Good debts to have

Some debts can help you improve your finances

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DEBTS. The thought of owning money would make anyone cringe. But having debt can actually be a good thing – sometimes.

According to Phil Cioppa, managing principal and chief investment officer of US-based Arbol Financial Strategies in his article *When Debt Can Be Good for You*, it is good to have certain types of debt in your financial portfolio, assuming you are comfortable with owing money.

"Why? Because it is through debt that you can acquire assets such as housing, automobiles and other types of property. In short, the strategic use of good debt can improve your finances and help you achieve your dreams and goals," he says.

According to Jeremy Tan, licensed financial adviser and syariah financial advisory for Excellentte Consultancy, a debt that is used to fund appreciative assets or services or skills, with a calculated risk of expected return in the foreseeable future, can be termed as a "good" debt.

"Appreciative assets are properties, investments, viable business or skills set with a good margin of appreciation returns and or profits," he says.

The following are examples of good debts to have.

Mortgages

Success Concepts Life Planners chief executive officer Joyce Chuah says having a mortgage allows one to own real estate at a small percentage of the cost.

"At today's low borrowing cost, investing in real estate gives you a good leverage as long as the real estate you invest in has value and room for capital appreciation. At a time when we believe interest rates will rise eventually, it is best to stick to fixed interest rate and ensure that any rise in rates does not affect your cash flow and return on the real estate.

"This is important particularly when real estate in the Klang Valley has risen so much and hence squeezing the potential for real capital growth net of borrowing costs," she says.

Education loans

Chuah adds that getting an education is a value-add in anyone's life.

"If you have a cash flow problem and have no access to scholarship funds, get a loan on your education. The National Higher Education Fund Corp is one source of education loan. Some banks in Malaysia also offer study loans."

Tan: 'The strategic use of good debt can improve your finances.'

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Chuah says there is also the study loan by the Government, launched in February 2013, called Skim Prihatin Pendidikan 1Malaysia, which is a top up loan for Malaysian students.

"This scheme is designed as an additional financial aid for students that are qualified to pursue their studies for Bachelors' Degree and Master's Degree locally."

Tan concurs that debt incurred for upgrading an individual's skill or talents through further education in university, or by enrolling in professional courses, may be considered good debt.

"The marketability of the individual would be enhanced. Even within a company or business where the individual is entrenched, opportunity for promotion advancement would be better."

Amanah Saham Bumiputra (ASB) or term loans

Chuah says these type of loans can be invested for stable and higher returns.

"Essentially, leveraging on good debts to invest at rates higher than the loan interest rate will put money into your pockets. One clear example is the ASB loan which allows qualified investors to borrow at a base lending rate (BLR) minus 2.4% or 2.5%, depending on the rate offered by your bank.

"That means at the present BLR of 6.6%, your effective loan rate is 4.2%. ASB dividends have traditionally been around 8% per annum or more, which means that you're "in the money."

Chuah adds that if a person doesn't qualify for ASB investments, he or she may consider some other conservative fixed income instruments that provide returns that are higher than the cost of borrowing.

"One example is to invest into individual corporate bonds with yields above your borrowing rates. When you invest in a corporate bond, the regular coupons you receive are fixed and if they are higher than the interests you pay on your loan, you're also 'in the money'".

She, however, cautions that one should not "stretch this too far" and take loans for more volatile investments.

"The up and down movements may not work out for you in the shorter term with a loan interest to pay. It may get worse when interest rates rise and your volatile investments move down.

"Never use any margin account to invest in shares as this is too risky and may drain out more money than you had expected."

Loans for productive items

It is a well known fact that debts incurred in purchases of vehicles that depreciate are considered bad debts. Tan, however, says that if the purchase of the vehicle is productive and contributes to the business, and is a channel that provides delivery of goods and services, it may be considered a good debt.

"Even though it is a good debt it needs to be managed properly with a calculated risks factored in, so that in any adverse circumstances, the assets can be liquidated and any outstanding debts, settled."