

This is the eleventh of a 12-part series aimed at educating consumers to be more financially responsible for themselves and their families. This series is produced by the Consumers Association of Singapore (CASE) and The Association of Banks in Singapore (ABS) as part of the MoneySENSE National Financial Education Programme. This series is supported by the following financial institutions: American Express Foundation, ABN AMRO, Citibank, DBS Bank, HSBC, Maybank, OCBC Bank, Standard Chartered Bank, and United Overseas Bank. Today, we discuss debt.

Credit has now become part and parcel of most people's lives and, judging by recent news reports on the increasing number of bankruptcies and rising amount of rollover debt on credit cards, debt is becoming a problem for more people.

Signs of overspending

People usually do not get into financial trouble overnight. The following are some warning signs to watch out for before you fall into serious financial difficulty:

- You do not know how much you have spent or owed until your bills arrive.
- No matter how much money you make each month, you cannot save.
- You have used up your savings to pay your monthly bills.
- You have no extra cash from your monthly income to meet unexpected expenses.
- You borrow frequently from friends and family members.
- You borrow from one creditor to pay another.
- You have started to depend on cash advances to pay basic expenses and credit card bills.
- You now work two to three jobs just to pay your bills.
- You have not been able to pay off your monthly credit card bills recently.
- You have been paying only the minimum sum on your credit facilities; sometimes, you cannot even pay that amount.
- You are charging to your credit limit.

What to do when in debt

You can reduce your debt by controlling your expenses and

establishing a cash flow budget to pay off that debt. First, track your expenses for a month. Then, total up your expenses and analyse the figures to see where your spending can be reduced. Identify the essential expenses and cut down on the rest. The goal is to reduce current spending so that you will not need to add to your debt, and to free up cash to pay off existing debts as quickly as possible.

Start dealing with your debts by taking some or all of the following steps:

- Contact your creditors immediately when you cannot make your payments on time. Sit down with them and work out a payment plan that will reduce your payments to a manageable level.** For credit card debt, speak with the bank or card issuer to see if you can convert the sum you owe into a fixed-term loan, which may have a lower interest rate than that charged for credit or charge cards.
- Pay off high interest rates debts first.** Pay off loans with the highest interest rates in the shortest time possible.
- Transfer debts with high interest rates to cheaper alternatives.** Check out the offers for balance transfer offered by various financial institutions. Beware of promotional rates that may rise once the offer period is over. However, financial institutions may be reluctant to allow you to consolidate your debts if you have been late or defaulted on payments for existing loans.

- Borrow only for the long term.**

Ideally, you should only borrow money to finance purchases that are more likely to gain in value, such as property.

- Seek assistance from local groups.**

Some organisations help those in financial trouble to get jobs and financial relief. They include the Community Development Councils and local religious institutions. Others may offer help in specific areas, such as educational institutions giving bursaries and low-rate loans to needy students.

- Reduce credit card expenses and cash advances.**

If you cannot pay off your outstanding debt in your credit card in a few months, stop using plastic to pay for lifestyle expenses, such as restaurant meals. If you do not have cash to pay for such expenses, find cheaper substitutes or postpone your spending till you are better off. If you are an impulsive spender, it may help to cut

your credit card into two, but talk to the card issuer to understand the terms involved.

- Sell off your possessions.**

If you cannot meet the repayment for loans on big items, such as cars, consider selling them. This may help you to avoid a black mark on your credit history. Moreover, selling off some of your assets to repay some of your debts may help you to convince your creditor to reschedule your remaining payments.

If all else fails, you may have to declare bankruptcy. Before you do so, speak with your financial advisor or lawyer to find out the repercussions for yourself and your family. For legal advice, call the Legal Aid Bureau at 1800-3251424.

Bankruptcy

Under Singapore law, you can be made bankrupt if you have debts of \$10,000 or more. A bankruptcy filing is a black mark on your credit history and this will make it difficult for you to get loans, mortgages and

credit cards in the future. Credit Bureau (Singapore) will display default records for six years from the date the information is entered into the bureau and bankruptcy data for six years from the date of discharge.

Once you are declared bankrupt, the Official Assignee (OA) steps in to sell your available assets to pay your creditors. The Bankruptcy Act allows the OA to take over a wide variety of assets, from money, land or property to intellectual property rights such as patents and trade marks from which fees and royalties paid to the bankrupt will pass to the OA.

However, the law allows the bankrupt to keep certain things, such as clothing, furniture and equipment, to help him earn his livelihood and to maintain a reasonable standard of living for himself and his family.

If you are employed, you have to give up part of your income to your bankruptcy estate. The OA will determine how large a sum after considering certain factors, such as your family's living expenses.

Discharging from bankruptcy

There is no automatic discharge in Singapore. It is important that you cooperate with the OA as he can help you to qualify for discharge as early as possible. You can get out of bankruptcy by the following ways:

- Annulment of the Bankruptcy Order**

This is possible when debts are fully paid or if you can reschedule repayments.

- Discharge by the Court**

Among other factors, the court will consider your age, earning capacity, money already repaid and cooperation with the OA before deciding whether to discharge you.

- Discharge by Certificate of the Official Assignee**

The OA may discharge you if the debt is below \$500,000 after three years.

For more information, visit <http://www.gov.sg/minlaw/ipto/>

Contest #11 (Please read the article and answer the following questions)

1. Some of the warning signs of overspending can include

- You manage to save some money every month
- You have extra cash from your monthly income to meet unexpected expenses
- You do not borrow money from friends and family members
- You do not know how much you have spent or owed until your bills arrive

2. Your spending habits are healthy when you

- always clear your bills on time
- borrow from one creditor to pay another
- work two to three jobs just to pay your bills
- have used up your savings to pay your monthly bills

3. You can reduce your debt by

- paying off low-rate debts first
- transferring high-rate debts to cheaper alternatives
- continuing to use your credit cards and cash advances
- not doing anything about it

4. Besides physical assets, the Bankruptcy Act allows the Official Assignee (OA) to take over

- your friend's possessions
- land belonging to your relatives
- intellectual property rights owned by the bankrupt
- anything the OA feels like taking

5. You cannot be discharged from bankruptcy

- by Annulment of the Bankruptcy Order
- through Discharge by the Court
- through Discharge by Certificate of the Official Assignee
- automatically

Terms and Conditions

- Every entry must be on the official entry form. No photocopies please.
- Judges' decision is final.
- Winners will be drawn from correct entries.

- Winners will be notified by post.
- Prizes are not transferable or exchangeable.
- There will be three winners each contest. Each winner will receive a \$50 cheque and 12 issues of The Consumer.

Official Entry Form (Contest #11)

For each question, please circle the correct answer:

- a b c d
- a b c d
- a b c d
- a b c d
- a b c d

Name: _____

NRIC: _____ Age: _____ Sex: _____

Occupation: _____

Tel: _____ Handphone: _____

Address: _____

Send your entry to:
'Dollars & Sense'
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Closing date:

**Entries must reach us
 by 29 December 2003**