SIBOR and 3-month Compounded SORA over the period 30 June 2018 to 30 June 2023.

[1] For example, if your existing loan reference is 1-month SIBOR, the Adjustment Spread (spot-spread) is the average difference between 1-month SIBOR and 3-month compounded SORA in the preceding three-month period.
[2] https://abs.org.sg/benchmark-rates/publications

	1-month SIBOR to 3-month compounded SORA	3-month SIBOR to 3-month compounded SORA
Adjustment Spread (4 decimal places)	0.2426%	0.3571%

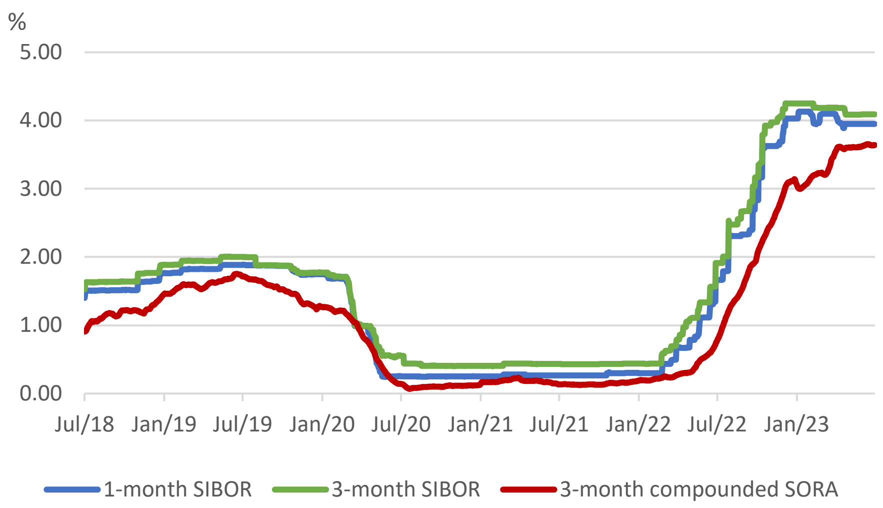
4. Why is there an adjustment spread in the SORA Conversion Package?

An adjustment spread is necessary when converting a SIBOR loan to a 3-month Compounded SORA reference because of inherent differences between SIBOR and compounded SORA. The adjustment spread accounts for differences in the level of SIBOR and 3-month Compounded SORA, to maintain parity when switching from SIBOR to 3-month Compounded SORA.

SIBOR represents unsecured term (1-month or 3-month) lending rates, and hence includes term and credit risk premiums, which account for the uncertainty in the level of interest rates over a future period as well as the risk of providing unsecured credit over a 1-month or 3-month period. In contrast, SORA and Compounded SORA represent overnight lending rates, and exclude such term and credit risks.

Consequently, as reflected in Diagram 2 below, 3-month Compounded SORA has also typically been significantly lower than 1-month and 3-month SIBOR.

Diagram 2: Historical comparison of 1-month SIBOR, 3-month SIBOR and 3-month Compounded SORA



5. Why is there a different approach in Adjustment Spread (Retail) between Active Transition Phase and Automatic Conversion Phase?

The Steering Committee for SOR & SIBOR Transition ("SC-STS") has recommended for the SCP to apply the spot-spread approach (floored at zero) during the period of active transition, and the 5-year historical median at automatic conversion. This approach has the following benefits:

a. **Provides customers with choice during active transition** – to either switch via the spot-spread, allowing customers to lock in possibly favourable spreads (should spot-spreads be low), switch to banks' prevailing packages, or do nothing and be converted in June 2024 at the 5-year historical median spread.

b. **Provides customers with certainty on automatic conversion outcome** – As the 5-year historical median has been set and fixed upfront, customers would be made aware early of the adjustment spread that would apply should they do nothing and be converted automatically on the industry timeline in June 2024. On a month-to-month basis, customers would be able to compare among (i) bank's prevailing package, (ii) the current month's spot-spread that would apply during the active transition period, and (iii) the 5-year historical median that will apply at automatic conversion, which will help customers make an informed decision on whether they should actively transition in that month.

Given these benefits, the approach of offering customers three options for transitioning of SIBOR retail loans was also supported by respondents to the SC-STS consultation on adjustment spreads for the conversion of legacy SIBOR loans to SORA[3].

6. Why is the 5-year historical median spread between SIBOR and Compounded SORA used as the applicable adjustment spread for the automatic conversion of SIBOR loans?

The 5-year historical median spread – rather than the spot spread – is used for the automatic conversion of SIBOR loans, as this can be determined beforehand, providing customers with early certainty on the terms of automatic conversion that will apply to their loan should they do nothing and be converted in June 2024.

The 5-year historical median spread is a fair estimate of the average spread between SIBOR and Compounded SORA as a 5-year period is sufficiently long to smooth out the effects of idiosyncratic market events over past years, and reasonably estimates where spreads could converge towards in the long run. The use of a 5-year historical median spread is also aligned to international convention adopted for the transition of similar interest rate contracts, as well as the transition of SIBOR and SOR wholesale contracts, and was supported by respondents to the SC-STS consultation on adjustment spreads for the conversion of legacy SIBOR loans to SORA.

7. Will the Adjustment Spread change throughout the tenure of my loan?

The Adjustment Spread that is applied by your bank in its SORA Conversion Package, as would be stated in the contract agreement, will stay the same for the remaining tenure of your loan. There will not be any change, even though the Adjustment Spread (spot spread) published by the ABS Co in subsequent months may move higher or lower due to fluctuations that are inherent in floating interest rates.

You can refer to the ABS Co's website for the prevailing Adjustment Spread (spot spread) that will be applied in the SORA Conversion Package at the point when you switch your loan.

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[3] See SC-STS *Response to Consultation Feedback and Final Recommendations for Adjustment Spread for the Conversion of SIBOR Loans to SORA (30 June 2023) at* http://abs.org.sg/docs/library/response-to-feedback-on-consultation-on-adjustment-spreads-for-the-conversion-of-legacy-sibor-loans-to-sora.pdf

8. How will my interest payments change throughout the tenure of my loan?

If you have converted to the SORA Conversion Package at an adjustment spread (spot-spread) of 0.3012%:

- The adjustment spread of 0.3012% will remain unchanged throughout the tenure of your loan.
- If your loan has a step-up tier rate, the loan after switching to the SCP will similarly have a step-up tier rate.

Current SIBOR Package	SORA Conversion Package
Year 2023: 3-month SIBOR + 1.00%	Year 2023: 3-month compounded SORA + 1.00% + 0.3012%
Year 2024: 3-month SIBOR + 1.20%	Year 2024: 3-month compounded SORA + 1.20% + 0.3012%
Year 2025 onwards: 3-month SIBOR + 1.50%	Year 2025 onwards: 3-month compounded SORA + 1.50% + 0.3012%

9. My loan is currently on fixed rate and will only be changing to a SIBOR reference rate after the fixed tenure ends. How will the transition impact my loan?

Your loan will remain on fixed rate until the fixed tenure ends. You may decide if you would like to switch to a prevailing property loan package offered by your bank or to switch the floating part of your loan (e.g. loan might reference SIBOR in the fourth year, after the fixed rate period ends) to the SORA Conversion Package.

If you decide to switch to a prevailing property loan package offered by your bank, no administrative or prepayment fee will be charged for the conversion, but a lock-in period may apply depending on the package you choose.

If you decide to switch to the SORA Conversion Package and:

- you apply during the active transition period to be converted to a SORA Conversion Package, the SORA Conversion Package with an Adjustment Spread (spot-spread) will apply after the end of the fixed tenure; or
- you wait for the automatic conversion to the SORA Conversion Package, the SORA Conversion Package with an Adjustment Spread (historical median) will apply after the end of the fixed tenure.

10. How do I decide which is the "best package" for me?

There is no "best package", as the financing needs and preferences would differ across customers. As such, we encourage you to contact your bank early to discuss your options.

As a general guide, you may wish to consider some of these factors (non-exhaustive):

- **Comparison between the Adjustment Spread (retail) during active transition and automatic conversion:** In deciding whether to switch to the SCP during active transition (between 1 September 2023 to 30 April 2024) or to wait for automatic conversion to the SCP (in June 2024), you may wish to compare the applicable adjustment spread that would be applied to your loan.
    - The adjustment spread at automatic conversion is known upfront:

- The Adjustment Spreads (historical median) will be applied to customers converting from a 1-month SIBOR and/or 3-month SIBOR loan respectively to the SCP at automatic conversion in June 2024.

	1-month SIBOR to 3-month Compounded SORA	3-month SIBOR to 3-month Compounded SORA
Applied in June 2024	0.2426%	0.3571%

- <u>The adjustment spread during active transition is published for the current period, but unknown for future periods:</u>
    - ABS Co will publish the Adjustment Spreads (spot-spread) on the first Singapore business day of each month. The Adjustment Spreads (spot-spread) will be applied to customers converting from a 1-month SIBOR and/or 3-month SIBOR loan respectively to the SCP during the active transition phase.
    - The published Adjustment Spreads (spot-spread) at the start of the month will be used for customers who apply to actively transition to the SCP in that month.

	1-month SIBOR to 3-month Compounded SORA	3-month SIBOR to 3-month Compounded SORA
4 September 2023	0.2983%	0.4042%
2 October 2023	0.3023%	0.3746%
1 November 2023	0.3170%	0.3547%
1 December 2023	0.3015%	0.3331%
2 January 2024	*[To be published by ABS Co]*	*[To be published by ABS Co]*
1 February 2024	*[To be published by ABS Co]*	*[To be published by ABS Co]*
1 March 2024	*[To be published by ABS Co]*	*[To be published by ABS Co]*
1 April 2024	*[To be published by ABS Co]*	*[To be published by ABS Co]*

- <u>The earlier you start to think about your options, the better</u>. Starting early will give you a wider range of options in terms of when and at what spreads you could transition your loan to.

- **<u>All-in interest rate:</u>** In addition to the adjustment spread, you may wish to compare the all-in interest rate which you are currently paying on your existing SIBOR loan vs the all-in interest rate of the alternative loan packages offered by your bank.
    - For example, the all-in interest rate would comprise of the following:
        - <u>For existing SIBOR loan:</u> (i) the SIBOR reference rate (which is a floating rate) and (ii) your existing loan margin.
        - <u>For SCP:</u> (i) the 3-month compounded SORA reference rate (which is a floating rate), (ii) your existing loan margin, and (iii) the applicable Adjustment Spread (retail).
        - <u>For prevailing packages:</u> Varies across different packages.

    - The comparison of all-in interest rate is particularly important for customers considering to switch to banks' prevailing packages. Unlike the SCP, which allows customers to retain their existing loan margin, this may not happen under banks' prevailing packages.

  - For a customer whose loan margin on their existing SIBOR loan is low, the all-in interest rate of the SCP could be lower than the prevailing loan packages, as the SCP will allow the customer to retain the existing low loan margin.
  - Conversely, for a customer whose loan margin on their existing SIBOR loan is high, the all-in interest rate on the prevailing loan packages may be more attractive.

- **Financing preferences:** You may wish to take into consideration your financing preferences when deciding between the prevailing packages offered by your bank, which may include both fixed and floating rate packages. For example, if you prefer certainty in interest rate payments, a fixed rate package may suit your preference. As prevailing packages would come with different terms and conditions (e.g. lock-in periods), you may also wish to take them into consideration in your decision.

We encourage you to speak to your bank early, who will be able to provide further advice on your options.

11. How do I switch to a SORA Conversion Package or another loan package?

Please call your bank or contact your relationship manager.

12. Will I be charged any fees for making a switch now?

There are no fees for switching out of your SIBOR-based loan to the SCP or any prevailing packages offered by your bank. However, fees will apply according to the terms of your existing loan package should you decide to refinance your loan with another financial institution.

For specific scenarios, please see further details below.

Scenario	Fees that may apply
Your loan is out of lock-in period and not bound by any subsidies (such as legal or valuation subsidies).	One-time fee-free switch to prevailing packages or SCP is provided.
Your loan is still within subsidies clawback period e.g. within 3 years from date of loan disbursement	One-time fee-free switch to prevailing packages or SCP is provided. You need not repay the subsidies received under your current loan when switching to any prevailing packages or SCP. However, the clawback period of your subsidies will be carried through to your re-priced loan. If you decide to redeem your loan, the clawback of all subsidies will apply. If the prevailing loan package comes with a separate clawback period (e.g. 3 years), this will run concurrently with the clawback period that was ported over from the SIBOR loan (e.g. 1 year). Please note that the clawback period is independent from the lock-in period of the new loan, i.e. they do not impact each other.

Your loan is still within lock-in period subject to redemption fees e.g. within 3 years from date of loan disbursement	One-time fee-free switch to prevailing packages or SCP is provided. There will be no prepayment fees charged by switching to any prevailing packages or SCP. However, if you decide to redeem your loan, the prepayment fees will apply. There will be no change to the remaining period of your lock-in if you decide to switch to the SCP. However, if you decide to switch to a prevailing loan package which comes with a fresh lock-in period (e.g. 3 years), you will be subject to this fresh lock-in period, even if you are still within the lock-in period of your SIBOR loan package. For example, if you have 1 year remaining lock-in period on the SIBOR loan package and the lock-in period of the prevailing loan package is 2 years, the new lock-in period of 2 years would apply. Please note that the lock-in period is independent from the clawback period of the new loan, i.e. they do not impact each other.
Your loan is still undisbursed/partially disbursed.	One-time fee-free switch to prevailing packages or SCP is provided. There will be no prepayment or cancellation fees charged for this switch. However, the fees will apply if you decide to redeem your loan. There will be no change to the remaining period of your lock-in if you decide to switch to the SCP. However, if you decide to switch to a prevailing loan package which comes with a fresh lock-in period (e.g. 3 years), you will be subject to this fresh lock-in period, even if you are still within the lock-in period of your SIBOR loan package. For example, if you have 1 year remaining lock-in period on the SIBOR loan package and the lock-in period of the prevailing loan package is 2 years, the new lock-in period of 2 years would apply.
Your loan is currently on fixed rate and will only be changing to a SIBOR reference rate after the fixed tenure ends.	One-time fee-free switch to prevailing packages or SCP is provided. There will be no prepayment fees charged by switching to any prevailing packages or SCP. However, if you decide to redeem your loan, the prepayment fees will apply. There will be no change to the remaining period of your lock-in if you decide to switch to the SCP and the SCP will apply after the end of your fixed rate tenure on the SIBOR-based part of your loan.

	For example, if you have 1-year remaining lock-in period on fixed rate: • The fixed rate will continue to apply for the 1-year lock-in period. • The SCP will apply after the end of the 1-year lock-in period. However, if you decide to switch to a prevailing loan package which comes with a fresh lock-in period (e.g. 3 years), you will be subject to this fresh lock-in period, even if you are still within the lock-in period of your existing loan package. For example, if you have 1-year remaining lock-in period on the existing loan package and the lock-in period of the prevailing loan package is 2 years, the new lock-in period of 2 years would apply.

13. Will I be subject to a fresh lock-in period if I switch to a prevailing package?

For the switch to the prevailing package, you may be subject to the terms and conditions of your bank's prevailing package, including a fresh lock-in period.

14. Will I be subject to re-computation of the Total Debt Servicing Ratio (TDSR), Loan-To-Value (LTV), and Mortgage Servicing Ratio (MSR) requirements when I switch from my SIBOR loan to an alternate package offered by the same bank?

As the need to replace the SIBOR-based property loan with an alternative loan package is necessitated by the discontinuation of SIBOR on 31 December 2024, MAS will not require financial institutions to re-compute the TDSR, LTV, and MSR requirements for affected customers, including investment property loan borrowers, making the switch <u>with the same financial institution</u>. This is a one-time exception as part of the industry-wide exercise to facilitate customers' switch to alternative loan packages offered by the same bank, and extends to customers utilising the one-time fee-free switch from the SCP to the prevailing package.

If you initiate a refinancing of your property loan with another financial institution, you will be subject to the prevailing property loan rules (e.g. TDSR, LTV, and MSR). However, you should check with that financial institution if you are eligible for any of the existing exemptions that are provided. For example, currently, borrowers are exempted from TDSR when refinancing their owner-occupied housing loans.

15. Will I be subject to re-computation of TDSR if I switch out to a prevailing loan package and at the same time:
(i) **apply for a (new or additional) mortgage withdrawal loan, and/or**
(ii) **request for the loan tenure to be extended**

For request(s) other than the switching out of your SIBOR-based loan to a prevailing loan package, you would be subject to credit assessment and thus, the re-computation of TDSR shall apply. You are recommended to speak with your bank if you have requests beyond package switching.