Lessons in personal finance
with Financial Consumer Protection Unit, AMBD
Series 1

Mr. Awang has a problem. A fancy new car model has just been released and he wants to buy it. The only problem is that he currently has other financial commitments and is unable to purchase the car whether by cash or on credit. His total debt service ratio (TDSR) has already been maxed out to the limit of 60% - meaning 60% of his net salary is already committed to other existing financing: a personal loan, an existing car loan and a couple of credit cards. He also has a poor track record of repaying his loans, often making repayments at a later date than agreed. Because all of this information is reflected in his credit report, banks and finance companies are unwilling and unable to grant him credit facility to purchase the car.

But Mr. Awang has a solution – his dear sister-in-law, Ms. Dayang, is his complete opposite. She has few financial commitments and a spotless repayment record – a perfect loan applicant. As such, Mr. Awang approaches Ms. Dayang for her to take out the car loan and purchase the car under her name. He promises that he will make the monthly repayments of BND800 and reassures that Ms. Dayang has nothing to worry or think about; she doesn't even need to read the agreement – she just needs to sign it.

Fast forward to one year later, and due to unforeseen circumstances, Mr. Awang has just lost his job and income. He is unable to repay his sister-in-law anymore. With her own new commitments (she and her husband have just taken out a housing mortgage), Ms. Dayang is also unable to make the repayments. Due to several defaults on the car loan, the bank is now chasing her down with multiple notices and is threatening to take legal action against her if she does not make more regular repayments.

"But it is essentially your car and your car loan!" argues Ms. Dayang to Mr. Awang, "Why do I have to take the blame? I never even touched the steering wheel! It was just my name, but it was your responsibility!"

Sadly, both Mr. Awang and Ms. Dayang are no longer able to make the repayments. In the eyes of the bank, Mr. Awang has nothing to do with the car loan, and is able to get off lightly. Meanwhile, the bank proceeds with legal actions against Ms. Dayang, on a car that was never really hers.

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Does this sound familiar to you? Unfortunately, this is a common occurrence in Brunei. Although consumers like Ms. Dayang may think that they are just helping their friend or family member out with a favour, many fail to understand the implications of taking out a loan for someone else before taking the plunge. So, what can we learn from above story?

1. ***Regardless of who the credit facility is for, if it is your name on the agreement, it is your name that is on the line.***
   Before the establishment of the Credit Bureau in 2012, financial institutions were unable to assess an individual's ability to repay financing accurately, as the information was not shared among them.

Now, however, financial institutions have access to your credit report – a summary of all your credit information and history. So before granting new credit facilities, banks can check from your credit report how many other commitments you already have, and whether you have been making repayments on regularly and on time. Individuals can also have a look at their own credit reports to ensure that the information is correct and up to date.

The trouble with borrowing on behalf of someone else is that, although someone else gets to enjoy the facility, the loan is still listed under your name and in your credit report. This means that if the person you are borrowing for (like Mr. Awang) suddenly is not able to make the repayment, this will only jeopardize and affect **your** name and record as it is only reflected in your credit report. This will in turn affect any loan applications you may apply for in the future. Just think to yourself: if a bank isn't willing to lend to someone, there usually is a good reason as to why – so, why should you?

2. ***Plan and budget your finances carefully***
    a. ***Needs vs. wants***
    Mr. Awang should have assessed his finances and realized that he did not have enough financial capacity to want another car. He should have taken into account that he already had an existing car loan, a personal loan and several credit cards, leaving just a small portion of his income in his pocket. Further, the new car would cost him an additional $800 a month, suggesting a more luxurious car – certainly not a 'need', especially if he budgeted his income carefully to consider the more pressing expenses, such as his children's education and household groceries.

    b. ***Build an emergency fund***
    Mr. Awang unexpectedly lost his job and income. Unexpected things can happen to anyone. As such, it is highly recommended to set aside one's income for an emergency fund, from which we can draw upon, to secure ourselves in the case of these unexpected and costly incidents.

    c. ***Plan your future***
    In the first year, Ms. Dayang had few financial commitments and could assist Mr. Awang. However, in the next year, we see that Ms. Dayang now has an additional financial commitment – her joint housing mortgage with her husband. Ms. Dayang should have been less inclined to help Mr. Awang, knowing that a big expense was coming up in the near future, and that she needed to budget her income for that. You should always plan your finances ahead, especially for the big expenses in life. You can engage with your bank to seek advice for your personal finances.

3. ***Always read the terms and conditions of an agreement, and understand what you are getting yourself into.***
One of Ms. Dayang's biggest mistake was to sign the agreement without reviewing it. Again, it is emphasized that if it is your name in the agreement, it will be your name liable to be brought for legal actions. Always go through the terms and conditions of an agreement thoroughly before legally binding yourself to it with your signature.

4. ***Take action!***
Never be afraid to approach your bank to talk about your financial situation. In Ms. Dayang's case, perhaps she could have discussed other alternatives of the repayment, or to restructure the loan – thus avoiding being in default and letting the situation snowball into legal proceedings.

Although the story of Mr. Awang and Ms. Dayang is fictional and made up, we can all learn very real and practical lessons from it to become more informed financial consumers.