

## Deep In Debt?



Ram is a young insurance agent, who sailed the boom in the financial markets. He was not only selling more, but was also multiplying his money in derivatives trading. However, the falling markets and rising interest rates have done him in. He needs help to get out of debts, his new found wealth having disappeared faster than it had come. Ram goes to a financial counselling centre, seeking help. What is his story and what does it hold as lessons?

### Income



All financial habits have to be aligned to income – amount, regularity, growth over time, and predictability. Speculative income fluctuates too much and to build a future based on it, is unwise. Ram earned about Rs.1 lac a month in good times. When the markets turned downwards, his income dropped to Rs.20,000. His borrowing should consider the lower, not the higher earnings.

### Borrowing



To borrow is to spend tomorrow's income today. Every borrowing needs to be repaid, and repaid with interest. Ram's EMIs and expenses alone added up to Rs.80,000 a month. EMIs should never, as a rule, exceed 50% of one's net monthly income.

### Sustainability



Ram was bullish about his business and his ability to expand it. He took personal loans, hired an office and

employed staff. Now that his business is dull, he is unable to pay rent and salaries. Funding something completely with loans is always risky. Putting some of one's own equity always cushions losses.

### Assets



Ram loved his new social status. He splurged in cars and gadgets. But, when he was faced with a crisis, he could hardly get money out of his assets. Except for the house, all the other things he had could not be sold, even at a discount. Assets should be chosen for their lasting value, as any serious financial advisor would point out.

### Social Implications



Ram extended his pain, by hiding his falling fortunes from others. This meant that his credit card bills were mounting, his bank was pursuing him for defaults, and he delayed considering selling off his house. Ram lived in denial of his situation, until it became worse. Seeking financial counsel early, always helps.

### SMS CONTEST

#### Question

When you find yourself neck deep in debt, it is advisable to \_\_\_\_\_.

#### Answer

- A. seek financial counselling
- B. apply for another loan
- C. use your credit cards

To answer, SMS DISHA A, B or C to 53030 and win a 2N 3D holiday.\* Contest open for the day of publication.

\*Terms and conditions apply. Visit [www.dishafo.org](http://www.dishafo.org) for details and winners.

### Counselling



Ram can still put his finances in order, after taking some pain. He has to sell off his house and repay the home loan; or buy a smaller flat to reduce his loan. He must approach his lending bank or financial counselling centres with the facts and seek advice.

It is wise to seek counselling when in trouble, so we get an impartial solution to our problems. We will deal with another case study on credit card debt next week. How financial counselling can help you and where to get help is in the concluding part of the series.

Center for Investment Education and Learning

### DID YOU KNOW?

The asset you buy using a loan, needs to grow at a rate higher than the rate of interest on the loan. If you took a loan and bought a depreciating asset like a car, you are not buying an asset, but managing an expenditure on your travel comfort.

### FAQs

**Is it safe to speak to a counsellor about one's finances?**

Seek a counsellor of repute and from a trustworthy background. Counsellors will keep information confidential. They can take an impartial view of your situation, draw from their experience with many others like you, and offer you solutions.

**Should I consider the amount that my bank is willing to sanction as my basis for taking a loan?**

The bank makes an assessment on the basis of the income statements you provide, and the information you give on your existing loans and expenses. You are a better guide of how much loan you can service. If the loan is based on need, you are always better off.

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at [www.icicibank.com](http://www.icicibank.com) or send as an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

SMART BANKING

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Reach out to well-meaning organisations like DISHA Financial Counselling for support during hard times.

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