Borrowing Basics

[>> Borrowing Basics]

1. **What are the Rules of Borrowing?**
   - Borrow for productive purposes only and for something that you really need.
   - Borrow within your means.
   - A borrower has a moral obligation to repay the debt.

2. **What are the Sources of Borrowing?**
   A borrower can approach the following institutions for borrowing purposes:

Licensed financial institutions	Commercial banks that are licensed by the licensing body to provide financial products and services to the public	For a listing of licensed financial institutions, click here
Co-operatives	Co-operatives are regulated under the supervision of Suruhanjaya Koperasi Malaysia (SKM), an agency under the Kementerian Perdagangan Dalam Negeri, Koperasi Dan Kepenggunaan (KPDNKK)	For a listing of licensed co-operatives, visit SKM's website at www.skm.gov.my
Licensed Money Lenders	There are money lenders licensed by the Kementerian Kesejahteraan Bandar, Perumahan Dan Kerajaan Tempatan that provide loans to the public. They cannot accept deposits	List of licensed money lenders here: www.kpkt.gov.my

	and their loan interest rates are normally higher.	
Unlicensed Money	There are also unlicensed money lenders, commonly referred to as loan sharks. Their operations are illegal. You are advised not to borrow money from a loan shark.	

3.

4. **What Do Lenders Look At?**
   The success of your loan application largely depends on the following:

Purpose of borrowing	i) The purpose of taking on a loan will determine the type of financial product provided. ii) The interest rate and tenure of the loan is determined based on the type of borrowing.
Ability to repay	i) The loan amount will be decided based on the individual's ability to repay his loan. ii) The ability to repay loan is established from the surplus of income and the stability of the individual's cashflow. iii) The debt to income ratio is also used as an indicator in determining an individual's repayment ability.
Repayment History	i) Payment records for previously obtained loans will also be assessed by banks.

5.

6. **What is an Interest Rate?**
   Interest is the cost paid for the use of borrowed money or money earned on deposited funds. The greater the perceived risk, the higher the interest rate.

7. **What are the types of Interest Rates Quoted in the Market**

Flat rate	Interest calculated upfront on the amount of money borrowed over the entire loan tenure
Fixed Rate	Interest calculated based on a reducing balance basis, whereby the interest rate does not fluctuate during the loan tenure
Floating Rate	Interest calculated based on a reducing balance basis, whereby the interest rate is tied to an index or base rate and fluctuates over the period of the loan.

8.

9. **Who is the Guarantor?**
   A guarantor is not the principal borrower of a loan. However, a guarantor is still responsible for the unpaid portion of the loan, including interest, if the principal borrower defaults.
   A guarantor is needed when an individual's creditworthiness is doubtful.

10. **What is your right as a Guarantor?**

i. Guarantor is eligible to have a copy of the signed contract or any related documents pertaining to the loan facility.

ii. Guarantor has right to being briefed on the contract before signing the agreement.

iii. Guarantor is able to ask the borrower to settle the outstanding of his liability.

iv. Guarantor has right to know the loan balance outstanding with the consent of the borrower.

11. **What do I do before becoming a Guarantor?**

i. Guarantor must understand the type of loan and understand the obligation as a guarantor before signing the agreement.

ii. Get legal advisory on the implication of being a Guarantor.

iii. Ensure that the agreement is not against the law.

1. **What is a Credit Card?**
   A credit card is an electronic payment tool which allows you to purchase products and services without the exchange of cash.

2. **What you should know about Credit Card?**
   - Credit Limit
     - The maximum amount of credit that you can charge to your credit card.
     - The credit limit granted is normally up to a max of two to three times of your monthly income.
   - Fees and charges

Joining fee	Credit Card issuers may impose a one-time joining fee. The fee varies depending on the card issuer.
Annual Fee	Customers have to pay the fee annually once you accept the card. A waiver of this fee applies upon certain usage conditions.
Finance Charges	The charges imposed on the outstanding balance after the payment due date.
Cash Advance Fee	The fee depends on the amount withdrawn
Late Payment Charge	This charge is imposed when you fail to pay the minimum monthly payment by the due date.
Service Tax	A service tax is imposed effectively in 2010.
Administrative cost for overseas transaction	It varies based on the transaction amount.

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3. **How to use your credit card wisely?**
    - Pay the amount due in full to avoid interest charges.
    - Avoid using your credit card if you cannot make the monthly payments.
    - Limit the number of credit cards based on your needs and payment capabilities.
    - Do not use your credit card to get cash advances from an ATM.
    - Pay before the due date to avoid late payment and penalty charges.

4. **How to safeguard your credit card?**
    - Sign your credit card immediately after receiving it
    - Do not let anyone use your credit card
    - Do not provide your credit card details to an unknown party
    - Make sure you cut up your expired credit card
    - Check all details on the charge slips before signing
    - Keep your credit card in the same place so that you will immediately notice if it is lost or stolen.
    - Contact your card issuer immediately in the event of a lost credit card

5. **What are the other types of cards available in the market?**

Charge Card	Charge card is similar to a Credit Card. However, the outstanding must be paid in full each month. Failing to do so, late payment charges will be imposed.
Debit Card	The amount of your spending will be deducted immediately from your bank account.
Prepaid Card	Can be used to make purchases with a spending limit, which is based on the amount of money that is preloaded onto the card.

>> Personal Loan / Financing

1. **What is Hire Purchase?**
   Hire Purchase is the hiring of goods with the option of buying the goods at the end of the hire purchase term.
   This type of loan usually applies when purchasing a vehicle, where you become a hirer while the creditor acts as an owner. You have to pay the instalment for an agreed duration while using the vehicle. The ownership of the vehicle is transferred to the hirer once the hire purchase loan is settled.

2. **How to calculate the instalment of a Hire Purchase loan?**
   The interest rate on a hire purchase loan is normally computed on a flat rate basis. An illustration of the instalment calculation is as follows:

Car Price	RM50,000
Down Payment @ 10%	RM5,000
HP Loan amount	RM45,000
HP Rate (flat rate)	5% p.a.
Loan Tenure	5 years (60 months)
Total interest charged	
= Loan amount x Rate x Years	
=RM45,000 x 5% x 5	
= RM11,250	
Total loan + Interest	
= RM45,000 + RM 11,250	
= RM56,250	
Monthly Instalment	
= RM56,250 / 60 months	

= RM938	

3.

4. **Apart from the payment of the hire purchase loan, what other expenses should we be aware of when buying a vehicle?**
   There are few expenses that the borrower needs to be aware of when buying a vehicle, as follows:

Fixed Cost	**Variable Cost**
Instalment	Petrol
Insurance	Service & Maintenance
Road Tax	Parking, Toll, etc.

5.

6. **What should I do before buying a vehicle?**
   - Shop around for a car that is reliable and meets your needs. Do some research and take advice from your family and friends.
   - Get a trusted mechanic to first inspect the car if you intend to buy a used car.
   - Take into account the monthly instalment and related running costs such as petrol, toll, parking fees, other expenses like road tax, insurance and regular servicing.
   - Try saving more cash for the down payment and apply for a smaller loan with shorter loan tenure.
   - Do not use credit cards to pay for the down payment.
   - Be prepared for unexpected expenses to cover repairs in case of a breakdown or an accident.
   - Ensure that your car is adequately insured.

7. **How do I make an early settlement for a Hire Purchase loan?**
   Early settlement of the hire purchase loan will entitle you to a rebate on the interest. However, there could be a fee or penalty charged when the loan is

repaid early.
If you decide to sell your car during the existing tenure of the HP, you need to:

- Check your outstanding loan amount
- Check the market value of your car
- Be prepared to settle the difference.

8. **What happens if I default in paying the instalment?**
   The credit provider is eligible to take the following actions if the borrower is in default:

i. Repossession

a. When the hirer defaults in two successive monthly instalments.
b. If the hirer has repaid more than 75% of the loan amount at the moment of default, the lender can only repossess the vehicle if it has obtained an order of the court to that effect.
c. If the hirer is deceased, the lender can repossess the vehicle if there are defaults in four successive monthly instalments.

ii. Legal action / bankruptcy.

9. **What is the procedure to repossess a Hired Vehicle?**

i. Pre-repossession

- A pre-repossession notice will be served on you and your guarantor.
- This is a 21-day notice in writing from your lender informing you that it intends to repossess the vehicle.
- Before the expiry of the 21 days' notice, you need to do the following:
    - Pay the outstanding arrears; or
    - Return the vehicle to your creditor and pay any outstanding debt.

ii. Repossession of your vehicle

- Repossession is allowed if you fail to pay the outstanding arrears and do not return the vehicle to the lender upon expiry of 21 days' notice.
- Repossession of vehicles are generally carried out by registered repossessors with Association of Hire Purchase Companies Malaysia (AHPCM).
- They are not allowed to use strong arm tactics and force on the hirer while repossessing the vehicle. Then, they will make a police report and bring the vehicle to the place indicated by the lender for storage.

iii. Post-repossession notice

- The lender will serve a notice in writing to you and your guarantor informing that it has taken possession of the vehicle.
- The customer has three (3) options that must be acted upon before the expiry of the 21 days' notice:
    - Pay all outstanding arrears and out of pocket expenses (cost of storage, repair or maintenance, cost of repossession and re-delivery) incurred by the lender to regain possession of the vehicle;
    - Repay in full the balance due and settle all out of pocket expenses;
    - Introduce a buyer to purchase the vehicle at the indicative price in the notice.

iv. Notice on disposal of vehicle

- If the amount due is not paid within 21 days, your lender can sell the vehicle through a public auction by serving you a notice 14 days before the date of the auction.

v. Selling the vehicle

- Sale of the vehicle can take place after the 14 days' notice.
- The auction price is based on a forced sale value, it will be lower than the prevailing market value.

- If proceeds from the sale of the vehicle are insufficient to pay the outstanding amount due, the creditor may recover the shortfall from the hirer.

>> Hire Purchase (HP)

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>> Housing Loan

1. **What is the factors to consider before buying a house?**

    1. Location of the property

        - Identify where you would want to live and the kind of neighbourhood that suits your needs.
        - Basic amenities like shops, banks, etc.
        - Availability of public transportation
        - Security

    2. Types of property

        - Landed properties generally cost more but tend to appreciate more than high-rise properties.
        - High-rise properties are more affordable.

    3. Type of ownership

        - Freehold property - Buyer will own the property for indefinite period.
        - Leasehold property - buyer will own the property for the lease period, normally up to a period of 99 years.

    4. Availability of title

        - A title proves your ownership over a property.

- You will be issued an individual title for landed properties, while a strata title will be given for condominiums or apartments.
- It is best to get a lawyer or someone familiar with this matter to advise you before paying any deposit for the purchase.

5. Reputation of developer

i. Assess their projects to see if they keep to their promises. Check:

- If they deliver properties on time
- The quality of their work
- If they provide all the amenities as promised in the brochure

ii. If a project is abandoned, you are liable for all disbursements made by the lender although you do not get delivery of the house.

2. **What is the eligibility criteria to apply for a housing loan?**
   Before committing to a loan facility, you need to assess the following:

i. Debt-to-income ration

- Try to keep all your monthly loan commitments to not more than 40% of your net monthly income.
- If you are currently paying for a car loan, you have to assess if your current income can take on another loan. If it have already hit this limit, perhaps you may want to delay purchasing a house.
- Always ensure that you can pay your monthly instalments in a timely manner.

ii. Mortgage Reducing Term Assurance (MRTA) / Mortgage Reducing Term Takaful (MRTT)

- This is a one-time insurance premium which covers the insured in the event of death or total permanent disability for the unpaid portion of the housing loan.

iii. Loan-to-value ratio (LTV)

- LTV ratio is also commonly referred to as the margin of financing. The margin may vary depending on the type of property, the existing loans and repayment capacity of the borrower.
- Typically, lenders would lend up to 90% of the property's purchase price.

- When purchasing properties for investment purposes, it is best that you keep the LTV ratio low.

3. **Should I buy or rent a house?**

Buy	**Rent**
You may spend a lot of time to handle repairs and the general upkeep of the house.	All repair works and upkeep of the house will be borne by the owner.
Small improvements to your house can add up to your expenses in the long run.	Maintenance expenses are usually covered by the landlord.
Tied down to your house even though you are not happy with your neighbour/area	Has freedom to move out.

4.

5. **What other cost and charges are incurred when buying a house?**
   - Sales & Purchase Agreement - Legal Fee, Stamp Duty, etc.
   - Loan Agreement - Legal Fee, Stamp Duty, etc.