

MANAGING YOUR DEBT

DEBT plays an important role in our lives. As most of us cannot afford to purchase everything in cash, we use debt to buy things such as a house and car to fulfil our desired goals.

If used wisely, debt is a useful tool to help you achieve your financial goals. As such, debt by itself is not a bad thing as it helps you get the things you want faster with more convenience.

However, if you take on excessive debts, you may face difficulties meeting repayments which would ultimately get you into financial problems. This is why it is important to manage debt wisely and live with manageable debts.

Having manageable debts simply means living within your means and never overcommitting yourself financially. Keep in mind that good debt management helps you reach your financial goals faster while poor debt management negatively impacts your life.

WHY SHOULD YOU MANAGE YOUR DEBT WISELY?

It takes discipline and motivation to manage your debt wisely. Some benefits of managing your debts effectively are as follows:

1. Improved cash flow management

If you are able to keep your debts at manageable levels, you should have more money left over for savings and thus have a positive cash flow.

Having a positive cash flow is always desirable as you have extra funds available each month to help you build an emergency account, pay down debts and capitalise on good investment opportunities.

A positive cash flow can be achieved when you have a budget and follow it closely.

2. Better wealth management

A big part of building wealth is making wise choices about debt. Through managing your debts wisely, you will be reducing your liabilities and at the same time enhancing your net worth. All these effectively lead to better wealth management.

3. Avoid late payment and penalty charges

Be a good paymaster! The better you are at managing your debts, the more savings you will achieve in the form of various charges.

Take the first step by paying your debts on time.

4. Reduced borrowing cost

You can pay off your debt faster by managing your debt wisely and constantly monitoring your progress. The faster you pay off all your debts, the more you will save on interest charges.

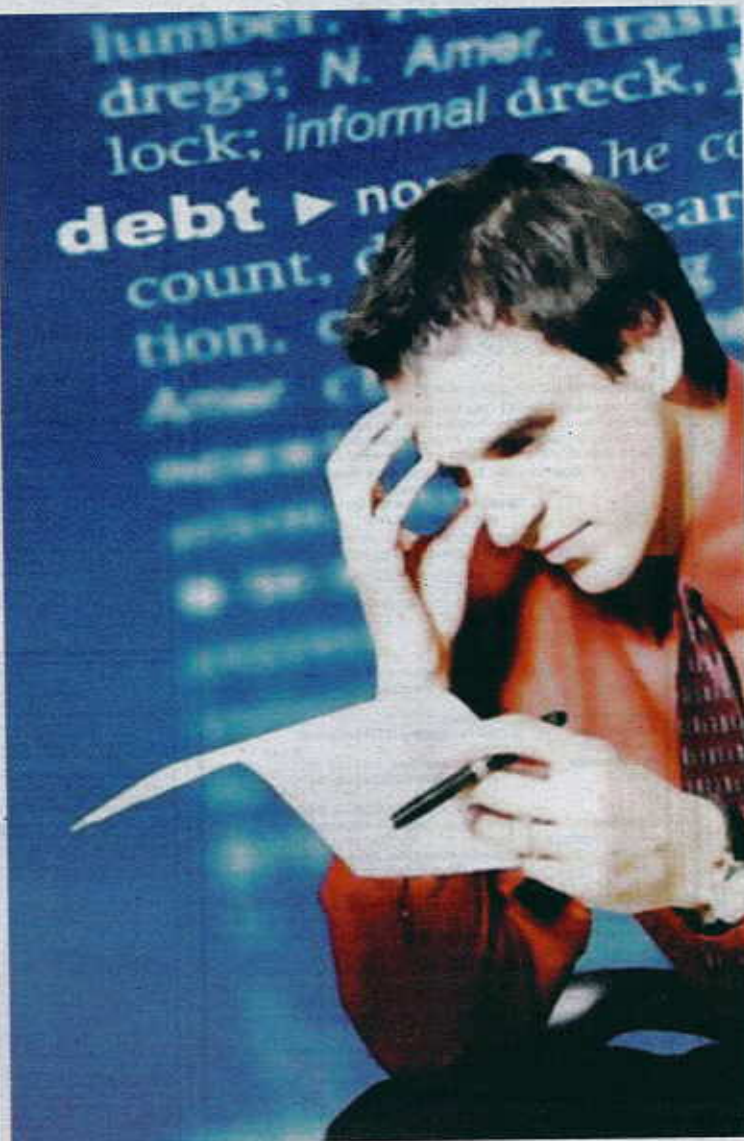
5. Improve your credit standing

If you can manage your debts well, you are creating a better track record for your future borrowings. This is because all your payment history is tracked by BNM under its Credit Bureau division.

Whenever you borrow from any LFI, your debts and repayment records are recorded. Due to this, if you have ever been behind on your payments or defaulted on your loans, it would be more difficult for you to get a loan in the future.

6. Avoiding harassments or legal action

To avoid legal action or harassment by your financiers, ensure you always pay



your installments on time. It is crucial to note that skipping or paying your installments late will also affect your credit standing.

If you think that nobody remembers you or is thinking about you, try skipping a loan installment.

7. Better relationship with family

The better you are at managing your debts, the better your relationship would be with family members. Very often, families argue or have misunderstandings over money.

With better debt management, your relationship with your family not only improves but also extends to your friends and co-workers.

This leads to a more harmonious environment at home and better productivity at work.

Marriage and debt

If you will be getting married soon, it is advisable for you and your partner to be open and honest about your existing debts. Both of you have to decide on how you are going to pay for these debts – whether jointly or separately. It is best to be clear and upfront about your financial commitments before getting married to avoid future misunderstandings.

It is also important to discuss the budget of your wedding together. Many couples desire grand weddings and tend to go overboard in their spending,

taking on more debt than they can handle. It is advisable that you plan your wedding according to your budget to avoid accumulating debts.

Debts accumulated from weddings can put unnecessary strain on your marriage and often lead to arguments. It is more prudent instead to use the money you plan on spending for a grand wedding towards the down payment of a new house.

WHAT LEADS TO OVER-INDEBTEDNESS?

You are said to be over-indebted if your debt has become a major burden for you to bear. Here, your income may not be sufficient and you may have to resort to utilising your savings and investments to pay your debts.

Greed

One of the main reasons of over-indebtedness is greed. In the words of Mahatma Gandhi, "Earth provides enough to satisfy every man's need, but not every man's greed!"

Some individuals become a little too greedy and are lured by get-rich-quick schemes only to lose their money. Even worse are those who use loans to finance such scams only to get themselves deeper into debt.

Lifestyle

There are also those who live a luxurious lifestyle by buying expensive things

they cannot afford. These people usually feel that they have to maintain an image to live up to other people's expectations. People in this category usually charge everything to their credit cards but only make the minimum monthly payments. They are over-indebted simply because they live beyond their means.

Circumstances

Some people are forced into over-indebtedness due to unavoidable circumstances. Although you may have taken all the necessary precautions to borrow within your means, your ability to repay your debts can be affected by events beyond your control. These events include losing your job, being disabled, suffering from critical illness or other unforeseen emergencies. It becomes more critical if you do not have enough savings.

Unfortunately, there are people who do not realise that they are in financial trouble and continue to live in denial, making their situation worse by the day.

SOME SIGNS OF POTENTIAL FINANCIAL DIFFICULTIES

Credit cards

- Paying only the minimum amount each month
- Increasing the outstanding balance every month
- Going over your credit limit
- Taking frequent cash advances
- Missing payments and paying late
- Having your credit card cancelled by the bank

Loans

- Using the overdraft or automatic loan feature on your current account frequently
- Receiving notices from banks or creditors for non-payment of debts
- Being denied credit because of a negative credit report
- Borrowing money from family or friends to pay your debts
- Getting calls from debt collectors regularly

Savings

- Using up your savings at an alarming rate
- Having little or no savings to handle unexpected expenses or emergencies

Expenses

- Living from paycheck to paycheck
- Depending on part-time jobs, overtime, commissions or bonuses to pay for your living expenses
- Not knowing how much money you owe until the statements arrive
- Arguing with your spouse regularly about money

* Credit Counselling and Debt Management Agency

