RE:PLENISH

The 5 C's of Staying Alive Financially

Three critical C's – namely Continuing Employment, CPF and Children – were covered in our first 3 issues. This fourth instalment looks at the plus and minuses of Credit.

by David Choo and Eng Tiang Chuan

There is no credit in having to rely on credit because, like fire, credit is a good servant but a bad master.

Many of us are indebted to our parents for teaching us not to get into debt. "Owe no one anything except the debt of love," the apostle Paul declared. There is great wisdom in this traditional wisdom and we hope parents still teach their kids to always live within their means and by no means resort to credit unless absolutely necessary.

A debt by any other name

Somehow credit does not sound as bad as debt, but that is what it is and "the borrower is slave to the lender", or risks becoming one.

Nevertheless, in modern Singapore, a bustling financial hub where plastic money is available at 18, and where banks often entice people to sign up for their credit cards, and where big ticket items like property and cars are simply beyond the majority's cash savings, credit has become a way of life.

In fact, rare is the person who does not use credit. If used judiciously, credit can serve us well; it is unbridled credit which makes credit a tyrant.

Good borrowing

So under what circumstances would borrowing money be judicious?

A big decision like purchasing a home, where a mortgage loan is covered by mortgage insurance and with affordable repayment terms, is an example of judicious borrowing. Such mortgage schemes have enabled millions to own homes eventually. If they had waited to save enough to pay cash, they would have waited in vain given the inflation in property prices in Singapore over the last 40 years.

Likewise, if a car is really necessary for one's business, or occupation, or family use, a car hire purchase may be an appropriate borrowing. The same can be said of education loans. But consumer credit for non-essential lifestyle items like holidaying, the latest TV or home entertainment systems etc, would be inadvisable. It is also wise to decrease dependence on credit as one grows older, and hopefully wise enough, to save more for retirement rather than deplete one's reserves.

Business credit

But what about business? How should business regard credit?

Mid-lifers, especially those who are getting edgy for fear of being left behind by their more successful peers, are often tempted to try their hand at business in order to catch up. Somehow, the dream of making it big in business can lure one into making rushed decisions which they live to rue at leisure.

Rare is the business person who has stashed enough to start a business without having to depend on loans. And businesses are notorious for having ravenous appetite for cash – what with the relatively high rentals and wages, and other expenses in Singapore. All too soon, seed money goes to seed, and shareholders have to dig in and borrow further afield to keep the venture going.

When the going is good, businesses can depend on profits generated by business to fund their working capital. But the current financial and economic crisis has turned the tables on many a businessman and credit is the only lifeline left. The decision to save a bleeding patient by giving a blood transfusion is a given. The decision whether to throw in good money, especially if you have to borrow, to rescue a haemorrhaging business is one only the business diehards can make.

Thankfully, the government and government-supported bodies have been proactive and forthcoming to come to the rescue of struggling businesses faced with cashflow problems.

For the silver generation, it is high time to be rid of all credit – be it home, car, business loans etc. The top priority is to prepare for retirement.

Loan schemes

The Job Credit Scheme which paid out the first quarterly tranche to businesses in late March 2009 was a much needed cash injection although it was just sufficient to cover the employers' CPF contribution.

Similarly, many other loan facilities are made available to small and medium enterprises (SMEs) which are defined by SPRING Singapore as manufacturing enterprises with nett assets of $15 million and below, and non-manufacturing enterprises with 200 employees and below.

Owners of the 161,000 SMEs which employ six out of ten workers and contribute half of the GDP should be greatly encouraged by some of these loan schemes:

- Bridging Loan Programme – loans up to $5 million
- Micro Loan Programme – loans up to $100,000 for local SMEs with 10 or less employees
- Loan Insurance Scheme – insurance against loan default to assist in securing new loans
- Export Coverage Scheme – 50 percent subsidy on Trade Credit Insurance premium to protect against buyer default

Besides these loan schemes, the government has implemented strategies to enhance the capability of companies through research and training. SMEs should check these out:

- **Local Enterprise Finance Scheme** – loans up to $15 million for automating and upgrading of factory and equipment and/or purchasing factory and business premises
- **BUILD Programme** – increased grant levels for Capability Development programmes that SPRING offers, including technology innovation, design, branding, product development and others
- **SPUR Programme** – up to 90 percent course fee subsidy and higher cap for absentee payroll subsidy
- **Internationalisation Finance Scheme** – financing of up to $15 million for overseas expansion

Of particular interest is the SPUR Programme. With the generous course fee subsidy of up to 90 percent and absentee payroll subsidy, this scheme offers the employer the opportunity to beef up their human capital at minimum nominal and opportunity cost. Opportunity cost is minimised due to the lack of business opportunity in the current economic climate. Employee loyalty may also be enhanced through the retaining of employment, while the company may also be seen as an organisation with foresight and long-term planning.

Other programmes

Many other programmes are available for local SMEs, such as programmes for Design for Enterprise, 3D Development Fund, GEMS and BOOST.

More information can be found online:

- SPRING Singapore – http://www.spring.gov.sg
- International Enterprise Singapore – http://www.iesingapore.gov.sg
- Singapore Workforce Development Agency – http://www.wda.gov.sg

For the silver generation, it is high time to be rid of all credit – be it home, car, business loans etc. The top priority is to prepare for retirement. However, where there is belief that your investment will pay off, and the business will turnaround quickly (for example, where the fundamentals are still sound), it is worth trading silver for gold, or turning credit to distinction. SL

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