

MANAGING OUR BORROWING NEEDS

To be entirely debt-free in a developed economy is quite a challenge. While it is necessary at some point in our lives to seek financial assistance to achieve our goals, it is even more important to understand that we should only borrow when necessary and borrow the amount that we really need.

While loans allow us to enjoy the good things NOW and repay over a period of time, all borrowers should bear these pointers in mind:

- When you take a loan, you are repaying it with your future income
- Unsecured credit (e.g credit cards, personal credit lines etc) is easy and convenient to use, but such debts have to be repaid eventually
- Do not overlook the effects of compounded interest rates. Borrowers who do not settle their payment in full often end up paying interest on interest
- It is important to exercise financial discipline to try and repay as much as possible for all unsecured credit each month instead of allowing the interest payments to snowball
- Transferring unsecured debts to lower interest facilities is only a temporary measure. Preferential interest rates have limited life-span, as they usually revert to the original interest rates after promotional periods. Beware of payment hierarchies, whereby you must repay transferred debt first
- Interest rates can look deceptively low. Remember that a typical condition in car financing is that your instalments will be used to repay interest FIRST before being used to deduct your loan principal
- Do not be tempted by the relaxation of the loan down-payment policies. Consider making higher down payments for your dream car or house to reduce the loan amount. This will translate into lower interest payments

Guidelines For Keeping Healthy Debt Levels

Individuals must ensure that their debt levels are kept within "healthy" ranges. For example:

- Not more than 35% of take-home income should be used to make loan instalment payments. This 35% includes paying off as much unsecured loans as possible
- Your total liabilities should not exceed 50% of your total assets. The following worked example illustrates this:

$$\begin{array}{r} \text{Total liabilities} \\ \div \\ \hline \text{Total Assets} \end{array} = \begin{array}{c} \$50,000 \\ \div \\ \$120,000 \end{array} = \text{Debt Level} \\ \text{(healthy debt level)} \\ = 41.67\%$$

- Build cash savings equivalent to 3 to 6 months of your living expenses as a buffer in time of emergencies

Important Points To Note When Borrowing

- Plan your finances and live within your means
- Borrow only the amount you really need
- Be aware of the impact of interest rates and various fees
- Make an effort to reduce your debt levels

BANKRUPTCY & ITS CONSEQUENCES

What Is Bankruptcy?

- Bankruptcy is a process where the debtor is publicly recognised to be insolvent by the High Court
- The Court usually appoints the Official Assignee to administer the bankruptcy estate
- The Official Assignee's role is to realise as much assets as possible for distribution to the bankrupt's creditors and to assist the bankrupt to obtain a discharge (i.e release) from bankruptcy

How Is A Person Made Bankrupt?

- When a person is unable to pay off debts of at least \$10,000, his creditors may request the High Court to declare him bankrupt
- A person may also become bankrupt upon his own application to the Court



Consequences Of Bankruptcy

- The Official Assignee has control over the bankrupt's assets and is responsible for distributing the assets among his creditors
- The bankrupt must cooperate with the Official Assignee
- The bankrupt cannot leave the country without permission from the Official Assignee
- The bankrupt cannot bring an action (except a claim for compensation in respect of injury to his person) without obtaining permission from the Official Assignee
- The bankrupt cannot incur credit exceeding \$500 without disclosing his bankruptcy
- The bankrupt cannot be a director of a company or play a direct or indirect part in the management of the company or business unless he has obtained permission from the Court or the Official Assignee
- The bankrupt cannot be a trustee or a personal representative unless permission is obtained from the Court
- There is no automatic discharge from bankruptcy

Advice For Debtors

A debtor should:

- Inform his creditors truthfully and fully of his latest financial position
- Provide information and documents readily to prove his current financial position
- Make an effort to arrange with his creditors to repay debts by instalments, or to reschedule his repayments
- Request for an extension of time to liquidate his assets or seek other financial sources to repay his debts

A debtor should not:

- Ignore creditors' letters of demand and statutory demands, or any summons from the Court. This will only compel the creditors to commence bankruptcy proceedings. A debtor can be made bankrupt even if he refuses to respond to his creditors or accept legal documents that are sent to him
- Make empty promises after he has entered into alternative repayment arrangements. He must make a serious effort to keep to the new repayment arrangements

Information On Bankruptcy

WEBSITE:

www.ipto.gov.sg

GENERAL ENQUIRIES:

ipto_enquiry@ipto.gov.sg

Information On Debt Management

Credit Counselling Singapore Society

WEBSITE:

www.ccs.org.sg

GENERAL ENQUIRIES:

enquiry@ccs.org.sg

Internet Insolvency Search Service

WEBSITE:

www.isis.gov.sg

at \$6/- per search

A C K N O W L E D G E M E N T

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for their contribution towards the
contents of this brochure

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