



# Are you Excessively in Debt?

**Y**OU can use the debt to income ratio to find out if you have too much debt, that is to say, you are overextended.

This ratio compares your income against your fixed loan repayments such as housing and motor vehicle instalments as well as credit card repayments. For example :

Your gross monthly income:  
RM5,000

Your monthly fixed loan repayment:

RM1,000  
Debt to income, ratio:  
 $RM1,000/RM5,000 = 20\%$

If your income varies from month to month, use your average income in the calculation. Most banking institutions will calculate your debt-to-income ratio when considering your loan application. The generally acceptable debt to income ratio is up to a maximum of 30%.

### WARNING SIGNS OF A DEBT REPAYMENT PROBLEM

Although you can take a loan based on your capacity to repay, your ability to service your debt can be affected by events that are outside your control. These include loss of income source, emergencies and illness. You have or will stand a higher chance of having problems in repaying your debt if:

- You always spend more than what you earn.
- Your credit limit is fully utilised on most of your cards.
- You are always borrowing money to make it from one pay day to the next.
- You pay only the minimal amount of your loan repayments as and when they fall due and not to reduce your total debt.
- You find yourself arguing with your spouse about money.

When you face difficulties in repaying your debt, address the problem quickly to bring it under control. Do not ignore it, as the debt burden may worsen, and may lead to a situation where you will not be able to manage it.

### What action can be taken to handle a debt repayment problem

If you have difficulties in servicing your debt, you may take some or all of the following actions:

- **Contact your banking institution** and explain your problem to them. Banking institutions prefer to be alerted early when borrowers are facing difficulties in making repayments.

This is to ensure that an acceptable solution can be worked out between both parties while the problem remains manageable. Generally, banking institutions will consider requests to vary repayment amount for a temporary period or restructure the loans by varying the terms and conditions of earlier loan agreements.

Support your request by providing your banking institution with relevant details

and supporting documents as proof of your financial position. Remember that your banking institution generally does not want its borrowers to default on loan repayments, so do not be afraid to speak to your banking institution.

- **Develop a budget**
- **Reduce your expenses** by creating a spending plan that follows from the budget. Since the budget clearly shows total expenses (fixed and variable), it is easy to see where you can reduce or cut out on any expenses. Thus, the spending plan should take into account only necessary expenses such as housing, health care, utilities and education fees. The spending plan helps you to plan your spending and to avoid unnecessary expenses and impulsive buying. For the spending plan to work, you must stick to it and make the necessary changes to your lifestyle.
- **Consider using your savings or surplus funds** to clear your debt. If the interest charged on your loan is higher than income earned from your savings, it makes sense to use your surplus savings (net of your emergency fund) to repay your debt. Start by paying off the loan with the highest interest rate.
- **Do not commit to any new financing** until your cash flow has improved. In addition, if you feel you do not have the discipline to control the usage of your cards, return and cancel all credit cards. You may also consider transferring balances of credit cards with high interest rates to ones with slightly lower interest rates
- **Try to increase your income**, e.g. by getting a part time job. Any amount of additional income, along with controlled expenses, will help towards clearing your debts.
- **Sell off your assets** to pay your debts. For example, if you own a big house, you may want to consider selling it and buying a smaller house to reduce your debts.

