

Interest Absorption Scheme and Interest-Only Housing Loans

1. The IAS is a housing loan payment scheme offered by a housing developer and his partner bank(s) to buyers of uncompleted housing units. The IAS allows purchasers who, after paying the upfront downpayment, to defer making any further installment payments until the units are completed, i.e. issued a Temporary Occupation Permit (TOP). The purchaser would take up a loan with the developer's partner bank to buy the property under the IAS. Prior to TOP, the bank will require only interest payments to be made on the loan and these payments will be paid by the developer. The borrower will start making regular installment payments on the loan only after TOP.
2. The IOL is a housing loan whereby the borrower makes only interest payments on the loan for a period of time, with no repayments of the loan principal. For uncompleted properties, the interest-only period could be from the inception of the IOL to TOP of the project. (If an IOL is offered under an IAS scheme, the developer pays the interest instead of the borrower in the interest-only period). Compared to payments under a standard payment scheme, installment payments under an IOL in the interest-only period are lower, but as the loan principal is not paid down during this period, subsequent installment payments may be higher when servicing of the principal resumes.