



Managing your debt

MOST people borrow from banking institutions when purchasing assets such as a house or a motor vehicle. Being in debt is not necessarily bad. In fact, if a loan is used wisely, it can help increase your financial wealth. However, if it is not managed properly or if you think you are likely to get into financial difficulties, you need to get help on how to manage your debt.

HOW TO MANAGE YOUR DEBT

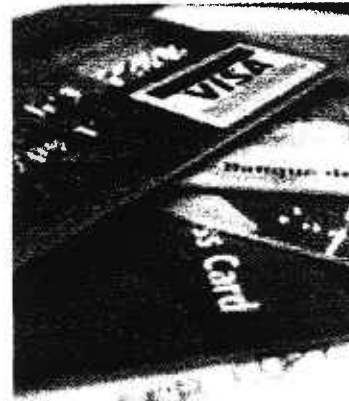
Below are some tips to help you stay in control:

Borrow Selectively

Borrow only to the extent you can afford to repay with your current level of income. Do not borrow based on the expectation of your future income because if things do not turn out

as expected, you will find yourself stuck with a debt that you cannot repay with your current income. In calculating your affordability, you should also take into account any additional cost you will incur on a regular basis for the asset purchased. For example, when buying a car you should also budget for the fuel, toll, repair and maintenance cost when deciding on an affordable monthly hire purchase instalment.

Manage Your Credit Cards Wisely



- Pay your entire balance each month to avoid finance (interest) charges. This is because finance charges on outstanding credit card balances are usually higher than that charged on conventional loans. If you are unable to pay the entire balance, aim to pay more than just the minimum sum as this will reduce the outstanding balance faster and to save on finance charges. However, if you can only afford to pay the minimum amount due, ensure that this will only be for a short period of time.
- If you pay for an expensive item, you could also opt for easy payment schemes provided by your credit card issuer. Such schemes allow you to spread your purchase cost over a period of time, e.g. 6-12 months without being charged any finance cost if you pay on schedule.
- Pay up balances promptly to avoid any late payment fees.
- Avoid taking any cash advances from your credit card unless absolutely necessary.
- Limit the number of credit cards owned to avoid overspending.
- Cancel your credit card if you find that you are unable to control the usage of your card.

Pay Down Your Debt

Try to pay down your loan if you have excess money, e.g. lump-sum bonus payments, to save on interest charges.

Use Automatic Payment To Pay Bills

Consider some forms of automatic payment methods so that bills due are paid on time. For example, you can arrange for standing instructions at a nominal fee with your banking institution to debit the funds from your deposit account to pay your monthly instalments.

Develop a Budget

Establish a budget and stick to it. In

this way, you will be able to track your expenses and avoid overspending. The steps involved in setting a budget are:

- Start by listing your income from all your sources.
- Next, list out your fixed expenses, including fixed loan repayments such as housing and motor vehicle instalments as well as credit card repayments.
- Next, list your variable expenses such as utility and food bills.
- Lastly, calculate your financial position, which is your income less your total expenses (fixed and variable).



Your financial position may show a budget surplus (income exceeds expenses) or a budget deficit (expenses exceeds income) position. If you have a budget deficit you need to take remedial action immediately to correct the deficit.

Build Your Savings

Build up your savings by having a savings plan as this will reduce the need to borrow for minor purchases.



You may also want to set up an emergency fund to pay for your living expenses should you be temporarily out of a job. Generally, the emergency fund should be sufficient to cover 3 to 6 months of your fixed expenses (which usually do not vary from month to month). Fixed expenses include fixed loan repayments, such as housing and motor vehicle instalments, as well as credit card repayments