

## A set of new wheels

IN our last article, we talked about the difference between a Credit, Debit or Charge Card and, hopefully, we have a better understanding of which types of cards suit us best. This week, we'll look at common consumer loans.

### Car Loan Basics

Most young people want to have their own car as soon as they start working. In most cases, people would look for a Hire-Purchase or HP Loan. As the hirer, you pay your "rent" or installments to the financial institution based on their terms and conditions. So, you effectively don't own the car until and unless you finish paying the full outstanding loan. Let's take a look at a simple example:

If Alisa were to buy a car worth RM50,000, she would normally have to make a downpayment of 10% or RM5,000. This is because most financial institutions would only grant you up to a 90% margin of finance (of course, there may be some who are willing to lend you even up to 100%!) Next, you'd need to decide on the duration of the loan – normally, 3, 5, 7 or even up to 9 years. Then, the financial institution will set the interest rate based on this duration. Let's assume that Alisa were to opt for 5 years at an interest rate of 3.5% p.a. Her monthly installments would be determined as follows:

Loan Amount	(RM50,000 x 90%)	RM45,000.00
Total Interest	(RM45,000 x 3% x 5 years)	RM6,750.00
Total HP Loan	(RM45,000 + RM 6,750)	RM51,750.00
Monthly Installment	(RM51,750 ÷ 60 months)	RM862.50

As can be seen from the above, almost all working people would think they can afford to buy a new car of RM50,000 if they can come out with a RM5,000 downpayment and can pay the monthly installments of RM862.50. However, the problem lies with the hidden costs of owning a car. Some of these incidental costs are shown in the next table.

After looking at all those numbers, Alisa is now wondering if she can really afford a new car...



**Food for Thought**  
So, when can you afford to buy a new car? A good rule of thumb would be your monthly installments should be within 15% of

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NO	FIXED COST	RM/ MONTH	NOTES
1	INSTALLMENT	863	RM45K @ 3.5% FOR 5 YEARS (ROUNDED)
2	INSURANCE	125	RM 1,500 P.A /12 MONTHS
3	ROAD TAX	8	RM 90 P.A /12 MONTHS
4	DEPRECIATION	417	(RM 50,000 X 10%)/12 (ROUNDED)
SUB-TOTAL			1,413
VARIABLE COST			
1	PETROL	225	ASSUMING RM0.15/KM X 50KM/ DAY X 30DAYS
2	SERVICE & MAINTENANCE ASSUMPTION	50	
3	PARKING/ TOLL ETC ASSUMPTION	100	
SUB-TOTAL			375
TOTAL			1788

your take-home pay.

### Dad's Advice:

Knowing that his daughter would eventually get a car, Alisa's dad has the following advice to offer:

1. Shop around for a reliable car. If you decide to buy a used car, get your trusted mechanic to examine the car first
2. Work out the budget based on your monthly salary
3. If you decide to apply for a car loan, shop around for a package based on affordability and always ask for the Effective Interest Rate.
4. Do not use your credit card to pay for the downpayment.
5. If possible, buy your car with cash but if this is too much of a burden, try saving more cash for the downpayment and apply for a smaller loan.
6. Last but not least, avoid upgrading or modifying your car as it will not add value to your car.

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