Dear Editor

It is not clear why cooling measures that reduce the demand for car loans should increase their interest rates ("Cooling measures drive up car loan interest rates"; yesterday).

There are many factors that banks take into account to determine their lending rates, including their cost of funds, the demand for loans and the credit-worthiness of their borrowers.

A more relevant factor driving lending rates in the current context is that banks have been experiencing a slowdown in Singapore dollar fixed deposits in recent months.

The resulting increased competition for funding has pushed up the overall cost of funds for the banks, and this is being reflected in several lending rates, including car loans.

Any increase in auto loan interest rates would tend to gravitate to a common level through market forces.

In any case, car loans make up less than 3 per cent of total non-bank loans. It is a stretch to suggest that the cooling measures on car loans would drive up the interest rates on mortgage loans.

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Director
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