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CNA Explains: Will Singapore home loan rates rise after the Fed's rate hike?



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The Fed's latest decision could affect SORA, the benchmark used to price many floating-rate home loans in Singapore, potentially resulting in higher mortgage rates.



Condominiums and HDB blocks in Singapore. (File photo: CNA/Jeremy Long)

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18 Sep 2026 06:00AM

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SINGAPORE: Home loan rates in Singapore may eventually edge higher after the [US Federal Reserve raised interest rates](#) by 0.25 percentage points on Wednesday (Sep 16).

It marked the first increase since 2023, with Fed policymakers signalling that more increases could follow.

Singapore does not directly follow the US central bank's interest rate decisions. But US rates can influence global funding conditions and, in turn, Singapore's interest rates.

These include the Singapore Overnight Rate Average (SORA) that is used to price many floating-rate home loans.

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So how much could the Fed's latest move matter for mortgages here, and should homeowners choose a fixed or floating rate as the outlook shifts?

How will the Fed's interest rates affect Singapore home loans?

For borrowers on floating-rate home loans, one figure to watch is SORA.

Many such mortgages are priced using compounded SORA plus a margin charged by the bank. As SORA moves, the interest rate paid by these borrowers can therefore rise or fall.

But SORA does not simply track the Fed.

It is based on actual transactions in Singapore's overnight interbank market and is also affected by factors such as domestic liquidity and broader financial conditions.

This means a 0.25 percentage point Fed hike does not automatically translate into an equivalent increase in SORA or Singapore mortgage rates.

"When the Fed raises rates, funding costs generally rise, and benchmarks such as SORA may also move higher," said SingCapital chief executive Alfred Chia. "This can lead to higher mortgage rates and monthly repayments in Singapore."

However, Mr Chia said home loan rates may not move immediately. Any subsequent increase may also not be a direct one-for-one adjustment.

"Even if the Fed raises rates by 0.25 percentage points, Singapore mortgage rates will depend on funding costs and competition among banks," he added.

One important consideration is how long rates stay elevated, said Ms Selen Ling, chief economist and head of OCBC Group Research.

"Higher-for-longer rates would keep mortgage servicing costs elevated, especially for borrowers on floating-rate mortgages linked to SORA," she said.

"The greatest impact would be on households with large outstanding loans or mortgage repayments that already take up a significant share of income."

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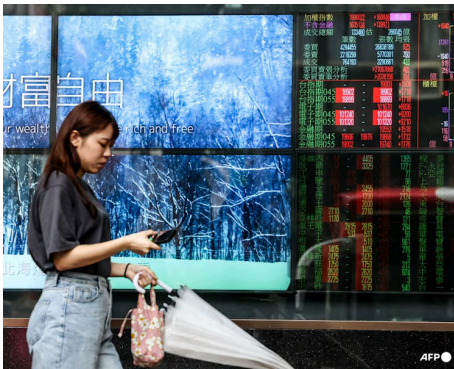
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Will banks change their fixed home loan rates?

Some fixed home loan rates had already risen before Wednesday's Fed decision.

MortgageWise.sg executive director Darren Goh said banks had raised their fixed rates by around 0.10 to 0.25 percentage points in anticipation of the Fed hike.

Banks price fixed-rate packages based not only on current interest rates but also on expectations about where rates are heading.

As a result, some expectations of future increases may already be reflected in fixed-rate packages currently on offer, Mr Chia said.

“If inflation remains high and another increase becomes more likely, banks may raise fixed rates further or reduce the attractiveness of promotional packages,” said Mr Chia

“Borrowers should therefore plan for rates to remain higher for longer.”

The Fed's latest projections showed that 16 of 18 policymakers expect the federal funds rate to end the year above its current level, implying at least one further quarter-point increase in their projections.

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Banks will want to raise their rates slightly more than the Fed to capitalise on the increased demand for fixed-rate loans, he explained.

However, Mr Goh cautioned against assuming that another hike this year was a done deal, noting that policymakers' views can change as economic and geopolitical conditions evolve.

Is it better to get a fixed or floating home loan now?

There is no single package that is best for every borrower, analysts said, adding that borrowers should consider several factors.

A fixed-rate package gives homeowners certainty over their monthly repayments during the fixed-rate period.

Mr Chia said this may be more suitable for homeowners who do not intend to sell their property in the short term, want stable monthly repayments or have limited room in their budgets to absorb further increases.

A floating-rate loan, meanwhile, may suit borrowers who plan to sell in the short term and can accept some volatility.

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It could also appeal to borrowers who expect rates to decline over time and are prepared to accept the risk that they may instead rise further.

Such loans may also provide greater flexibility, depending on their package terms, Mr Chia said.

Another factor to watch is how SORA responds to the Fed's rate hike, Mr Goh told CNA, adding that he does not expect a big change.

Mr Baey, who believes the economy is headed towards a recession, said he favours fixed-rate loans that do not extend beyond a two-year lock-in period. This would give borrowers an opportunity to reassess their mortgage after two years and potentially benefit if interest rates are lower by then.

The decision ultimately depends on each homeowner's circumstances.

"Ultimately, the decision should be based on the homeowner's cash flow, risk tolerance, plans for the property and expectations about how long they will keep the loan," Mr Chia said.

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Should borrowers refinance ahead of further hikes?

Analysts agreed that this is a good time for homeowners to take stock of their loans and consider refinancing.

"Homeowners whose lock-in periods are ending should review their loans now rather than wait for another increase," said Mr Chia, adding that refinancing could allow borrowers to secure a more competitive rate or greater certainty over their repayments.

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“(Homeowners) should first consider any lock-in penalty, legal and valuation costs, clawback provisions and the remaining loan amount,” he said.

Mr Goh advised homeowners to preserve flexibility, given the uncertainty over where interest rates could head in 2027.

This could reduce the risk of making the wrong call when deciding between a fixed or floating home loan while refinancing, he said.

“(The) bottom line is do not overcommit on a mortgage package, and we favour shorter lock-ins unless there's optionalities built in,” he said.

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