



AMBD Article

DO YOU KNOW THE TRUE COST OF YOUR INSTALMENT PLAN?

I was walking around one of the shops in Gadong one day when I saw it – the 55” LED TV. This model has been on my wish list for quite a while now but I have been quite hesitant to purchase it as I still have my monthly car loan and home loan to repay. “Should I spend BND5,999 on this LED TV?”, I began to ask myself. “I have been working late a lot lately and do deserve a treat for myself.”

Before my conscience kicked in however, that was when I saw it. Stuck to the LED TV was a small banner with the words “**PAY LOW INTEREST WITH OUR NEW INSTALMENT PLAN**”. Curious about this plan, I went to approach the salesman who then explained that I could walk away with my dream TV set if I simply committed to pay as low as BND149 per month over a course of 48 months.

A payment of BND149 per month seemed like a reasonable amount to pay rather than draining BND5,999 from my bank account at one go. I therefore agreed to go along with the instalment plan and walked away with a big smile on my face and the LED TV.

A few months later, I wish things worked out differently. You see, because I was so excited to own my own TV set, I did not think about the consequences that followed. While BND149 per month for 48 months might seem reasonable at the time, this actually came up to a BND7,152. This is about BND1,100 or almost 20% more than what I would have paid for the sale price of BND5,999. I realized that I could have saved a lot of money if I had taken some time to think before I decided to buy my so-called dream TV. Instead, I now have more debt and a longer list of monthly debt repayments.

While instalment plans can give us more flexibility with our finances, most of us tend to overlook the actual cost that we are paying, as the case exemplified above. One lesson that can be learnt from the above is to always be aware of the cost of borrowing or the interest payable before you borrow. Don’t just focus on that monthly instalment! Be sure you have enough to cover your other obligations and for emergencies first, then consider if you can pay the monthly repayments.

In some cases, you may even find “0% instalment plans” where such schemes do not charge any interest and allow you to pay as much as the upfront sale price of an item. While this may seem like a good deal at first glance, these schemes usually come with conditions. Always make sure that you have understood the terms and conditions of any instalment plans and ensure to pay every instalment promptly. Otherwise, you may be charged a higher interest rate on the sum that you missed. You may also be charged a late penalty fee if you do not pay promptly.

Lastly, here are some useful financial tips to consider before you take out your next loan:

- Understand the true cost of borrowing – ask the financial institution the difference between the **advertised** and **effective** rate! Note that the effective interest rate is the actual interest rate you pay for using the loan facility;
- Shop around and compare – when an offer seems too good to be true, it usually is! So make sure you ask and understand the terms and conditions;
- Beware of any fees and charges such as late payment charges and any processing fees; and

- If you earn net monthly income of BND1,750 and above, remember that your debt commitments cannot exceed 60% of your net monthly income.

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