Example

Mr and Mrs Lim have a combined gross income of $5,000. They took up a home loan and bought a 4-room HDB apartment. They also took up a loan to buy a car.

Their monthly total loan obligation is $1,726, consisting $1,201 for the home loan and $525 for the vehicle loan. Their total obligation of $1,726 is about 34.5% of their $5,000 combined gross income.

Monthly Debt Payments	Amt
1. Home Loan	$ 1,201
2. Car Loan	$ 525
Total Long Term Debt Commitment (A)	$ 1,726

Total Monthly Income (B)	$ 5,000
Ratio of Total Debt (A) / Income (B)	$ 1,726 / $ 5,000 = 34.5%

This is very close to the 35% recommended ratio. To reduce their monthly loan obligation, Mr and Mrs Lim agreed to make lump sum repayment of the two loans whenever they have extra cash (e.g. annual bonus) and not to take on more debt. This way, they can save on interest expenses as well as pay smaller monthly loan amounts for the loans (assuming the loan tenor is unchanged).

The information in this worksheet is of a general nature and may not apply to every situation or to your own personal circumstances. The information is correct as at time of publication. For more tips and educational resources on personal financial matters, visit the MoneySENSE website at www.moneysense.gov.sg.

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MoneySENSE Worksheet on Borrowing Money

Produced by:
THE ASSOCIATION OF BANKS IN SINGAPORE
ASSOCIATION OF FINANCIAL ADVISERS
FPAS
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Introduction

Borrowing can help you meet your long-term goals for a home or education. However, excessive borrowing may lead to financial trouble. In this guide, MoneySENSE highlights key issues you should consider before borrowing, and provides a worksheet to help you assess your credit situation.

1) When Should I Borrow?

Before using your credit card, taking a loan[1] to buy a car or buying a durable item on credit, ask yourself the following:-

- Do I really need it? Or is it something that I merely want?
- Must I have it today?
- What will happen if I do not buy it today?
- How have I managed so long without it?

If you have decided that it is something you really need, assess if you need to borrow to purchase it. You will be better off saving for it and paying in cash to save on interest charges.

Alternatively, take a smaller loan so that you do not overstretch yourself financially. Look at the total borrowing costs including the total interest payable before you borrow. Only borrow if you are sure that you can afford the loan payments.

TIPS

- ✔ Before you borrow, try saving an amount equal to your expected monthly loan instalments.
- ✔ Work out your monthly income and expenses to see if you have any remaining funds to pay for the loan instalments.

[1] Some of the major loan products include home or mortgage loans; renovation loans; motor vehicle loans; overdrafts; credit or charge card bills. Understand the features as well as terms and conditions before committing to a loan.

Understand 0% Interest or Interest Free Instalment Plans

There are many instalment plans with zero interest charge if purchases are made through a credit card. You pay the instalments using your credit card over a period. Such instalment schemes do not charge any interest and allow you to pay the same price as someone who pays the whole sum upfront in cash.

But, take note that these 0% plans come with conditions. You pay zero interest only if you pay the instalment promptly and in full every month. Otherwise, you may be charged an interest rate as high as 24 % a year on the sum that you roll over. You may also have to pay a late charge if you do not pay promptly.

Be aware that there may be service and / or penalty fees. Read the terms and conditions before taking up any plan.

2) If I Do Borrow, What Issues Should I Consider?

- **How Much To Borrow?**

It pays to be cautious. Lenders may offer you a bigger loan if you qualify for one. Borrow only up to the amount you are comfortable with. Even small differences in interest rates can make a big difference in the total amount you will need to pay, especially in the case of long-term loans.

- **Protect Your Credit Standing**

Lenders use credit reports, containing your credit history and current financial situation, to decide whether to lend you money. A report that shows defaults or late payments - even 30 days late - might lower your chances of getting a loan or require you to pay a higher interest rate for a loan.

The Credit Bureau (Singapore) Pte Ltd (CBS), which issues the credit reports of consumers, obtains information from its member financial institutions and public sources such as bankruptcy data.

It is therefore important that you maintain a good repayment record. You can obtain a copy of your credit report from CBS. To find out more about CBS, visit www.creditbureau.com.sg

TIPS

- ✔ Pay every instalment promptly.
- ✔ Your monthly long term debt commitments should not exceed 35% of your gross monthly income.
- ✔ Always keep track of the payment dates for your credit facilities and remember to pay before the due date. Pay your monthly outstanding credit in full to avoid incurring interest and penalty charges.
- ✔ Avoid multiple sources of credit. It is easier for you to keep track of your repayments when you have fewer credit facilities.
- ✔ If you are unable to meet the payment deadlines, let your financial institution know and explain the reasons to them.

- **Shop For the Best Deal**

When you borrow money, you have a right and a responsibility to know the loan's terms and conditions. Ask questions.

- What is the effective interest rate and advertised rates[2]?
- What are all the fees involved?
- How much will I have paid in interest when the loan is paid off?
- Can I pay it off early without penalty?

Shop around and compare. Always seek clarification when an offer sounds or seems too good to be true. You can then check your understanding against what is printed and explained to you. Read and understand the fine print and terms and conditions. Ask when in doubt.

[2] The Effective Interest Rate (EIR) is the actual interest rate charged for using the loan facility. The advertised rate for a loan is the applied rate (AR). EIR may be higher than AR due to the way interest is calculated.

TIPS

Save money by taking a shorter loan period, especially for items that are used up quickly (like a holiday) or depreciate in value (like a car).

The example below illustrates how much you can save by taking a shorter term loan.

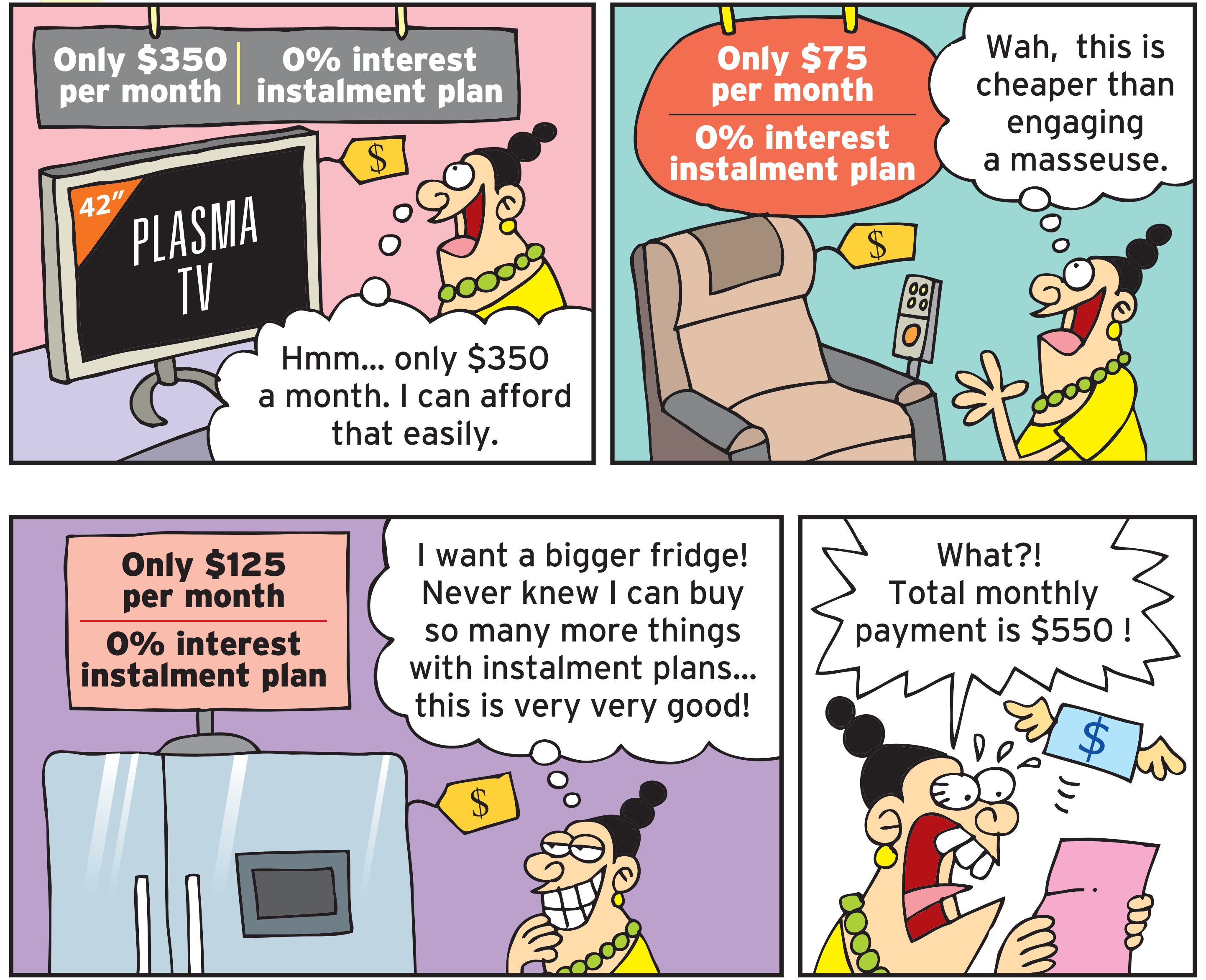
$50,000 car loan at 6% interest per annum monthly rest			
	5-year loan	**6-year loan**	**7-year loan**
Number of payments **(A)**	60	72	84
Monthly payment **(B)**	$967	$829	$731
Total payment **(A)** x **(B)**	$58,020	$59,688	$61,404
Interest saved by taking the shorter term loans instead of the 7-year loan	$3,384 (i.e. $61,404 – $58,020)	$1,716 (i.e. $61,404 – $59,688)	---

3) How Do I Manage My Loan?

All loans take time to pay off. Here are a few simple steps that can help you along.

- **Increase your regular repayments :** A simple way to get ahead on your loan is to increase the amount of your repayment. You will be surprised how much of a difference a small increase can make.
- **Make lump sum repayments :** If you have some cash coming your way, you can use it to make a lump sum repayment on your personal loan.

  Do check however if there are any penalty charges for increasing your regular payment or making lump sum repayments during the tenure of the loan. You are also likely required to give the banks advance notice before increasing your regular payments or making a lump sum repayment.
- **Reduce debts :** Pay off the debt with the highest interest first. As credit cards generally charge higher interest rates, it is best to pay the bills in full each month. If you have difficulty paying your credit card bill in full, pay as much as you can. You should also review your spending patterns and make adjustments to spend within your means. The faster you reduce your outstanding balance, the less interest you will have to pay.



TIP: Don't take on too much debt. Keep track of your monthly debt commitments, including payments for instalment plans.

Worksheet To Prioritise Your Debt Payments

In the spaces below, list all the lenders and persons that you owe money. Include car loans, home loans, outstanding credit card accounts, hire purchases, and any bills that are past due.

Indicate the total amount owed, the interest rate (or late payment fee, if past due bill), if the debt is secured and whether any legal action has been taken. Note the monthly payment amount, when the payment is due, and when you made the last payment.

Finally, indicate your priority for repayment of the debt. As a general rule, pay off the debt with the highest interest first. As credit cards generally charge higher interest rates, it is best to pay the bills in full each month, and not just the minimum sum. Next pay off debt with a short grace period before the debt is rolled over and interest and late payment fees are imposed.

Company / Person Owed	Total Amount Owed ($)	Interest Rate (%)	Debt Secured? If yes, state the security that has been pledged	Legal Action Taken? If yes, you might wish to give priority to settling this debt	Payment Amount (Per Month) ($)	Payment Due Date	Payment Last Paid ($)	Priority for Repayment
TOTAL MONTHLY DEBT PAYMENT								

Worksheet To Compute Your Maximum Debt Load

As a guide, your total long term debt commitments (e.g. mortgage payments, car payments, credit card payments for outstanding balances, etc.) should not exceed 35% of your gross income. For example, if you have a $5,500 monthly gross income, your total regular monthly debt (including a mortgage payment) should not exceed $1,925 ($5,500 x .35).

Use the worksheet below to determine the maximum amount of monthly debt payments, including your mortgage payments, that you can consider.

Monthly income **(A)**	$ ____________
Qualifying Percentage **(B)**	X 0.35
Maximum monthly housing and long-term debt payments **(A x B)**	= $ ____________

TIPS

- ✔ Review your debt situation regularly and make sure that you do not take on too much debt.
- ✔ Draw up a budget to monitor and manage your spending. Include your total monthly debt payments. Adjust your spending patterns, spend within your means and avoid taking on more debt than you can afford to repay.