

# Planning and managing your debt

Having a reasonable amount of debt is generally okay

By LEONG HUNG YEE  
hungyee@thestar.com.my

**M**OST of us carry some kind of consumer debt. It could be in the form of a hire purchase, mortgage, personal loan or even credit card balances.

Many of us have credit cards (not just one, but a couple of them). And some of us carry some debt over from one month to the next.

A car purchased under a hire-purchase plan or a house mortgage is also a consumer debt. For most people, their first major loan is a car loan.

According to financial planners, having debt is not really a bad thing so long you are able to pay it off.

They say it is 'okay' to take on some consumer debt but be prudent as it can be a major headache when one is saddled with a mountain of debt.

It's important to have reasonable debt. So how much is reasonable debt?

Consumer debt is an integral part of the banking sector and by extension, the economy.

The country requires the velocity of money in the market to drive its economy.

Velocity of money is essentially the rate at which the existing money supply changes hands over the course of a year.

Consumer spending is key in driving growth.

"Having debt isn't a bad thing as long as you are taking steps to pay it off," Jeremy Wong, a financial planner with a local insurance agency.

He says the ratio is best calculated on a monthly basis. For example, if your net income is RM2,500 and you pay RM500 per month in debt payment for car loans and credit cards, therefore the debt to income



ratio is 20%.

"The debt to income ratio is a way the financial institutions determine what you can afford in the way of a mortgage. Consumers have to fall under a certain percentage of the ratio to qualify for a loan from the bank.

"Banks usually lend up to a certain ratio and it varies according to banks," Wong says, adding that

the ratio is generally around 40%.

Another financial planner Jess Lim says generally speaking, the lower your debt-to-income ratio, the better your financial situation.

"As your debt payments decrease over time, you will pay less interest. Then you can use your money to save, invest, or spend as you choose," she points out.

She agrees that consumer debt is

alright provided one spends within his or her means and pays up as the interest rate can be a burden and if left unchecked, can become a nightmare.

Lim advises consumers to make sound decisions when buying on credit or taking loans. The key is to pay more than the minimum credit card payments or the debt will keep revolving.

She says a rule of thumb is that monthly payments on consumer debt should be no more than 20% of monthly disposable income and another guideline is that the total outstanding consumer debt should be around or less than one-third of your annual disposable income.

"When it comes to debt, whether good or bad, the lower the debt you have, the better," Lim adds.

Sal.