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STUDY REVEALS LINK BETWEEN SLOW PAYMENT TO BUSINESSES AND BANK LOAN DEFAULTS

*A third of consumers make late payments on bank loans just 7 months
after falling behind with their payments to companies*

July 07, 2009 [SINGAPORE] – A new study by DP Credit Bureau (DPCB) has revealed 32.5% of consumers who are slow in repaying debts to a business will fall behind in their bank loans within seven months.

The study is the first in Singapore to compare bank and non-bank debt repayment to establish a link between the failure to pay a debt owed to a business on time and a default on a bank loan.

The non-bank lending data comes from a range of industries offering credit terms or loans to consumers, including retail, credit co-ops, education providers and leasing companies.

The study is based on the payment records of more than 600,000 individuals who are customers of DP Credit Bureau members. It covers the period between July 2008 and February 2009 – a period which includes the economic downturn which started in September 2008.

Ms Chen Yew Nah, Managing Director of DPCB said the study reveals consumers in financial difficulty will prioritise their debts, giving greater weight to repay their bank loans over other debts.

“Consumers tend to fall behind in repayments of their non-bank debt first. This is because many believe non-bank lenders will be less vigilant in pursuing late payments or taking steps to end the line of credit.”

“The lesson for consumers is to talk to their creditors early and explain their financial position before they get into trouble. There is always scope to come to a mutually agreeable arrangement with lenders to help the customer continue to meet their obligations. “

“Banks and other credit providers do not want to take costly steps like litigation to recover debts, and many have the flexibility to vary interest rates, payment terms and the length of the debt payment period to assist an individual in trouble.

“For banks, this data is useful in identifying customers that are more likely to fall behind in their repayments, which means they can approach the customer and see if action needs to be taken to manage the debt,” Ms Chen said.

DEMOGRAPHIC PROFILE

DPCB analysed the demographic profile of the individuals who fell behind in their repayments of both non-bank and bank debt.

The key findings are:

- 44% are aged between 26 and 35 years old. This is significant as this group accounts for just 33% of the total population of the study, indicating they are over represented among the group of slow payers or defaulters;
- Men outnumber women by a ratio of 3:2. Where the payment record indicates gender, 59% of individuals are male and 41% female.

- Only 4% are business owners (i.e. sole proprietors or partners) and therefore the debts are predominantly personal, and not incurred by the individual's business activities;
- The individuals owed four times more to their bank creditors than to their non-bank creditors, in other words, the bulk of the individual's debt was owed to their bank. This confirms that when individuals become slow in repayment of their minor or sundry debts, they will eventually have trouble paying their larger debts;
- The average bank debt was \$4,615 (average owed in December 2008, January 2009 and February 2009), versus an average non-bank debt of \$982.

Commenting on the demographic analysis, Ms Chen said, "A major concern is the number of young people having repayment difficulties."

"Many may have used credit to buy material goods and gadgets to complement their lifestyle. A sudden loss of income due to retrenchment, pay cuts or reduced bonuses may be placing pressure on their ability to meet their financial obligations," Ms Chen said.

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CONTACT: Matthew Shaw
Rubicon Consulting
D: 6465 3029
H: 9851 9340
matthew@rubicon.com.sg

April Ng
DP Information Group
D: 6507 2340
H: 9820 1080
april@dpgroup.com.sg

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