

Take Charge of Your Financial Destiny

Financial Planning. Mortgage Management. Asset Protection

Are You Mired In Debt?

*(This article first appeared in
The Sunday Times on October 9,
2011)*

In our previous article, 'Assessing Your Financial Readiness', we briefly introduced the 3 basic barometers of financial health, which include the Personal Income and Expenses Statement, Personal Net Worth Statement and Financial Ratios. Today, we move into an area which can be a frightening issue that most people would find it difficult to talk about – debt.

What Is Debt?

Shunned by the old school and the hard core, debt – which is money that is owed to someone else – has become quite an issue for many developed countries. They are liabilities that drain money out of you, since part of your monthly income will have to go towards servicing the debt, and the interests that come along with it.

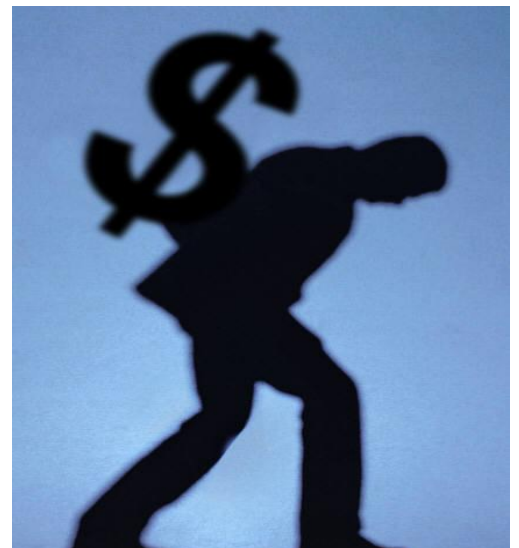
Unlike the olden times when things could only be bought if you had the money, modern spending culture allows you to buy something now and pay for it later. Thus, instead of being assiduous in your savings so that you can afford that iPhone 5 that is going to be released anytime, you are tempted by that alluring 48-month instalment plan available through a credit card, or in-house credit by the electronics store. With such easy access to credit – which is just a better word for debt – it is no wonder that there are increasingly more people who have problems managing what they owe.

How Do You Know If You Are Mired In Debt?

Most people will have a credit line or two, and it is not uncommon to have some form of debt as it is necessary for some big ticket purchases. For example, a Housing Development Board (HDB) flat can cost anything from \$300,000 to \$500,000, depending on whether you are buying it from the direct or resale market.

Thus, unless you have \$500,000 in cash, you will need to take on a mortgage – which is a form of debt – to finance the purchase.

That said, how much debt is too much debt? It is at this point that I will have to introduce the Debt Servicing Ratio (DSR) to you.



Alfred Chia

Alfred Chia

190 Lorong 6 Toa Payoh #02-
510
Singapore 310190

E-MAIL:

askalfredchia@gmail.com

We're on the
Web!

See us at:
**www.alfredchia.
com**

Debt Servicing Ratio (DSR)

Banks rely on a financial ratio known as the Debt Servicing Ratio (DSR) to measure whether an individual is able to produce enough money to repay his debts and lease payments. It is the percentage of a borrower's total monthly financial commitment against his monthly income. The acceptable DSR usually falls between 40 to 50%, and even up to 60%, depending on the borrower's profile.

The DSR is a vital measure of one's financial health. It is an indicator that the borrower is financially healthy enough to repay the loan. As such, banks rely on it to determine the quantum they are willing to extend to someone who is applying for a loan from them.

So what is your DSR? Have you done a check?

What Do I Do If I Have An Unusually High DSR?

The first thing that you will have to do is to rein in on unnecessary spending, especially on credit. Do you really need regular dinners at snazzy restaurants, the se new handbags from high-end boutiques and the latest upgrade to your mobile phone? The answer is no.

Other than that, you will need to arrange your finances in such a way that you clear away on those unnecessary liabilities that are dragging you down. Adopting a holistic approach to managing your finances is the way to go, and a professional financial adviser will be able to help you do that.

Learn And Grow Rich

Since the publication of the article 'Assessing Your Financial Readiness' two weeks ago, many of our readers have taken the initiative to download the Financial Worksheets from www.singcapital.com.sg to assess their financial health. Other than that, many of them have also contacted us to find out more about what financial advisers can do to help improve their financial well-being.

As a company that believes in empowering our clients with the right knowledge to manage their finances, SingCapital Pte Ltd would like to open our doors to welcoming any reader who is willing to take the first step towards growing their wealth. As such, we have organised a FREE workshop, 'Are You Ready To Invest?' on the 22nd of October 2011 (Saturday) from 2 pm to 4 pm.

During the workshop, we will share with you how you can assess your readiness to invest and the available channels to invest in, such as: equity, bond, commodities and properties (both local and overseas). Your journey toward financial independence begins here!■

Adopting a holistic approach to managing your finances is the way to go, and a professional financial adviser will be able to help you do that.