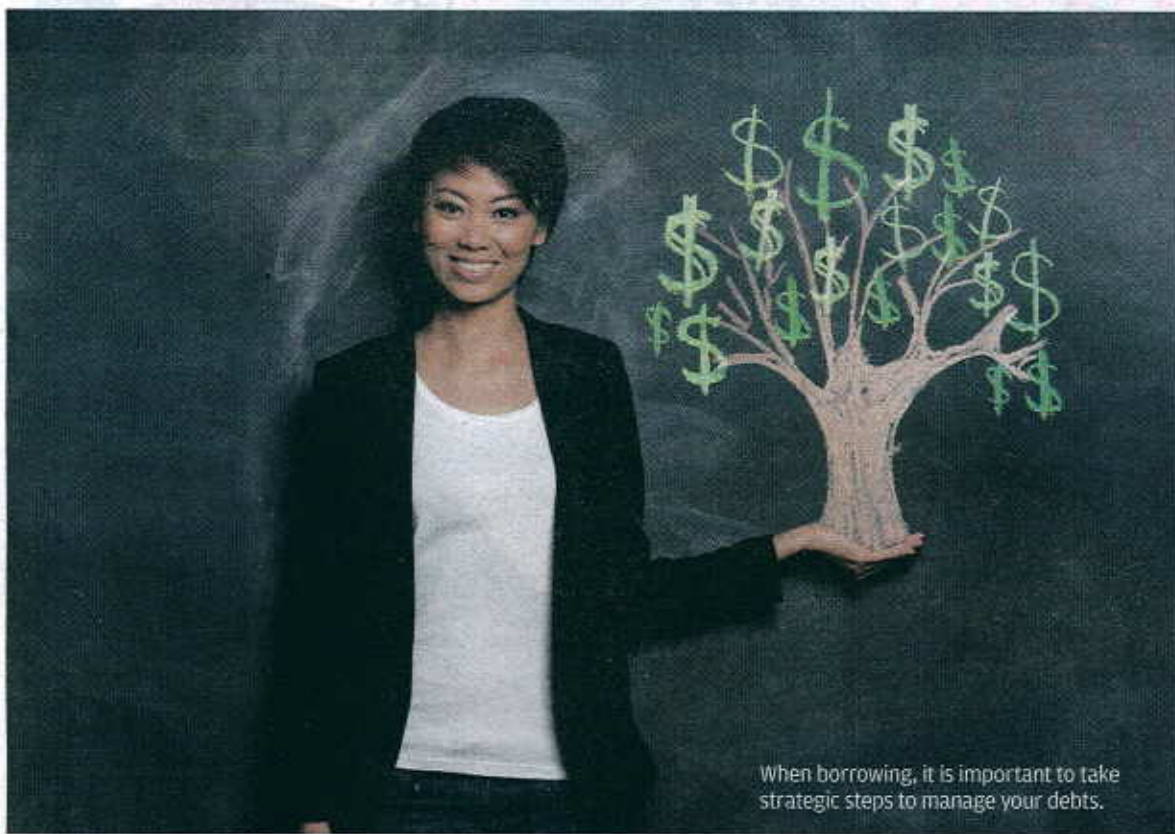


Borrowing vs financial stability



When borrowing, it is important to take strategic steps to manage your debts.

BY RACHEL PUNITHA

If you contribute significantly to the workforce, you are bound to have a few loans under your belt.

Although much can be said about loans, they are generally a good thing. They provide the opportunity for consumers to purchase with large sums of money that they otherwise would not have lying around.

They also allow for good financial behaviour to be recorded and errant borrowers to be monitored.

Financial institutions thrive on loans because they need to balance the influx of money. This is why they are usually falling over themselves to offer loans to their customers.

Keeping track of your credit history

A very good way of looking at your financial behaviour is through your credit report. In Malaysia, Bank Negara Malaysia (BNM) keeps a computerised database of borrowers' credit reports that contain credit scores. This database system is known as the Central Credit Reference Information System (CCRIS).

Currently, CCRIS contains credit information on about nine million borrowers in Malaysia. The countless financial institutions regularly feed CCRIS a wealth of information on each of their borrowers.

CCRIS then generates individual credit reports, which

are made available for companies, financial institutions and even the borrowers themselves upon request.

Causes of bankruptcy

In addressing the Dewan Rakyat last year, Minister in the Prime Minister's Department Nancy Shukri, said that the main cause for bankruptcy was borrowers being unable to pay back vehicle loans (26.5%), adding that from 2007 to last year, there were a total of 33,570 individuals who had defaulted. Housing loans, personal loans and business loans followed respectively.

"So I don't think the reason for their bankruptcy is economic difficulty, but personal needs. If we look at the economic aspect, it is in fourth place among the list of reasons found by the ministry's study," said Nancy.

To create awareness among the public, the Malaysia Department of Insolvency (MDI) has shared some statistics on various news portals such as the *Malay Mail Online*, indicating the causes of bankruptcy (see below).

How to juggle your loans

According to The Credit Counselling and Debt Management Agency (known by its Bahasa Malaysia acronym AKPK), nearly 50% of participants of their Debt Management Programme (a programme for individuals who need assistance in managing their personal debts with financial service providers regulated by Bank Negara Malaysia) face challenges in managing their cash flow.

The main problem people faced was being unaware of their financial position and constantly making wrong financial decisions.

A simple personal net worth statement could easily help you understand your financial position and assist you in making appropriate financial decisions whenever needed.

One of the main ways of managing your loans is to keep an eye on your credit scores. Interestingly, not many people do this. You need to stay one step ahead of financial institutions and know exactly where you stand financially.

Your credit rating will speak volumes of the way you manage your loans. This is very important because by taking care with your loans, you will be able to negotiate for cheaper loans or rates. Your healthy credit rating can be used as a leverage in the future when you will need housing loans or even for business credit.

Negotiating your way to lower rates will also lead to you settling your loan much quicker than anticipated.

This works both ways as well – if you wish to settle your loan fast, you will want lower rates and the way to get them is to use your good behaviour in your favour.

Another way to manage your loans is to be involved with your financial institutions. This means learning their language and jargon, understanding the way they approve and handle your loans, reading the fine print and persistently asking about how they can help in reducing or speeding up your payments and interests.

This is a lot of work but banks will appreciate your being financially literate. This reduces the effort they spend on explaining processes and fine print to customers. Moreover, there will not be any conflicts or miscommunication with them as you will already be in the know.

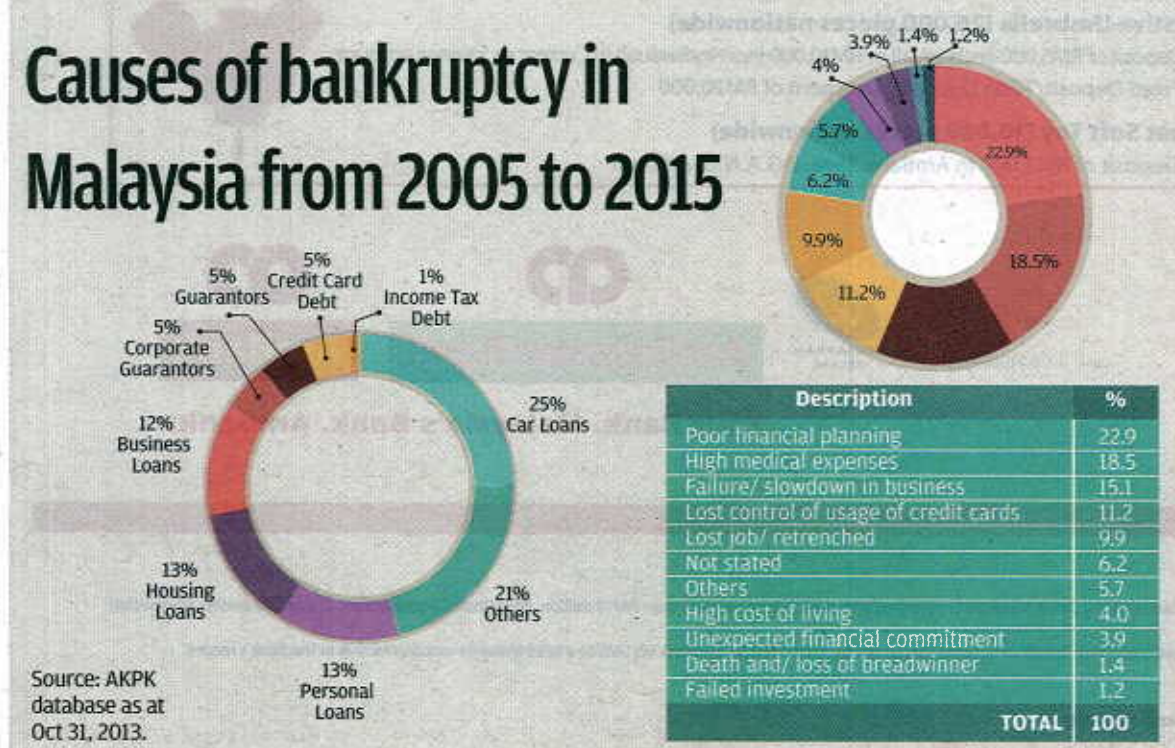
Any other method to manage your finances well is not rocket science. It is the same with losing weight: eat well and exercise. With financial stability, it is spend less and save more. Everything else is just window dressing.

A lot of help or advice from financial institutions is just logic and reason that you can, with a little thought, actually arrive at and execute yourself. If you need professional help, be selective with your choices.

There is no one basic formula for all. Each financial situation is different from another. Research the source of your help first before accepting it, let alone paying for it. That is not another debt you want hanging over your head. It would be too ironic.

According to Bank Negara Malaysia, the credit report contains the following credit information on an individual:

- Outstanding credit(s) – excluding any accounts that have been fully settled.
- Special attention account(s) – Non-performing loans, loans that are in default or close to being in default.
- Application(s) for credit – Applications approved in the previous 12 months, excluding application that have been rejected, deleted or cancelled.



It is a good idea to know about these causes before you make any major financial decision (especially if you decide to be a guarantor).

The Credit Counselling and Debt Management Agency, commonly known as AKPK (Agensi Kaunseling dan Pengurusan Kredit) has also shared data on its website explaining the reasons for defaulting on loans given by participants of their Debt Management Programme (the programme is for individuals who need assistance in managing their personal debts with financial service providers regulated by Bank Negara Malaysia) (see below right).

Maintaining financial stability

Financial stability is a very temperamental state. The information was made available by AKPK not to intimidate but to educate the public on the high possibility that they could find themselves in similar dire financial state.

Even if your financial situation is all fine and dandy, there is no harm in taking strategic steps to ensure you or your family never has to go through financial distress.

There is help available to those

who need it. The government and MDI for instance are reaching out to the public to assist anybody in any way they can.

In the same address to the Dewan Rakyat, Nancy added that the ministry is now focusing on single mothers, who are often abandoned by their husbands and burdened by debts that were not theirs.

If you feel that you or someone you know is heading towards such a scenario, persuasive measures should be considered immediately.

Some causes of over-indebtedness

- **Greed:** Expected high returns with no clue of the risk involved. For example, trapped in financial scams and investment failure (business or personal investment)
- **Lifestyle:** Maintaining high standards of living with insufficient cash flow (cash outflow more than cash inflow).
- **Circumstances:** No short-term planning for sufficient funds to support any emergency matters. For example, AKPK database shows high medical expenses at 18.5% was due to lack of savings (ideally three to six months of monthly salary) to support monthly costs to avoid the usage of credit cards or other credit instruments which attract high interest.