



FINANCIAL PLANNING WORKSHOPS

Part 1

Elevating Financial Planning Literacy of Malaysians

Debt Management

Part 1 – Chapter 4



Today's Objectives

- **How to live a debt-free life**
- **Understanding the Problem of Debt**
- **Learn strategies for Dealing With Debts**
- **Money: Working For or Against You?**
- **Smart Way to use Your Credit Card**
- **Debt Consolidation**



Debt: Uses and Abuses

- **Debts (or Credit) create liabilities that may hurt your future if improperly managed**
- **They are necessary in daily lives and are useful if it is applied in the proper manner.**
- **When abused, they can lead to insolvency and bankruptcy**



Important Questions to Ask when you take on Debts

- **Are you in control of your finances after you take on the debt?**
If not, rethink whether to take it up!
- **Do you spend more than one-third of your income every month in paying off your debts?**
If yes, your debt levels are high!



Strategies for Dealing with Your Debts

- **Consolidate your debts**
- **Manage the loans well if you have a number of properties**
- **Settle the debts with the highest interest rates first**
- **Negotiate with your bank or credit card issuer for a better deal**



Consolidate your Debts

- **Organise your debts so that you can know the situation at all times**
- **Allocate time for the work**
- **If you are in dispose, delegate to someone able and responsible**



Manage the loans well if you have a number of properties

- Organise with the help of a payment schedule to ensure no late payment issue arise
- Constantly review to see if you can pay-off earlier to same interest charges
- Look out for refinancing bargains that can help to reduce costs further



Settle the debts with the highest interest rates first

- Organise your debts in term of interest charges
- Focus on paying off debts with the highest cost
- Use lower interest debt instrument to replace those with higher interest charges



Negotiate for a better deal

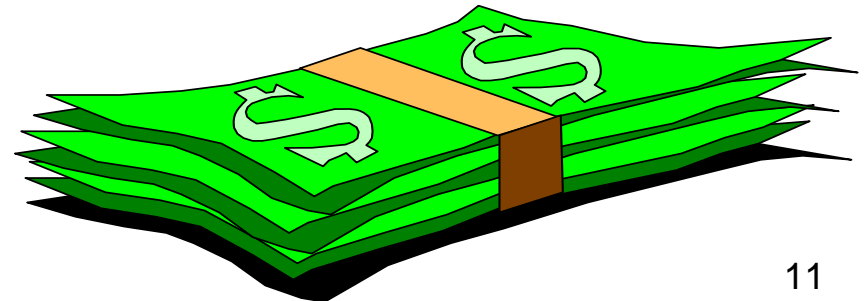
- Reschedule you repayment
- Cancel penalties
- Reduce charges or interest rates



Money: Working For You or Against You?

Choosing between the Cash and Credit Purchase Method:

- Let's take an example of an item you wish to purchase at RM20,000.
- Say you can either buy it cash or get a loan at 7% per annum interest for 10 years.
- Let's say that you can set aside RM500 per month.



Money: Working For You or Against You?

Cash compared to debt: Option 1

Suppose you want to buy it in cash and is considering the following options.

- **Save for 38 months x RM500**
- **Fixed deposit that gives 4% returns per annum.**
- **Your total savings equal RM19,000**
- **The balance of RM1,000 (RM20,000 – RM19,000) is the interest which was working for you.**

Cash compared to debt: Option 2

- **Buy it with a loan of RM20,000.**
- **By being able to pay RM500 each month**
- **Your total repayment $RM500 \times 46 = 23,000$.**
- **By not waiting for 38 months you are actually spending more by paying the $RM500 \times 8$ months = **RM4,000!****
- **So, ask yourself, what else can you buy with RM4,000?**

Smart Way to Use Your Credit Card

- **A useful tool if used for the right purposes**
- **Used to “get back” some of the money you spent**
- **Do not misuse your credit card**
- **A low annual fee, or better still, “free for life”**
- **Not to have credit cards from more than one bank. Pick the bank that offers a wider range of items**
- **Designate one card for definite purpose**
- **Pay all your credit card bills in full and on time every month**

Debt Consolidation and Management:

If Debts are currently up to your neck

- **How to look for a way out**
- **Assess your own situation**
- **Talk to your bank officer**



Suppose you have the following loans:

Type of Borrowing	Outstanding Balance (RM)	Monthly Instalment (RM)
Term loan 1 (secured by a Property A currently worth RM400,000)	20,000	1,688.00
Term loan 2 (secured by a Property B currently worth RM250,000)	210,000	1,188.00
Hire purchase	27,000	860.00
Personal loan	26,000	1,388.00
Credit card	12,800	700.00
Total	295,800	5,824.00

Equity:

the proportion of the property that is not financed by the Bank.

E.g.

- Property A is currently worth RM400,000
- Owe to the bank RM20,000
- Having RM380,000 or 95% equity in the property



Financial Planning Objective

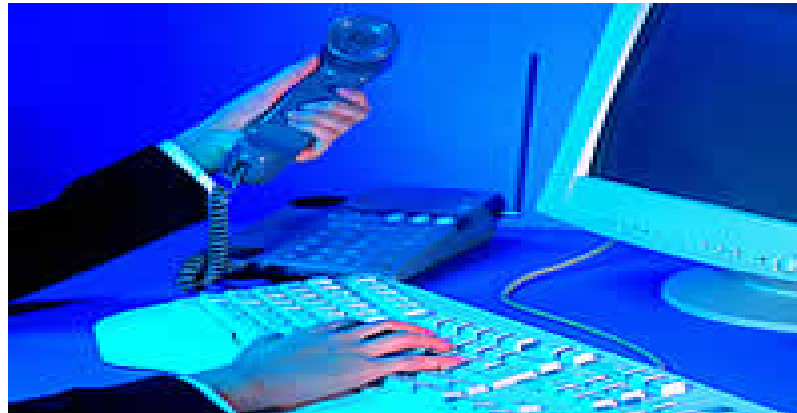
To reduce your monthly repayment to RM3,500 or below:

1. Find out the bank's margin of financing
2. Determine whether the ratio of your total outstanding balance to your property's current value exceeds the bank's maximum margin of financing.
3. Based on the prevailing interest rates, work out the period of financing that will be less than RM3,500.



1. Find out the bank's margin of financing

Most banks currently give up to 80% margin of financing for this purpose.



2. Determine the ratio of your total outstanding balance

(to your property's current value exceeds the bank's max. margin of Financing)

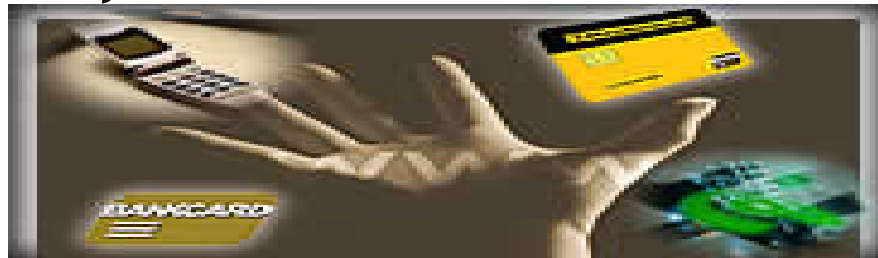
In this case, the ratio is about 74% (i.e. RM295,800 / RM400,000), So it does not exceed the 80% margin that most banks offer.



3. Work out the period of financing (based on the prevailing interest rates)

Let's say you take up a fresh loan of RM295,800 at the rate of 7% (fixed) per annum .

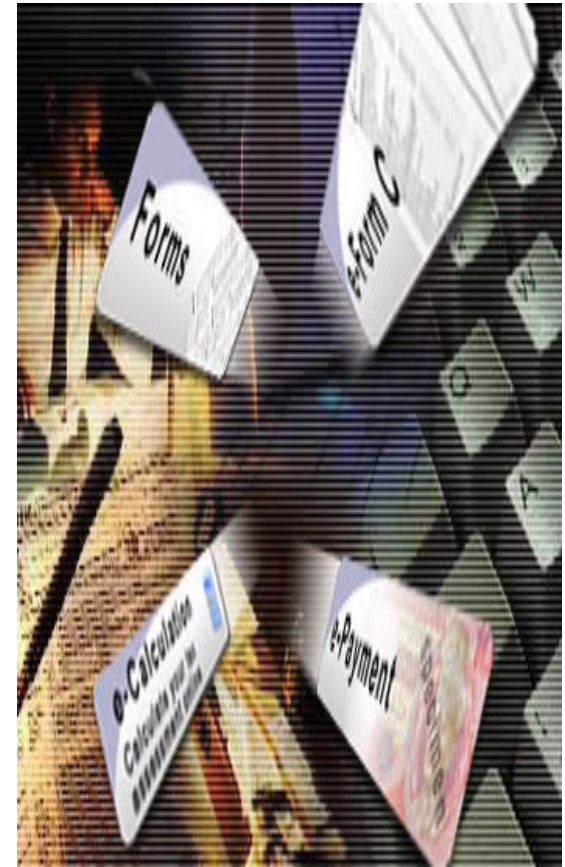
It will take approximately 117 months, i.e. almost 10 years, to fully repay the loan of RM295,800 at 7% per annum if the monthly installment is RM3,495.



What you could do with the RM295,800 loan obtained from refinancing Property A?

Draw down the loan to settle the following debts:

- ***Term Loan 2 balance of RM210,000,***
- ***Your car hire purchase balance of RM27,000,***
- ***Your personal loan of RM26,000***
- ***And your credit card balance of RM12,800.***



What are the outcomes of your corrective actions?

- **Lower your monthly debt repayments down to below RM3,500**
- **Pay for one loan account instead of repaying a few loans accounts**

MISSION ACCOMPLISHED!

The main purpose for debts consolidation is to reduce your monthly installment amount

Questions

