Do Not Become Victims of Unlicensed Money Lender

In desperate situations of needing fast money, people may resort to what they perceive to be an easy way out and turn to loan sharks – or more commonly known in this part of the region as “Ah Long”.

Why People Resort to Loan Sharks

Loan sharks are a specific type of unlicensed money lenders, with practices and offers that lure members of the public into wrongly believing that they are getting into a good deal.

These practices include lending small sums of money for a shorter time period, with cash given on the spot. This makes it convenient for those who are short on cash, perhaps due to poor budgeting or being overburdened by loans, to meet their urgent obligations.

Loan sharks also do not require the same rigorous screening process nor have strict terms and conditions like licensed financial institutions. They often advertise their “offers” through platforms such as social media with promises like “instant approval” or “cheap loans”. Because of these reasons, those with poor credit ratings who have already been turned down by licensed financial institutions may be lured into taking up this alternative form of borrowing, without thinking twice.

However, what they do not realize is that this is just a quick-fix and a short-term solution. Only when they hit a bump in the road will they begin to realize the consequences of their actions, or as the Malay proverb goes, “Sudah terhantuk baru tengadah”.

Dangers of Loan Sharks

Like other unlicensed money lenders, loan sharks are *unlicensed* and *unregulated*. They impose whatever interest rates, payment structures or terms and conditions as they wish, and they often do so with little to no regard for the wellbeing of the borrower.

One of the biggest catches, however, is that, although they lend in small sums for a shorter time period, these loans are often at high interest rates – usually extortionately higher than those charged by licensed financial institutions.

Loan sharks also impose ‘compounding interest’ when borrowers default on repayments. This compounding interest is added onto the principal amount, thus creating a debt cycle which eventually lead to further defaults and an increase in the total amount of loan. Individuals may then find themselves trapped, with no way of escape.

Some of these loans are also executed without written contract. As such, loan sharks can change their terms and conditions, without any prior notice to the borrower.

Loan sharks obtained their name from their aggressive and rough tactics when recovering debts. These include illegal practices such as harassment, blackmail, threats, and even violence, which often arises when borrowers are unable to make repayments on time or when called upon. Therefore, even if the offers made by loan sharks seem attractive, getting involved with loan sharks are highly risky.

How to Avoid Becoming a Victim of Loan Sharks

Here are four simple steps to get your finances together and to avoid having the need to get involved with loan sharks.

1. Have an emergency fund
   Life is unpredictable. Therefore, it is important that you set aside a percentage of your monthly income for emergency needs, especially when unexpected issues arise in your life, such as, an accident or sudden job loss. Depending on your lifestyle, the common and prevalent emergency savings goal ranges from 3 to 24 months of monthly expenses. These amount are ideally higher, especially if you are the breadwinner for your family. In this case, you need to ask yourself the vital question: "How much do my family and I need to survive?"

2. Assess and plan your expenses
   Ask yourself what do you actually need the 'fast cash' for? Is it an actual 'need' or just a 'want'? Some may argue that a car is a necessity – but do you really need a flashy and expensive sports car or SUV, or will a reliable sedan be sufficient? It is important to take a close look at your expenses and to assess whether or not you are actually spending your income within your means. It is equally important that you prioritize your expenses accordingly; pay off your debts, and purchase household essentials first, before even considering spending your income on other items.

3. Maintain a good credit report
   Financial institutions have access to individuals' Credit Reports from the Credit Bureau. These are records of individuals' servicing of credit facilities and are used to assess individuals' credit worthiness. To have a 'good credit report', pay your existing loans on time. This will increase your likelihood of getting loans approved by licensed financial institutions in the future.

4. Talk to your bank
   If you are in any financial difficulties, approach your banks to work out an arrangement so you can ease your repayments. Banks are willing to listen to their customers and may accommodate your application accordingly on a case-by-case basis.

Conclusion

Although borrowing from unlicensed money lenders, and loan sharks in particular, seems like an easy and fast solution, it should be noted it is actually more expensive and dangerous. Authorities may have difficulty in protecting the borrowers especially if the individuals have already caught themselves very deep into the problem. Those who are in these situations or those who knows about such operations should lodge a report to the relevant authorities in order to ensure that these illegal operations are tackled and not getting widespread.

Please take heed of the 4 tips above. Being financially responsible and independent through managing and planning your finances wisely, will prevent you from experiencing any financial difficulties and from becoming victims of loan sharks.