now YOU know

DR. NGÔ NGỌC QUANG & PARTNERS

A GUIDE FOR
SMART MONEY
MANAGEMENT

HOME CREDIT

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Personal finance -
Consumer finance for young people

SAIGONBOOKS HOME CREDIT

Now you know - A guide for smart money management

First published in Vietnam in 2022 by Home Credit,
District 1, Ho Chi Minh City.

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In our industry, we have a unique opportunity to empower people and communities. It is critical that we do that in a responsible and trustworthy way. I firmly believe that adopting this approach is the only way to ensure that people get the right access to the financial services that they need.

Home Credit has been operating in Vietnam since 2008. Today, nearly 6,000 Home Credit employees serve more than 12 million customers across the country, most of whom are not served by traditional banks. Home Credit was the very first consumer finance company in Vietnam to embed ESG principles into its business. As a result of that approach, we understand that a commitment to financial inclusion is an enormously important part of what we do every day.

Home Credit has been developing financial inclusion strategies for many years. Promoting enhanced financial literacy has been a core part of these strategies globally for a quarter of a century. Our efforts in this field include promoting offline and online activities throughout the customer journey. In addition, we have a strong track record working with a wide spectrum of people to improve their financial literacy. Whether that be fresh graduates, retirees or rurally based communities, we believe that everyone has the right to be more financially literate.

The "Now You Know – A Guide for Smart Money Management" is a stepping-stone for Home Credit in bringing financial knowledge even closer to Vietnamese consumers. Understanding financial basics can help people to better manage their income and expenditure, leverage opportunities to improve their quality of life and protect themselves from market risks. Above all, we are committed to operating as a responsible financial services provider promoting financial inclusion in a way that contributes to the development of a sustainable society and a vibrant future for Vietnam.

A. Witschard

Annica Witschard
CEO – Home Credit Vietnam

Personal finance has been attracting much more people's interests, especially young people. Around the world, personal finance insights have gradually become popular, and the need for personal budgeting is also growing and expanding. In recent years, learning about this field as well as the need to manage personal finance in a scientific and effective way to adapt to the rapid development and integration of the Vietnamese economy has also been a clear trend.

Meanwhile, we are living and working in an increasingly uncertain environment of which the global pandemic Covid19- is a clear example. It has led to a dramatic loss of human life and a strong impact on all aspects of life – society, from health to economy. In Vietnam, we have witnessed a movement of laborers tried to leave the city to return to their home provinces because of loss of income and financial distress. Long-term social distancing has caused employees to face serious difficulties on personal finance: job loss, no income, exhausted emergency fund, no accumulated savings, no defensive insurance.

Therefore, the fact has proven that when life is more and more uncertain, individuals have to pay much more attention to the accumulation, control and provision of personal financial risks. In other words, managing personal finance that is already important will become even more essential.

The most common goal of personal finance is to maximize the satisfaction of needs – usually infinite – in the context of limited personal financial resources and always in the presence of risk. In order to achieve this goal, individuals must set their own specific goals, then make implementation plans and effectively control the budget through the following pillars: income, expenses, accumulation, emergency provision, investment, debt management and hedging.

Besides, the boom and spread of the industrial revolution 4.0, especially the fintech applications, have provided us many solutions and convenient tools to control spending, use in an economical manner, etc. However, since there are too many new products and services from many different suppliers, too much information that is difficult to verify, so many potential risks are unavoidable.

This fact requires us to be acquired with a minimum of basic and principled understanding of personal finance. While there have been many different documents on personal finance published in the recent time, especially from the Internet, limitations on the unsystematic and incomplete "learning method" still exist. From my point of view, in order that those who are not very knowledgeable or trained in finance can access personal financial effectively, it should be both basic and academic, easy to understand, easy to read, and vivid document so that readers can imagine how to apply it to life, especially in Vietnam.

From the above criteria, I highly appreciate the handbook **Personal Finance - Consumer Finance for young people** that you are in your hand meets this desire. With a practical approach through specific situations throughout the chapters, the author has vividly explained financial knowledge that is often considered to be dry. As a result, readers will easily understand the methods to plan cash inflow, cash outflow, set goals and make personal financial planning based on the use of debt instruments, investment opportunities as well as financial risk management skills for a financial well-being future.
I would like to introduce to you an interesting book on personal finance.

Assoc. Prof. Dr. Nguyen Khac Quoc Bao
Vice Rector, School of Technology and Design,
University of Economics Ho Chi Minh City – UEH

Our dear friend,

Home Credit and the author team welcome you to the first step of the journey in realising **"Now You Know"** about finance!

"Finance" is often said to be a rather dry subject. However, mastering the skills of financial management is extremely important not only for business but also for our daily activities.

We are always concerned about how Home Credit can help you access the most complete and accurate financial knowledge. As a result, the idea of the "Now You Know" series of activities was born. "Now You Know - A Guide to Smart Money Management" is the first project in our series, with the collaboration between Home Credit and financial experts in Vietnam. The content of this book is also being transmitted by Home Credit through many other formats such as videos & photos on social networks, or gamified on the Home Credit App to cover personal finance knowledge in a way that is easier to understand and remembered by the general public.

We hope that with "Now You Know" series, you will be confident and ready to seize the opportunities ahead.

"Now You Know" Project Team -
Home Credit Vietnam

"Financial inclusion must always go hand in hand with financial literacy. At Home Credit, we have decades-long history of financial education. This textbook contains up-to-date essential knowledge for a healthy financial life of any modern-day person. We hope it will contribute to better financial decision-making of consumers."

Vit Papousek
ESG Manager - Home Credit Group

"The "Now You Know" book project is cherished and implemented with all our heart through the most thoughtful investment in terms of content in order to bring practical and relatable knowledge, thereby helping to build a sustainable community with a solid foundation of financial literacy."

Pham Thi Bich Lien
Head of Marketing Operations & Sustainability -
Home Credit Vietnam

Faced with an unpredictable future and societal and economic uncertainties, personal financial management is getting more and more attention:

HOW CAN YOU BALANCE YOUR SPENDING BUDGET SO YOU CAN ENJOY LIFE, HAVE AN EMERGENCY FUND, AND SAVE FOR THE FUTURE? ABOVE ALL, PERSONAL FINANCIAL MANAGEMENT IS ABOUT GROWING YOUR ASSETS BY CHOOSING THE RIGHT INVESTMENT CHANNEL AT THE RIGHT TIME.

With statistics showing that nearly 96% of the Vietnamese population don't invest in the stock market and only nearly 70% access the bank service, we seem to have heard about personal financial management without fully understanding what it is. For a lot of people, this concept doesn't seem relevant to their lives – they think personal financial management is only for the person with "having money to spare". In fact, personal financial management is a need-to-do daily task for everyone regardless of high income or low income, only we may not realize it. We do it by calculating expenses, accumulating or saving for travel, buying a computer, a car or a house or finding the right place to get a consumer loan or a business loan. For many people, these decisions still often very instinctive. They are not interested in collecting information, estimating risks, choosing the optimal option in uncertain conditions with hedging. The basic knowledge of personal finance has not been paid enough attention and taught at the high school or even university level in Vietnam, while it being a skill everyone needs to know in developed countries. In the scope of this book, our team of authors hopes to provide you with basic instructions on personal finance and some of the most popular and relevant bits of knowledge about consumer finance as a start to your journey to develop your and your family›s financial resources.

– Team of authors

[1] Vietnam Securities Depository (VSD)
[2] Merchant Machine 2021

DR. NGO NGOC QUANG

Dr. Ngo Ngoc Quang has over 15 years of expertise in investment, training, and teaching in domestic and international finance and financial planning. Dr. Quang earned a Ph.D. in economics from Europa Viadrina in Germany and a master›s degree in finance from University College Dublin in Ireland. He is now a qualified international specialist in mentors, trainers, and coaches, specializing in finance, investment, and personal financial planning. Dr. Quang teaches finance at Foreign Trade University and the Vietnam-Japan Human Resource Corporation Center (VJCC). He is also the Deputy Head of the National Innovation Startup Center›s Capital Markets Department.
According to Dr. Quang, the distinction between Wealth and Prosperity is that Wealth relates to tangible belongings, while Prosperity refers to financial security, good health, knowledge, and a love for life. Dr. Quang›s knowledge and experience in financial activities motivated him to fulfill a vital mission: Helping young people to achieve life prosperity.

NGO THANH HUAN

Mr. Ngo Thanh Huan has over ten years of expertise in various financial disciplines, including corporate finance, financial management, and private client investment. He formerly held high financial management positions such as Head of Finance at Minh Viet International Joint Stock Company, Chief Financial Officer at Ampharco USA Pharmaceutical Joint Stock Company, and Head of Personal Finance Division at Ampharco USA Pharmaceutical Joint Stock Company (FIDT Joint Stock Company).
Mr. Huan is a rare financial specialist in Vietnam who has both formal financial planning training (he earned a Master›s Degree in Personal Financial Planning from Griffith University in Queensland, Australia) and practical experience in the Australian consulting service industry.
In 2013, he returned to Vietnam and began developing the country›s first international standard Personal Financial Management Model for the middle-class and wealthy customer segment, intending to increase financial literacy and provide customers with high-quality and valuable financial consulting services.

NGUYEN THI THU HUONG

Huong represents the young generation who live freely and independently from their families. She has over four years of experience translating, interpreting, and researching papers focusing on finance and banking.
Huong is currently a senior expert in the field of finance and banking and a paraplanner at FIDT, a firm specializing in investment consulting and personal financial planning with a management portfolio of 5.000 billion.
With a positive attitude toward life and work, and a sincere desire to bring personal financial management to families and younger generations sooner and more directly, Huong collaborated with Dr. Quang and Mr. Huan for many years on programs relating to personal financial planning and management.
Huong wishes to deliver one message to every individual and family: It is never too early to begin personal financial planning!

OVERVIEW

JUST LIKE BUSINESSES, EACH INDIVIDUAL NEEDS FINANCIAL MANAGEMENT.

Regardless of the complexity of financial charts, figures, and principles, which can be overwhelming and intimidating. However, when going through the initial stage, we will see that personal finance management is really just about establishing habits for making and spending money, so that you or your family can achieve lifelong financial security, or simply control the inflow and outflow of cash.

Cash inflows include income from salary and bonuses, and profits from businesses and investments. Cash outflows consist of expenses, purchases, and investments. If you are unable to manage money, you will face a lot of financial difficulties concerning where sources of income should go, and of course, you will also find it difficult to save for long-term goals such as buying a house, a car, and getting married.

In order to avoid the worst-case scenario, the two main characters in this book, Tuan and Mai, will teach you how to "diagnose" your financial health and build goals and plans so that you can manage your personal financial matters more easily.

After studying the first chapter of the book, you will understand your and your family's financial health better, giving you a solid base to continue to the next chapters to learn about financial goals, credit, risk management, and financial well-being.

INTRODUCTION TO THE TWO MAIN CHARACTERS: TUAN AND MAI

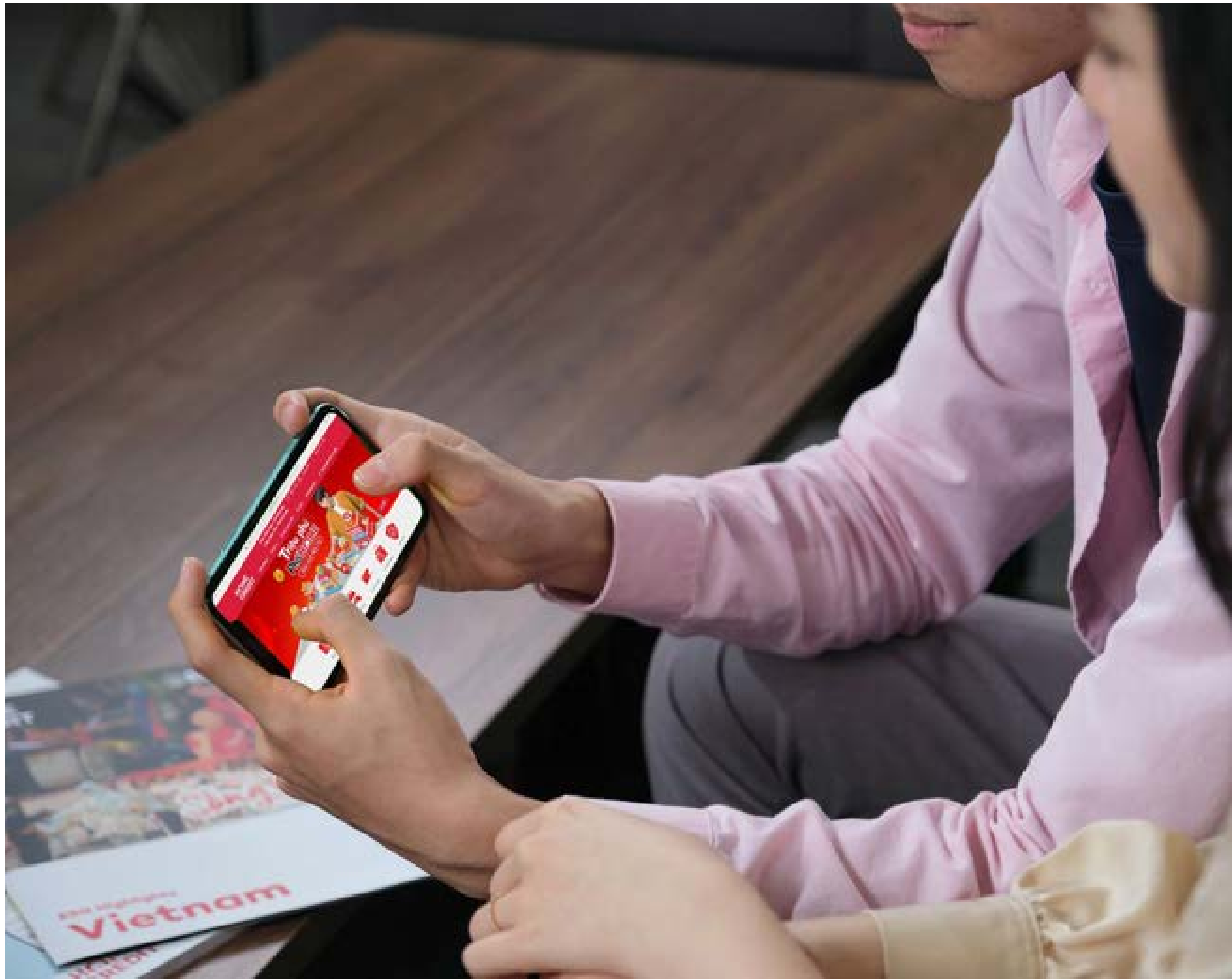
TUAN, 27, IS THE SALES TEAM LEADER OF A REAL ESTATE COMPANY IN HO CHI MINH CITY (HCMC) AND HAS A STABLE SOURCE OF INCOME TO COVER HIS SINGLE LIFE IN HO CHI MINH CITY.

He needs to buy a new motorbike for work and has saved half of the value of the motorbike he wants to buy. In addition, he is currently providing living expenses for his parents in his hometown and his younger brother, who will be going to university. Finally, Tuan wants to make a detailed and long-term financial plan to save money for getting married and starting a family around the age of 5) 32 years from now). His family is not well off, so he tries to both generate income and also save, little by little, for his own property.

MAI, 22, IS A GRADUATE LIVING WITH HER MOTHER AND OLDER SISTER IN HANOI.

She has just graduated and has been offered a dream internship at a foreign corporation. She has no difficulty with her daily expenses, but in the next year Mai would like to buy herself a new laptop and an expensive phone. In the long run, Mai wants to save a decent amount of money so she can study for more international academic certificates to support her current and future career. In addition, Mai also wants to determine a suitable spending management method to satisfy her personal interests, such as traveling and beauty. She also wants to learn how to not live beyond her means. Her idol is her mother, an independent, resourceful woman who has "taken on" the family's finances in an effective way for years.

Tuan and Mai have the same problems and questions that many people have, especially those who are just starting to manage personal finance. Through their stories in each chapter of the book, you will find the answers to your personal financial and consumption plan questions.



Chapter 01

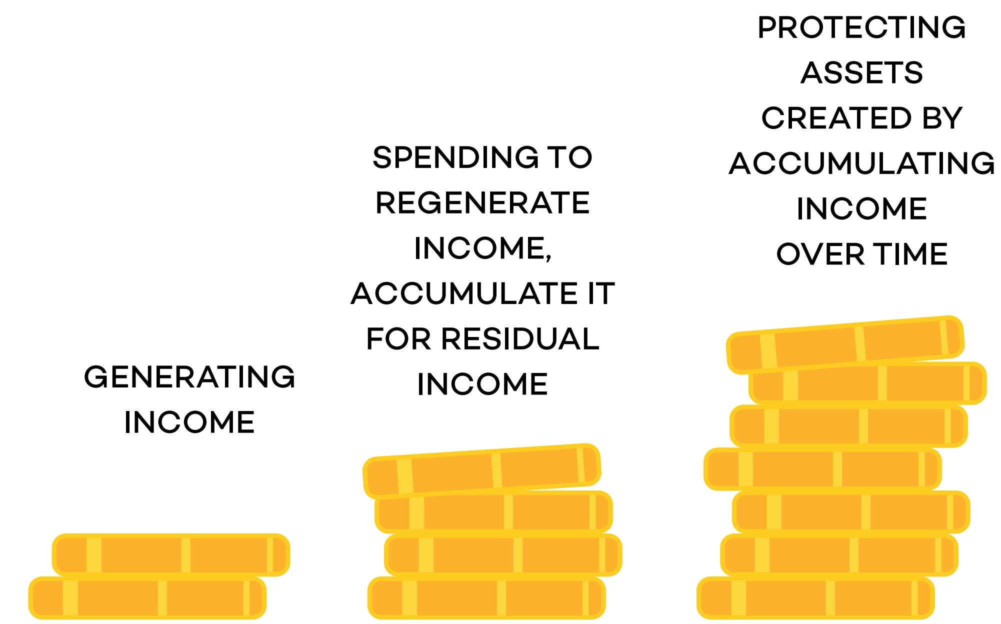
Personal Finance

CHAPTER 1

WHAT IS PERSONAL FINANCE?

Personal finance is simply all activities of managing your own money. Personal finance activities mainly affect cash inflows (income) and cash outflows (expenses).

Just like a business, an individual or a family (a collection of several individuals) will always have financial activities. These activities revolve around 3 main issues:



However, while businesses have a whole system of bookkeeping, management software, and specialized staff to manage their money, most individuals or small families do not have the necessary background to control their finances in a reasonable manner. Although the size of a family's assets is usually smaller and the nature of financial management in a family is simpler than that of the business, this should not be disregarded.

If you search the internet using keywords like "building personal finance" or "personal financial management methods", you'll quickly find a series of articles with tips for improving personal finance, including saving, cutting your expenses, investing as early and as much as possible, paying off debt, and limiting debt.

THESE TIPS MAY BE CORRECT, BUT IT IS DIFFICULT TO APPLY SUCH GENERAL ADVICE WHEN YOU DON'T KNOW WHERE TO START.

Many people draw up a series of financial plans, only to abandon them because they do not have the patience to stay on track when things change and adjust the plan in line with the actual situation. You cannot take action if you have no knowledge of your present financial position. Ask yourself:

1. How much is your monthly income and where does it come from? What is the total of your investments and are they making a profit or a loss?

2. How much money do you spend monthly? More or less than what you earn?

3. Do you have provisions or insurance to support yourself in case of illness or accident?

Before making your own financial plans, you need to master some basic principles to set up a system of records and statistics of your financial activities to analyze, evaluate, and support decision making. It does not need to be as detailed and complicated as the accounting books of a business, but it must be accurate and clear, and it has to be updated regularly, be it on a daily, monthly, quarterly, or even semi-annual basis.

In the upcoming chapters, we will join Tuan and Mai in learning about consumer credit: how to make the most of our money to avoid financial stress and get more of what we want; how to make borrowing decisions, and how to organize and manage financial items such as generating income, making a budget for loan repayments, spending, saving, investing, and protecting resources over time and for future events.

THIS PROCESS IS ALL ABOUT PERSONAL FINANCIAL MANAGEMENT.

CHAPTER 1 WHAT IS PERSONAL FINANCE?

MONEY MANAGEMENT PLAN

If you are organizing a family trip, do you arrange and prepare it all at the last minute? Of course not! Firstly, you must get consent from your family members. Then you need to decide where to go, for how long, how many days off you need to take, and how much it will cost in total. You will also have to determine where you will go, on a tour or on your own, and by what means of transport. In other words, you decide on a goal – a great trip – and go step-by-step to figure out what you need to do to turn your idea into reality.

You should do the same with your money. Many people go shopping, enjoy cuisine, and then become nervous about their bills because they don't have enough money. Or, they wonder why they never have money for what they really need.

> **IF THEY SET CLEAR GOALS, MADE A PLAN TO ACHIEVE THEM, AND A FOLLOW-UP SUCH PLAN, THEY WOULD BE LESS STRESSED AND MUCH HAPPIER.**

When we were first introduced to Tuan and Mai, we got a basic understanding of their financial situations and short-term goals. So, what do they need to do to realize their aspirations? Will Tuan choose a motorbike he likes but that he can't afford, and will Mai use all her pocket money, living expenses, and school fees in the next 3 months to buy a laptop? To achieve their goals without negative financial pressure, Tuan and Mai need a financial plan. A financial plan is a set of guidelines that helps us to confidently make the right financial decisions and action plans.

In the process of building a personal financial plan, the first important step is to figure out your goals, and to determine what you really want. This book will help you to define a goal and make a plan to achieve it. But first, you need to know your financial health.

CHAPTER 1 WHAT IS PERSONAL FINANCE?

YOUR FINANCIAL "HEALTH CHECK"

In order to understand how healthy your finances are, you need to know your cash inflows (income) and cash outflows (expense). To start, let›s evaluate your income.

SOURCES OF INCOME

Think of the money you earn, or income, as one side of a scale. Income includes any of the following:

- Salary, wage
- Allowance from work (in addition to basic salary)
- Overtime pay, bonus
- Gifted money: gift cards, shopping vouchers or cash for your birthday, etc.
- Social security, disability or unemployment allowance
- Scholarship
- Indemnification
- Proceeds from selling your stuff
- Interest earned on a savings account
- Payment for part-time jobs, side jobs, etc.
- Incomes from investment, business

As listed above, your income can come from many different sources and in a variety of forms. Excluding sources of money that are not related to personal capacity and are also irregular (e.g prizes, inheritance), basically, there are two ways to generate income. These are based on the Cashflow Quadrant model of the Japanese-American billionaire Robert Kiyosak.

ACTIVE INCOME

You directly use your own resources (knowledge, skills, time, health) to make money, by contributing to and creating a certain value for others (the owner of the company you work for) or for yourself (your own business and the revenue of this job is associated with your presence and hard work, such as opening a home-cooked restaurant and selling through online channels, etc.)

PASSIVE INCOME

There is no exchange of labor and time but you still generate income for yourself. There are two ways to generate passive income.

Let the system work for you (open your own company, employ a representative to run and manage the business): The system still operates and makes a profit without your presence and involvement.

Money makes money: Also known as investment, this form can be a term deposit at a bank (the interest is an additional income besides the original principal because if we leave money in our house or in our bank account, we will never have this surplus,) the purchase of real estate (house, land), stocks, etc.

ACTIVE INCOME	PASSIVE INCOME
Trading time, knowledge for money No work, no money	Use other people's work time, knowledge or MONEY to make money for yourself If you don't work yourself, MONEY and the system still make an income FINANCIAL FREEDOM
Go to work for hire	Invest in a company, have a team to work for you
Your own business (do it alone)	Self-employment money

DETERMINING SOURCES OF INCOME

If you don't have a job, your income may not be very steady right now. Even if you're employed, your paycheck may vary if your working hours change each week. That makes predicting your income harder, but not impossible.

Mai's and Tuan's incomes during the year are listed in the following chart.

SOURCES OF INCOME	MAI	TUAN
Full-time job*	VND 7,000,000/month	VND 20,000,000/month
Bonus*	VND 0	VND 5,000,000/month
Irregular income (Gifted money)	VND 6,000,000/year	VND 6,000,000/year
Allowance	VND 0	VND 0
Estimated monthly income**	**VND 7,000,000/month**	**VND 25,000,000/month**

*Incomes not including taxes and other required deductions

**Including bonus and allowance. Not counting gifted money, which are received once or twice a year

As you can see, Tuan regularly makes about VND 20,000,000/month (including salary and bonus) and receives an additional allowance of about VND 5,000,000/month (VND 1,200,000/week). Mai, meanwhile, has an income of about VND 7,000,000/month from her seasonal work and receives about VND 6,000,000/year from gifts.

Just like Tuan and Mai, fill out the list below to check your cash flow!

INCOME (YEAR)	AMOUNT (VND)
Primary job	
- Net salary	
- KPI bonus	
- Annual bonus	
Other income	
Income from investment properties (excluding income used for reinvestment)	
- Real estate rental	
- Deposit interest	
- Securities interest	
- Other (specific)	
Income from the given sources	
TOTAL INCOME	

PRINCIPLES OF INCOME GENERATION

1. EARLY START: It›s never too early to start making money

You need to know the balance between making money and other goals and joys in life, though. Tuan and Mai have had experiences in earning and spending since they were in school. Getting started early helps them get more social experience and respect the value of money. However, Tuan and Mai still do not have specific financial goals, so they mainly make money to serve their personal spending and shopping needs.

2. DIVERSIFICATION: Having more than one source of income

ONE SOURCE OF INCOME WILL NOT BE ENOUGH TO SECURE YOUR ECONOMIC LIFE.

Just look at the situation of price escalation, the impact of the COVID19- epidemic, economic fluctuations, increased standard of living, for example. Tuan and Mai both have relatively suitable income sources for their individual needs at present, but both are determined to create other sources of income so they don't have to rely on a fixed salary. That extra source of income could be a bonus for achieving sales targets, or come from a part-time job on weekends.

3. PRIORITIZATION of sources of income with sustainable growth

Tuan and Mai have both chosen part-time jobs to have more than one source of income, and both have determined that the goal of the part-time job is to help them become more professional. The side jobs are still related to their primary jobs, so they can take advantage of their capabilities, experience, and relationships. Being an expert helps to generate income with sustainable growth.

4. GROWTH of at least 20% of income per year

Diversifying helps increase the number of sources of income for Tuan and Mai, but the two also identify it as a growing source of income. In addition to qualification improvement, Tuan and Mai determine that there must be a step forward in income. A minimum of 20% per year will motivate them to increase their productivity at work without applying for more jobs. As a result, their paycheck amount will be higher.

5. VALUE CREATION: Your income will be higher when you create true value

One factor that helped Tuan get a higher position in his company is that he constantly creates value for his business. The value Tuan creates for the business is always many times higher than what the business pays him. To retain an excellent employee like Tuan, the company constantly evaluates his performance and raises his income based on the actual value he has brought to the company. Hard work, confidence, and self-worth improvement are prerequisites to achieve the goal of income growth.

6. PATIENCE: You won't become a billionaire overnight. Be patient, persistent, and proactive

Tuan did not get an income of VND 25 million right after he graduated from university. Tuan's starting salary was only equal to the regional minimum. Working as a sales manager for a real estate company like Tuan is of inherently high pressure. To achieve this salary, he has worked non-stop for four years. Despite facing many difficult periods, he has never given up.

CHAPTER 1 WHAT IS PERSONAL FINANCE?

EXPENSES

> **INCOME AND EXPENSES ALWAYS GO HAND IN HAND, AND THE AMOUNT OF INCOME MINUS EXPENSES IS YOUR ACCUMULATION.**

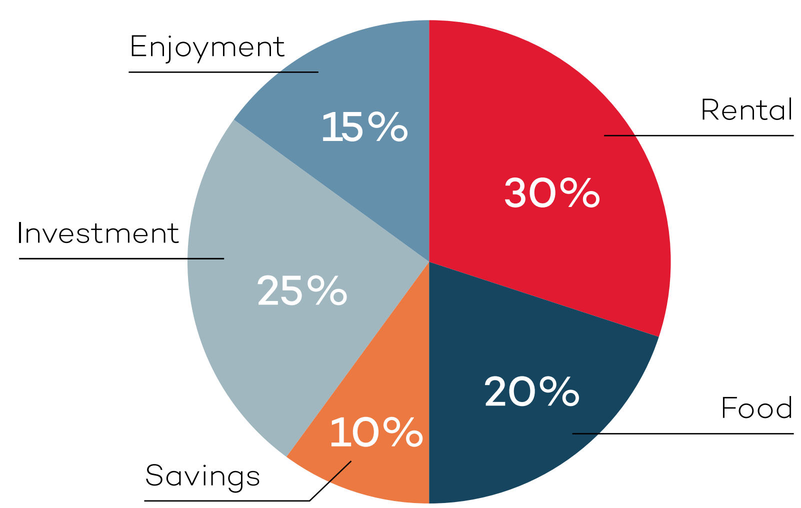
Let›s learn about cash outflows – the activities that involve money in your daily life.

Just like with income, you also need to make a spending chart to see whether the number of cash inflows you have are enough (also known as "balancing") for the cash outflows.

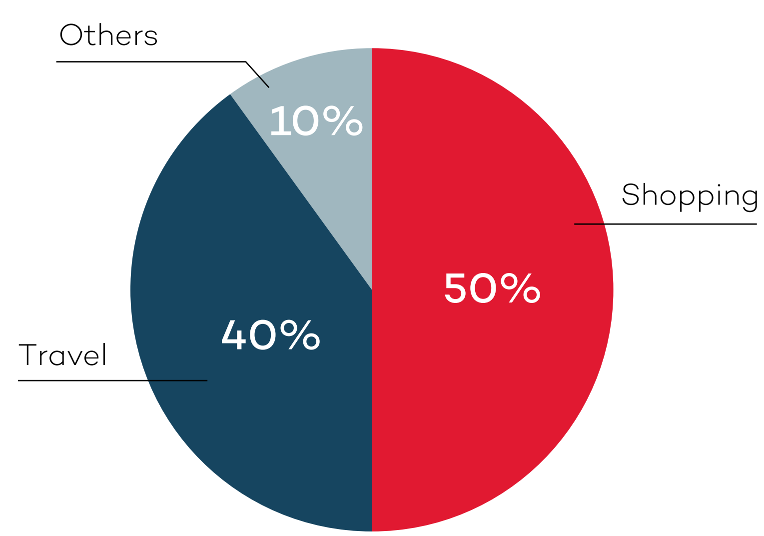
Try to recall and write down in as much detail as possible what you spent last month, then separate your expenses into categories. Next, calculate what percentage of your total spending is used for each category.

For example, Tuan and Mai estimate the proportions of their spending categories as follows:

TUAN'S SPENDING CATEGORY



MAI'S SPENDING CATEGORY



CLASSIFICATION OF EXPENSES

Expenses can be classified into three types:

1. Fixed expenses: Fixed expenses are the same every time—often a set monthly payment, such as house rent. These are easy to plan for because you know how much needs to be paid and when. The downside is the amount is set by someone else, so you can't adjust your payment (postpone or lower it) when money is tight.

2. Variable expenses: Variable expenses are common expenses where the amount is different each time, such as paying for groceries or a meal. The advantage here is you have control over how much it'll be. For example, you can change how often you eat out and where you go. So, if money is tight, you can just stop eating out and save yourself some cash.
One downside is you can end up spending too much and not have enough left for fixed expenses. You can use your spending log to estimate an amount for your spending plan.

3. Irregular expenses: Periodic expenses arise occasionally during the year, usually less than once a month. School fees and trip expenses are examples. The good news is you don't have to deal with them every month. The bad news is these expenses can totally blow your budget.

FIXED EXPENSES	VARIABLE EXPENSES	PERIODIC OR OCCASIONAL EXPENSES
Gym memberships	Food	Motorbike repairs
Car loans	Entertainment	Health check
Student loans	Cellphone bills (unlimited)	Tourism
Cellphone bill (pay-as-you-go)	...	Parties
...	...	...

After learning how to categorize expenses, Tuan and Mai have listed typical monthly expenses from their spending logs in the following chart:

MONTHLY EXPENSES	MAI (VNĐ/MONTH)	TUAN (VNĐ/MONTH)
Fixed expenses		
Housing and living expenses	0	5,000,000
Loan repayment	0	1,000,000
Food	2,000,000	3,000,000
Travel	800,000	1,500,000
Variable expenses		
Clothes	1,500,000	3,000,000
Entertainment	1,500,000	2,000,000
Personal care	1,000,000	1,000,000
Irregular expenses		
Gift/Party, Charity	300,000	1,000,000
Total monthly expenses	7,100,000	17,500,000
Total estimated income	7,000,000	25,000,000
Difference	-100,000	7,500,000

COMPARE THEIR TYPICAL EXPENSES WITH THEIR ESTIMATED INCOME. HOW ARE THEY DOING? ARE THEY ABLE TO MEET THEIR SAVINGS GOALS AND AFFORD THEIR EXPENSES?

SPENDING HABITS

What spending habits do you have? List your spending habits. Mark them as sensible (+), unwise (–), or neutral (N). We'll come back to finish the right-hand column in this chart later.

HABITS	+ / - / N	POSSIBLE IMPACTS
Stopping for coffee on the way to work every day	+	I can get to work early to make coffee, and that money could be used for other things of higher importance
Putting spare change in a jar every month	+	I can use it to buy something I want in a few months
...	...	...
...	...	...

Right now, your spending habits may not seem like a big deal. However, these habits are often hard to shake, and can be one of the core factors affecting your financial situation. Good habits help you have self-control as you plan to achieve your goals. But bad habits may push you out of the driver's seat and lead you somewhere you really don't want to go. The closer you get to being out on your own, the more you need to be in control of your actions.

FOR THAT REASON, THE TIME TO TAKE ON GOOD MONEY HABITS IS NOW.

By doing so, you also will find it easier to afford the things you really want today!

To begin managing their money effectively, Tuan and Mai have made a list of what they see as their good and bad spending habits, as shown in the following table:

Mai's habits		**Tuan's habits**	
Negative	Positive	Negative	Positive
I shop for branded goods as soon as the store›s discount announcement is available	I never or very rarely snack	I go for coffee every day after work	I compare prices when buying items
I do not hesitate to "buy what I love"	I donate VND 200,000 every month to poor children	I buy fast food right after receiving my salary	I regularly verify my bank account activity

DO ANY OF THEIR HABITS SOUND FAMILIAR TO YOU?

The problem with unwise habits is the short- and long-term impact they have on your life. Say you're Tuan and you spend VND 30,000 on iced coffee every morning when you go to work. Assuming you skip them on the weekends, that's VND 150,000 a week on drinks. OK, that's not horrible, right? But what does that add up to in a month? In a school year? And what do you really have to show for all the money you spent? You could have spent that amount on a smart phone or even a laptop!

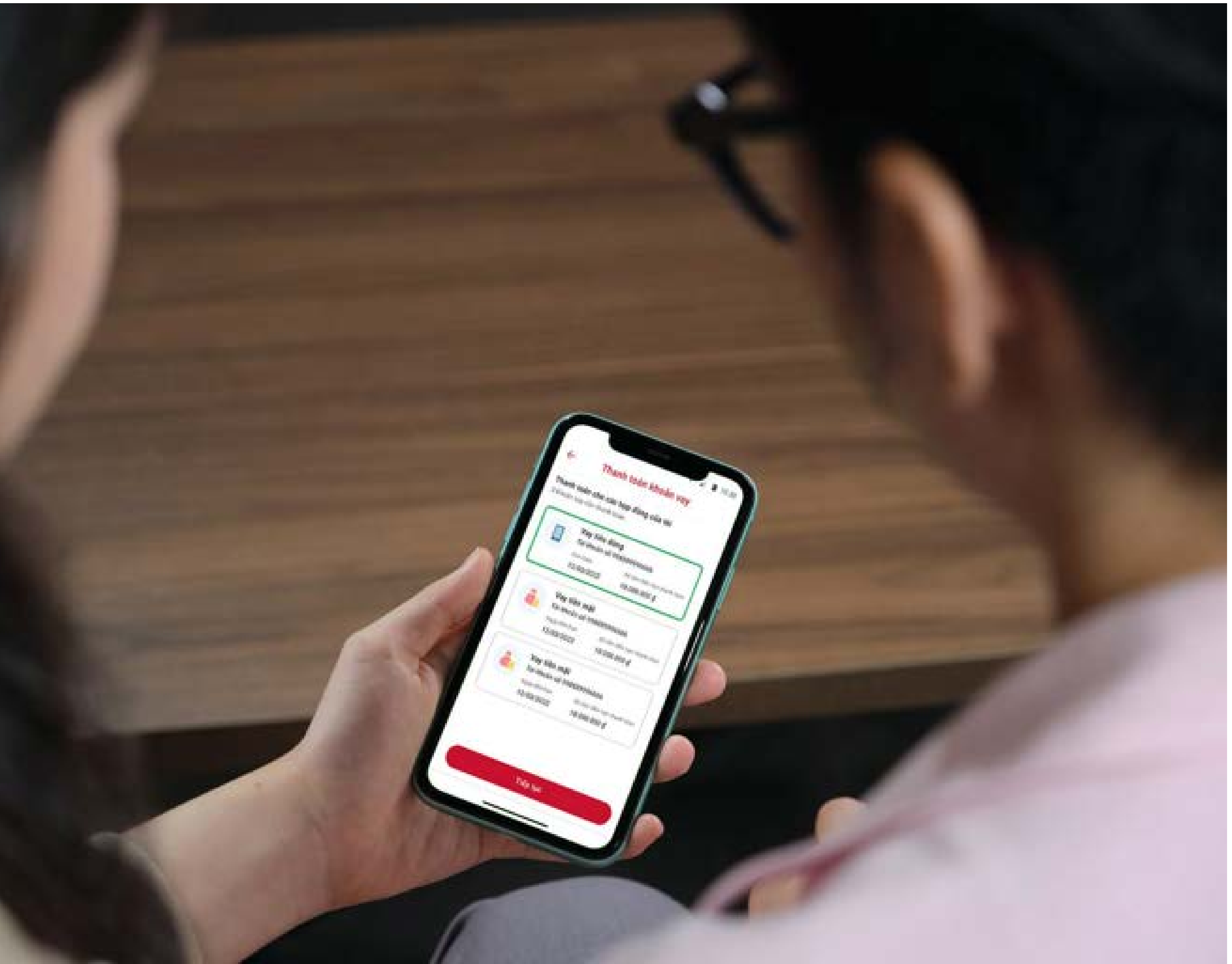
It's not that spending money on iced coffees or fast food is necessarily bad. It's OK to have things you enjoy in life. The question is, could you enjoy certain things less frequently to afford other things you'd enjoy in your life even more?

WRITE DOWN AND LOOK AT YOUR MONEY HABITS. THINK ABOUT HOW EACH HABIT COULD AFFECT YOU IN THE FUTURE. FOR EACH UNWISE HABIT YOU HAVE LISTED, WRITE DOWN A SENSIBLE HABIT TO REPLACE IT.

THE CASE OF THE DISAPPEARING MONEY

Have you ever opened your wallet to pay for something and realized you're down to your last few dollars? You get flustered trying to figure out another way to pay and, in the meantime, your brain is racing to grasp: "Where'd the rest of my money go?" The good news is that the "thief" will be super easy to catch. Just look in the mirror! Then remind yourself how even little expenses add up—fast.

Of course, the only way to be sure of where your money goes is to track your spending. So, put on your detective hat and start keeping what's called a spending log. In it, you'll record everything you spend money on and how much you spend each day. When you review the list, you can bet that your findings will be an eye opener!



HOW TO MAKE A STATEMENT OF MONTHLY/ ANNUAL EXPENSES

Activity Make a statement of monthly expenses.

Hints:

EXPENSES (1)	AMOUNT (Monthly) (2)	AMOUNT (annually) (3)	Notes (4)
1. LIABILITIES – INVESTMENT ASSETS			
Real estate or equivalent (more than 1 year)			
2. LIABILITIES – CONSUMABLE ASSETS			
Long-term liabilities more than 1 year (Auto/ equivalent)			
Short-term liabilities less than 1 year (Motorbikes, phones, household appliances, etc.)			
FIXED EXPENSES			
3. LIVING EXPENSES			
House rent			
Living expenses (Electricity, water, Internet, telephone, etc.)			
Allowance for relatives			
School fees for children			
Other (specific)			

(1)	(2)	(3)	(4)
4. PERSONAL EXPENSES			
Food			
Daily cosmetics			
Personal shopping for basic needs[3]			
Others			
5. TRAVEL			
Self-control (fuel, maintenance, charges, fees etc.)			
Services			
6. INSURANCE			
Life			
Health			
Dependent person			
Credit insurance			
7. HEALTH CARE			
8. POCKET COSTS			
Miscellaneous[4]			
Eating out[5]			
Other[6]			
9. IRREGULAR EXPENSES			
Gifted and Physical education classes			
Travel			
Dining out[7]			
Personal shopping out of basic needs[8]			
10. OTHERS			
Electronic appliances			
Furniture			

[3] Personal shopping for basic needs: including clothes, shoes, cosmetics, perfumes, basic accessories, etc. This expense should only be equivalent to 2-3% of your total net income for a month.
[4] Miscellaneous in the Pocket Costs: for example, shopping out of need.
[5] Eating outside of the fixed monthly expenses for food.
[6] Other in the Pocket Costs: For example, the expense of hairdressing, spa, etc.
[7] Dining out: Including meals that cost 50% or more from your usual standard meal (by income standards).
[8] The portion of the value that exceeds the basic needs.

CHAPTER 1 WHAT IS PERSONAL FINANCE?

PERSONAL FINANCIAL BALANCE SHEET

Personal financial statements are the result of gathering information about your assets (what you have) and liabilities (what you must pay). A personal balance sheet shows how much money you have (assets minus liabilities) at the time of the statement. Creating an "assets - liabilities" chart is the most effective way to help you realize where you are, and how far away you are from reaching your desired financial goals.

A personal balance sheet consists of two main parts: Assets and Liabilities. The net asset is the value of all assets, minus the total of all liabilities.

ASSETS

Activity Make a list of assets

	OWNERSHIP		VALUE	NOTES
	You	Your family	VND	
Cash in hand				
Savings				
Bonds				
Gold				
Stocks				
Other financial assets[9]				
Main residence				
Property				
Vehicle(s)				
Other (specific)				

LIABILITIES

Activity Make a summary of all liabilities

Type of liabilities	Creditors	Interest rate	Frequency	Periodic payment	Current outstanding balance
Long-term liabilities 1					
Long-term liabilities 2					
Short-term liabilities 1					
Short-term liabilities 2					
Short-term liabilities 3					

Do you use credit cards? ☐ Yes / ☐ No

Have you repaid your credit card balance in full? ☐ Yes / ☐ No

Have you ever had an overdue debt? ☐ Yes / ☐ No

[9] Financial assets are liquid and paper assets such as bank deposits, bonds, and stocks. (According to FSB)

NET ASSETS

The purpose of making a personal balance sheet is to see the whole picture of your personal asset situation in the clearest and most accurate way. The net here is the difference between your assets and liabilities. In a nutshell, your net worth is the difference between what you own and what you owe. If your assets exceed your liabilities, you have a positive net worth. Conversely, if your liabilities are greater than your assets, you have a negative net worth.

Now you know

Activity: Make a balance sheet of your personal assets

BALANCE SHEET OF PERSONAL ASSETS		
ASSETS YOU OWN		
Cash and bank accounts	**Value (VND)**	**Notes**
Cash in hand		
Payment account (ATM)		
Savings account		
Debt recovery		
Other (specific)		
Investments		
Deposit certificate		
Stocks		
Bonds		
Property		
Other (specific)		
Personal assets		
Vehicles (cars, motorbikes, etc.)		
Valuables in the house		
Other (specific)		
TOTAL ASSETS		
LIABILITIES		
Liabilities		
Credit cards		
Tax refund		
In line with legal regulations/decisions		
Other (specific)		
	Value (VND)	**Notes**
Mortgage		
House/Land		
Other (specific)		
Loans		
Bank/Financial Company		
Education		
Insurance		
Personal loans (relatives, friends, etc.)		
Other (specific)		
TOTAL LIABILITIES		
NET ASSET		
NET ASSET = TOTAL ASSETS - TOTAL LIABILITIES		

Note that your net worth will fluctuate (not daily) and the overall trend has to rise over the long term. The net worth calculation can provide a warning if you›re completely off track, or a “well done” confirmation if you›re doing well. When you know what your financial situation is like, you'll be more mindful of your spending, better prepared to make the right financial decisions, and have a chance of achieving your short-term and long-term financial goals.

Chapter 02

Financial goals

CHAPTER 2

FINANCIAL GOALS

“MONEY CAN’T BUY HAPPINESS, BUT IT DOES PLAY A BIG ROLE IN HELPING YOU TO ACHIEVE WHAT’S MOST IMPORTANT TO YOU.”

By figuring out what you need to make your personal goals a reality and setting specific financial goals to get you there, you’ll be on your way to enjoying those things in no time.

Once you understand your current financial health, the next step you need to take is to set long-term and short-term financial goals and achieve them step-by-step. That is also the definition of setting and fulfilling financial goals in accordance with your ability.

From an individual or a family’s financial perspective, one can have dozens of goals. In order to arrange and streamline personal financial goals, the following “3 key pillars” of personal finance should be followed:

- **Own assets**
- **Accumulate assets**
- **Protect assets**

Using these “3 pillars” helps us:

- Accurately assess the feasibility of the goals. If a goal is not realistic, it should be quickly adjusted or changed to avoid wasting time and placing unnecessary pressure on yourself.
- Analyze how to reach “achievable goals.”
- Always be proactive when it comes to income and expenses, so that short-term financial goals do not affect longer-term ones.

This is how it looks for Tuan and Mai:

	Goal of ownership	Goal of accumulation (to achieve the goal of ownership)
Tuan	Buy a new motorbike	Tuan must set aside a certain amount of money each month in order to be able to buy a motorbike without it affecting other essential life necessities (for example, he can spend less money on eating out with friends, going on vacations, or lower his emergency savings)
Mai	Buy a new laptop	Mai must set aside a certain amount of money every month to buy a laptop without it affecting other life necessities (she could spend less money on clothes)

CHAPTER 2 FINANCIAL GOALS

TYPES OF FINANCIAL GOALS

IN TERMS OF TIME FACTOR

By time factor, we can classify financial goals into two categories:

SHORT-TERM FINANCIAL GOALS

Short-term goals are tied to your current financial health, based on your actual income. These goals need to be accomplished in less than one year. Therefore, you need to make a savings plan for that goal on a regular basis. You can also take advantage of credit institutions to help you achieve this goal, provided you have a clear repayment plan.

For example: Tuan needs to buy a new motorbike in the next two months, otherwise it will affect his work and as a result his income will also be affected. In this case, he needs to find another way to generate income for the purchase of a motorbike if the income from his current job is not enough to achieve this goal.

MEDIUM AND LONG - TERM FINANCIAL GOALS

These goals need to be accomplished over a period of more than one year. Therefore, long-term goals are also associated with your personal development and income growth. Long-term goals require a clear plan, which is broken down into steps to help you accomplish it according to your ability.

For example: Tuan has a girlfriend and plans to save some money in the next 5 years. He then plans to get married and use that money plus a mortgage loan from the bank to buy a 60 m^2 apartment for about VND 3 billion. Thus, within the next 5 years, he and his girlfriend need to set a minimum financial goal of about VND 1 billion (1/3 of the apartment's value), and his monthly income should reach about VND 40 million to guarantee a bank loan and take care of his small family.

IN TERMS OF CONTENT FACTOR

Based on the specificity of the financial goal, one may have the following types of financial goals:

INCOME GOAL

Mai predicts her income will increase by about 30% after 2 years of working. The basis for this goal is that Mai must try to do well in her current job to be promoted to team leader.

SAVINGS GOAL

Because his parents can't afford to support him, Tuan will need to set aside some money every month for getting married and starting a family. He expects to save about VND 500 million in the next 5 years.

SHOPPING/CONSUMPTION GOALS FOR WORK AND LIFE

goals for work and life: It could be buy a motorbike, a phone, a laptop, etc.

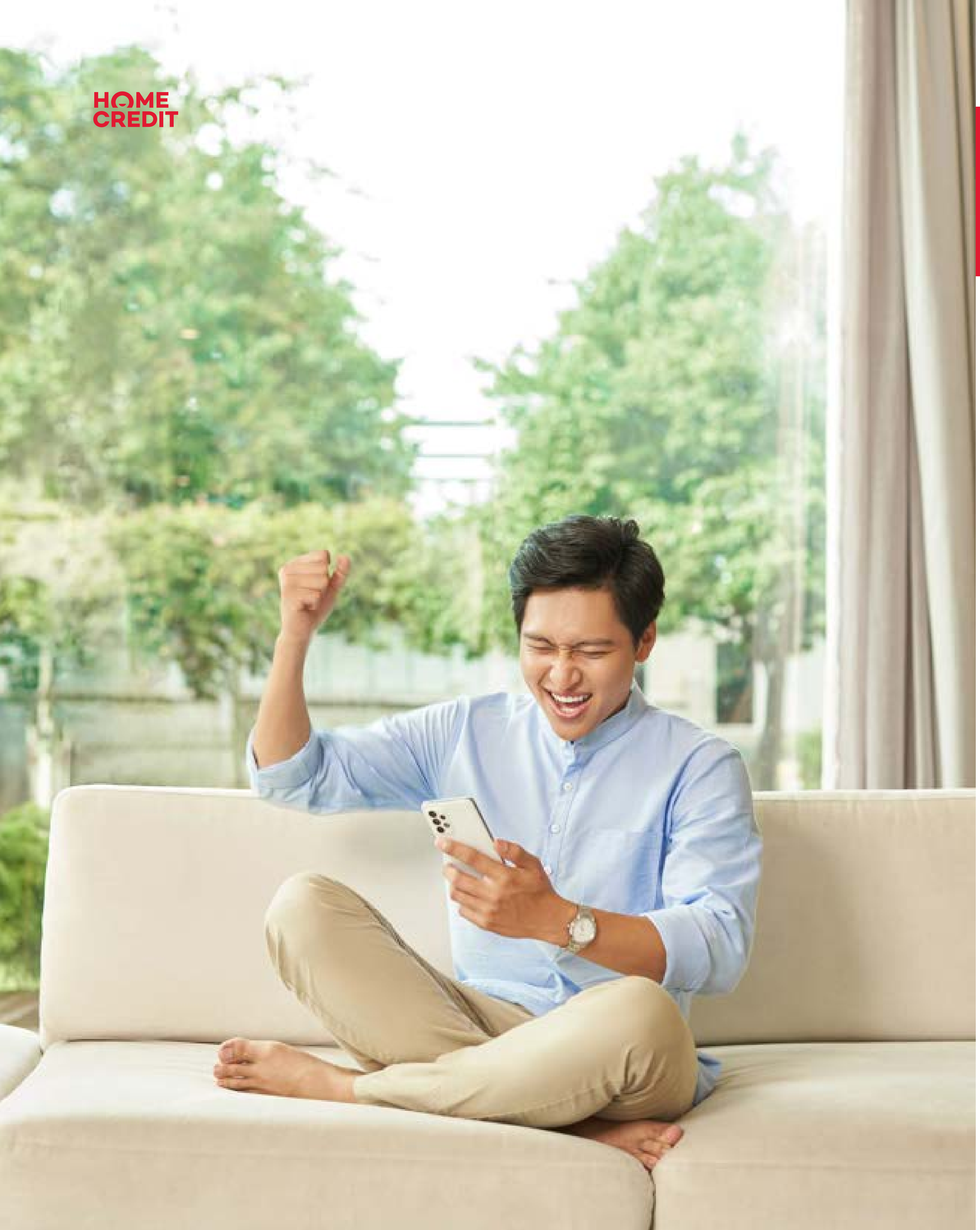
FINANCIAL SUPPORT FOR RELATIVES

For example, medication costs for parents or tuition fee for siblings.

PROVISIONS FOR SICKNESS AND INJURY

For example, life/health insurance or car loan insurance.

A financial plan needs to be specific, measurable, and achievable. A goal that is out of reach can leave you feeling tired and frustrated when you achieve it. However, a goal that is too easy can cause you to lose motivation and miss the opportunity to reach your full potential. Once you've set a goal, you can move on to the next step: Building your own financial plan.



CHAPTER 2 FINANCIAL GOALS

FINANCIAL PLANNING

When you understand and know how to set financial goals, the next thing to do is to figure out how to realize these financial goals.

There are 3 basic steps to making financial plans for yourself:

STEP 1: REVIEW YOUR FINANCIAL SITUATION

THERE ARE TWO FACTORS YOU NEED TO CONSIDER IN DETAIL WHEN ASSESSING YOUR FINANCIAL "HEALTH".

- Asset situation
- Cash flow situation (monthly income and expenses)

When looking at the asset situation, you need to list existing assets and asset-related loans. Personal assets include houses, vehicles, and other valuable assets (such as computers, phones, etc.). When you subtract personal asset-related loans, you get your net worth (or simply capital).

For the cash flow situation, you should list income and daily expenses (repeat this step monthly, if possible):

1. It is necessary to list all sources of income, from primary income to secondary income (for example, income from side jobs such as selling stuff online, tutoring, opening a cafe, etc.), including earnings that are likely to be received in the near future (overtime pay).

2. List expenses by 3 main groups as follows:

ESSENTIAL EXPENSES

House rent, electricity, water, groceries, travel, etc.

ENTERTAINMENT EXPENSES

Traveling, eating out with friends, shopping for clothes, accessories, etc.

SAVINGS

You should put at least 10 - 15% of your earned income in a savings account so that you will be able to buy valuable assets in the future (house, car), as well as save for yourself and your family when you are sick or ill.

STEP 2: EVALUATE AND ANALYZE OPTIONS TO ACHIEVE YOUR FINANCIAL GOALS

Once you've listed your income, expenses, and liabilities, it's easier to find ways to accomplish your personal financial goals. Personal finance is essentially a story about numbers, so keeping records helps to easily identify opportunities and risks that could affect your lives and assets.

Assuming your case is similar to Mai's, you can develop a plan to accomplish your financial goals as follows.

INCOME GROWTH GOAL

Mai's plan is to increase her income by about 30% after 2 years of working and to be a team leader.

BASIS FOR THE GOAL

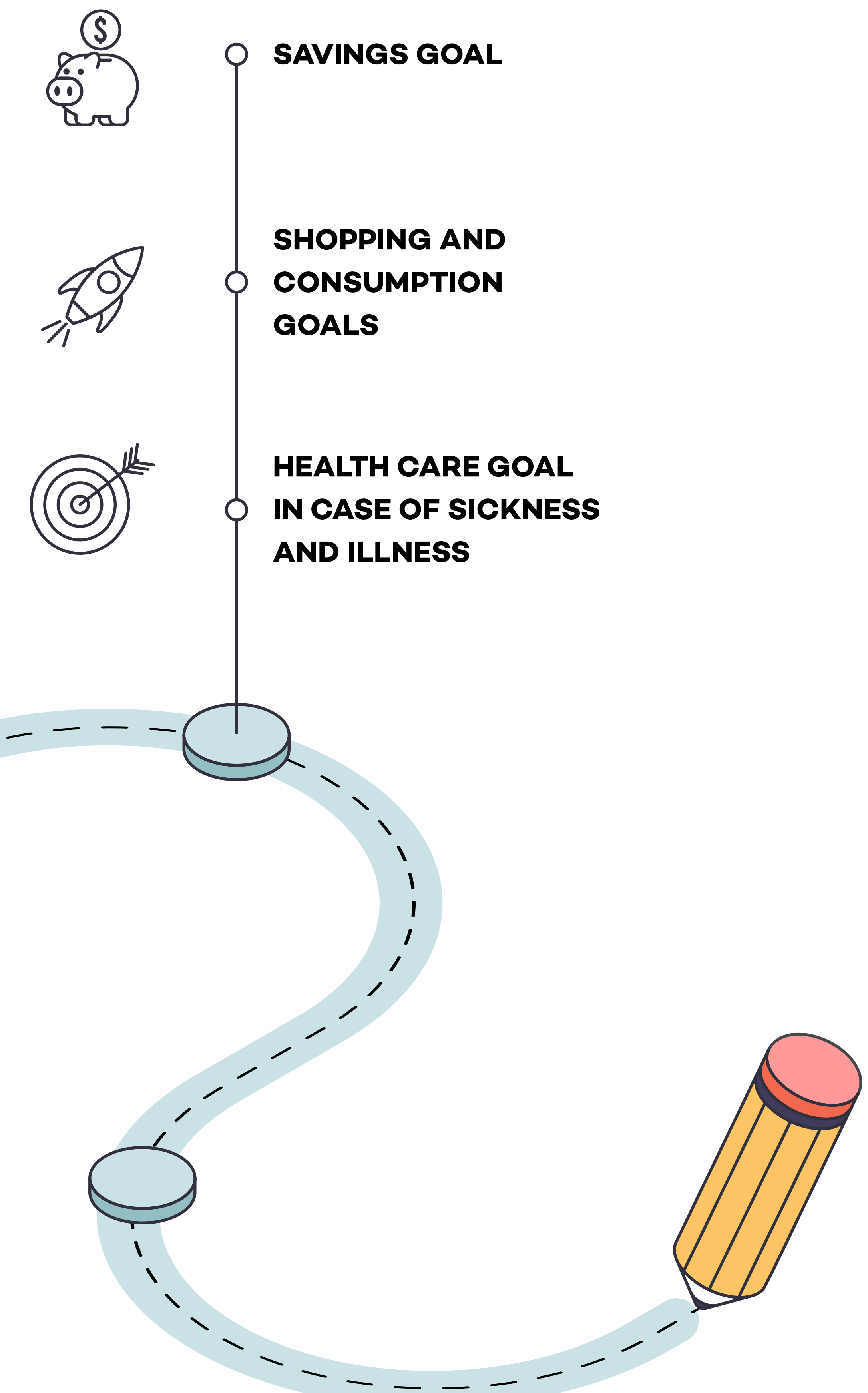
According to Mai's research, the average salary for the position of team leader in her profession is about VND 9 million, provided she meets the knowledge and experience requirements.

CONDITIONS FOR THE GOAL

Mai needs to improve her knowledge by applying for a number of professional courses (she expects to take 2 courses in the next year, each course lasting 3 months). In addition, Mai must also improve her Japanese language skills (intermediate level - expected to learn in 2 years).

OPTION TO ACCOMPLISH THE GOAL

- EXPENSES: Mai needs to anticipate the tuition fees for the two courses mentioned above and when to pay them.
- SOURCE OF EXPENSES: In the first year of working, Mai needs to recalculate her expenses to have extra money for her courses. In case of insufficiency, Mai can borrow from her family or pay 30% of the tuition fees in advance by credit card, repaying the card loan in the next 9 - 12 months.
- DURATION: Mai needs to rearrange her schedule so that she can complete the courses as planned. Sacrificing time spent on entertainment and meeting friends will also help Mai save more money.



SAVINGS GOAL

In addition to the amount required for the courses to increase her future income, Mai also needs to budget for periodic savings for emergencies or her own needs.

SHOPPING AND CONSUMPTION GOAL

So that she can afford to study and save, Mai is very frugal when it comes to shopping. However, sometimes Mai still wants to reward herself with something she loves and/or needs. Mai wants a new phone and a bag suitable for the office environment. She also wants to buy a motorbike in the next 2 years. To achieve all this, she will probably use a consumer credit service and see it as a reward for her efforts.

HEALTH CARE GOAL IN CASE OF SICKNESS AND ILLNESS

BASIS FOR THE GOAL

Because of her limited income and savings, Mai also wants to take out a small insurance for herself and her family in case of unexpected situations. This insurance will be for when she is sick or loses her ability to work for a while, and especially when she is unable to pay off consumer loans that could cause problems for her loved ones.

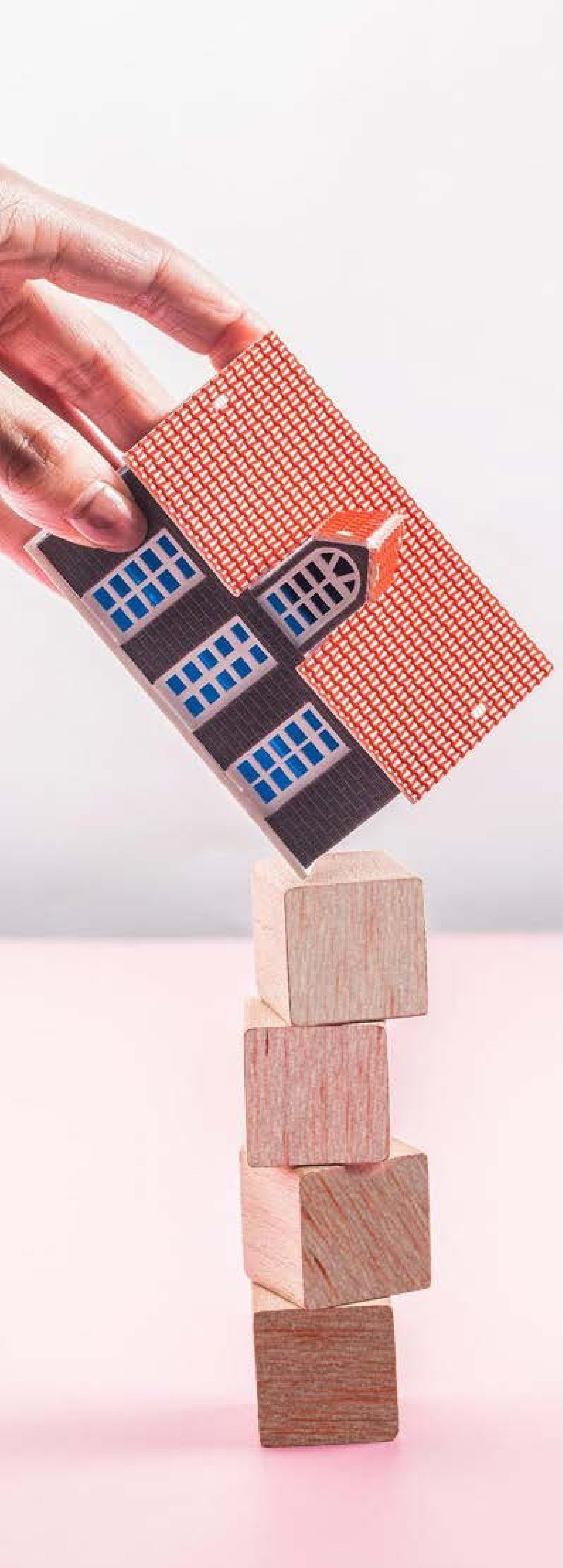
CONDITIONS FOR THE GOAL

Mai needs to learn about some types of life insurance and health insurance, provided the benefit amount is at an appropriate level so that she can afford the premium.

OPTION TO ACCOMPLISH THE GOAL

EXPENSES: Mai will need to calculate the insurance amount in line with her current needs and capabilities. Plus, because her company has a health insurance policy for employees, Mai should consider this when deciding on a reasonable and sufficient insurance level. Spending on insurance products will affect Mai's savings as well as her living expenses.

TYPE OF INSURANCE TO BE PURCHASED: Mai will need to consult reputable insurance providers and evaluate the protection conditions and characteristics of each insurance product. During her research, Mai finds that the consumer finance companies she uses also have very suitable insurance solutions with very reasonable costs.



STEP 3:
FOLLOW THE PLAN

THIS IS THE STEP THAT DETERMINES THE SUCCESS OF THE PLAN, BECAUSE SIMPLY HAVING A GOOD PLAN IS NOT ENOUGH TO TURN GOALS INTO REALITY. THERE ARE THREE FUNDAMENTAL ELEMENTS REQUIRED TO REALIZE A GOOD FINANCIAL PLAN:

KNOWLEDGE – THE ABILITY TO APPLY KNOWLEDGE

Knowledge in general (including personal finance knowledge) is information about a certain subject that appears in written or audio documents. For example, this handbook is a source of knowledge. Its contents will become the foundation for a person›s personal financial knowledge. As a result, it becomes possible to determine a way to set financial goals as well as realize these goals.

Going a little deeper: In terms of income, you need to obtain knowledge and master skills in your career field, then know what criteria must be met in order to increase your income. In terms of spend management, you must learn how to classify daily living expenses, which should be dealt with first, which should be left for later, which are not necessary.

Knowledge is a long process of acquisition and accumulation. Once you have acquired knowledge, you can use it flexibly to achieve your goals in life.

Information – analyzing and evaluating information

Information is the announcement, exchange, or explanation of a particular object and is found in the form of sounds, numbers, and letters, to bring about a certain understanding to the recipient. If knowledge is like a car, then information is the fuel the car needs to work.

In Mai's case, in order to get money for her courses and other high-value items, she needs to save every month. However, Mai needs to consider which bank offers the best interest rate and how long she should deposit her money for – in other words, she will have to examine information. According to the risk-return tradeoff, small-scale banks have higher savings interest rates, while this value is relatively low at large or foreign banks. For her insurance purchase, Mai will definitely need to look at quotes and benefit tables from different insurers to analyze and evaluate the information.

In Tuan's case, when buying a house to prepare for his marriage, he will also need information about things like loan packages, planning, infrastructure, and potential development to make the final decision about the house he wants. It is important to evaluate information as it could be inaccurate and unreliable, or it might not be the right time to spend money.

In order to make sure you have found good sources, you need to pay attention to the accuracy and diversity of information.

ACCURACY

You need to consider the reliability of the information source. For example, when buying a motorbike or a phone, in addition to watching advertisements or public information, you should visit places where the items are displayed to receive official and professional advice from the seller. Don't just take your friends' words for it, or guess based on advertising in newspapers and on television. Research planning information from competent state agencies, as the real estate market often abounds with rumors intended to inflate prices or create speculative waves.

DIVERSITY

To get a loan with the best interest rate when buying a house, car, or household appliances, you should seek out information from different banks or financial companies to compare. Do the same when buying insurance. Always get information from multiple sources to help you make optimal spending decisions in terms of expenses and benefits.

Personal experience and knowledge from others (consultants, relatives, friends, etc.)

You'll never achieve your goals efficiently if you make decisions based only on your experience. After comparing accurate and diverse information, you also need to learn from the practical experience of experts, friends, and relatives.

For example, when Tuan is about to buy a new motorbike, he can ask for advice from his family, friends, colleagues, or sales staff, or from online reviews.

For an insurance product or a consumer loan company, the experience of relatives and friends will provide more information to consider when choosing the most suitable product.

CHAPTER 2 FINANCIAL GOALS

SAVINGS

As mentioned above, Personal Finance revolves around 3 main issues:

1. **Make money**
2. **Accumulate money (savings and spend management)**
3. **Protect money**

In **Chapter 1**, you took a closer look at sources of income and how to diversify our sources of income.

In this chapter, you'll look at another important element besides income generation: Savings – a way to handle income to both accumulate assets and ensure reasonable spending needs in life.

First, you need to understand that: Accumulation is a process of saving funds that are left over after deducting necessary expenses from income over a given a period of time. It is not easy to save as much money as possible without feeling pressure. Meanwhile, your investment needs (education, social relations) also need to be met.

In general, accumulation includes 2 main actions, namely savings and spend management. Savings include:

Accounts to repay debts on time (required)

Provisions for 3 - 6 months of living expenses for essential needs and potential uncertainties.

Long-term savings

Depending on your abilities and needs, you should calculate the percentage of the above items for each stage in life. And this will be **deducted first** when you receive income.

Recommended level (monthly)

Income (VND/month)	Savings (%/income)
Less than VND 20,000,000	10 - 15%
VND 20,000,000 – VND 40,000,000	20 - 30%
VND 50,000,000 – VND 70,000,000	30 - 50%

If you have no dependents, your savings can increase by 5 - 10% and vice versa (if you provide financial support for 2 people, your savings will be further reduced by 5 - 10%).

For example, Mai's current income is VND 7,000,000/month. Based on this income, her standard monthly savings will range from VND 700,000 to VND 1,050,000. However, since Mai doesn›t have to support anyone, she can increase her savings by 5 - 10% . Thus, Mai can increase her monthly savings by up to VND 1,400,000. Tuan's standard savings amount, meanwhile, ranges from VND 5,000,000 to VND 7,500,000. However, since Tuan needs to deduct a fixed monthly income to support his parents in the countryside and his younger brother to go to college, his monthly savings can be reduced to between VND 3,750,000 and VND 6,250,000. If he needs to support his family more, this amount can be reduced to VND 2,500,000 – VND 3,750,000 per month.

What should you do with the savings?

(sorted by priority)

1. DEBT REPAYMENT

This is the most important priority. Debt not only puts financial pressure on your personal life, but the interest rate of a bank loan is always much higher than the interest rate of a savings deposit. Therefore, paying off debt should be your top priority after you've taken care of your required expenses for the period. Note: Before deciding on a loan, it is necessary to determine the loan interest and periodic debt. The principle here is to ensure that the income after deducting essential expenses must be able to pay the monthly interest and principal debt.

2. PROVISIONS

This amount is used to cover unexpected and unusual needs such as illness, unemployment, and support for loved ones. It helps to maintain important living expenses for a given period before you consider high-interest loans or liquidating assets to find money for your living expenses. If you haven't accumulated enough money for your basic living expenses for the next 3 to 6 months, you should consider saving 2 - 3% of your monthly income for provisions.

3. SAVINGS

This is the capital to create passive income. As mentioned in Chapter 1, a simple and effective way to save is to open a term deposit account (preferably at a small-sized bank to get a better interest rate). In addition, if you have accumulated a decent amount of savings, you can buy some assets in line with your knowledge, information, and risk tolerance (you'll learn more about investment in **Chapter 5**).

CHAPTER 2 FINANCIAL GOALS

EFFECTIVE SPENDING MANAGEMENT

It is believed that EARNING MONEY is inherently difficult and health-damaging, so it would be really sad if SPENDING MONEY also made you worried; at the very least, spending money should bring a sense of freedom and enjoyment. For many people, keeping a record of their daily expenses is unfeasible and impossible. Therefore, in this section, you'll learn about a very traditional method but adjusted with new thinking to optimize and minimize spend management. This method is used by a number of professional personal financial advisors in the U.S., Australia, and Singapore for their customers.

First, you have to divide your income between 3 sources of expenses in the following order:

MONEY FOR INVESTMENT & SAVINGS

Read the Savings section of this chapter. Always remember that this should be set aside FIRST when you get your earnings.

MONEY FOR ENTERTAINMENT

This includes expenses for eating out, hosting a reception, shopping beyond basic needs, and traveling. This amount should account for about 10% of your income and should not exceed 15% of your monthly income (if your job requires you to socialize regularly, you should calculate using other criteria, separate from your personal entertainment needs).

You can control this amount further by ZONING, meaning you decide to cut out a specific amount and put it in a single account to manage. Any expenses for ENTERTAINMENT NEEDS should come from this account only. If you use a credit card to pay for something, you should immediately transfer the money from this account to the credit card so that all spending is controlled in a single account. The monthly balance from this source will form a fund for annual trips. By doing this, your family can feel confident when shopping and traveling. There is no need to remember, take notes, and importantly, you don't have to worry about your spending since everything is in budget.

The remaining money is for ESSENTIAL NEEDS

STEP 1

Pay all monthly FIXED AMOUNTS (such as electricity, water, and Internet bills; tuition fees for children, insurance premiums, house rent; gifts for parents, English tuition fees, gym fees) and remember the total sum of these expenses. There is no need to remember each item in detail. Update this number whenever there is a change.

STEP 2

Estimate your monthly GROCERY SHOPPING bill. You also need to fix a number, for example VND 100,000 per day. Then, you'll feel comfortable when spending within the fixed amount.

STEP 3

Fix an amount for odd expenses for each month (travel, haircut, coffee, etc.).

STEP 4

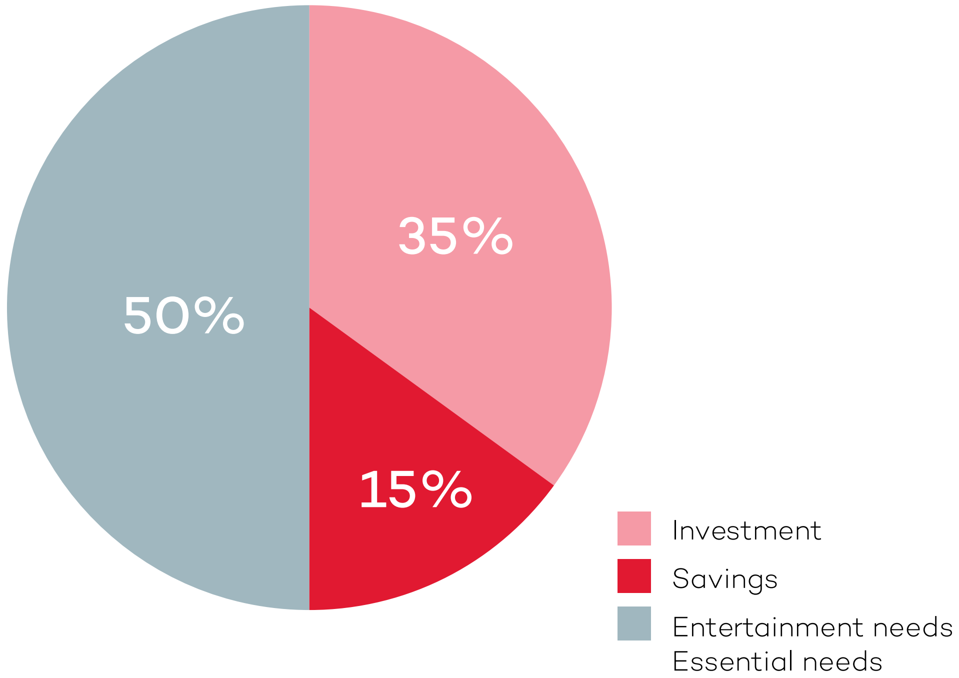
The remaining amount is for UNEXPECTED expenses such as online purchases and furniture, or unexpected health checks and treatments, funerals, and weddings. You should use a single account for these (to look up the statement when required).

STEP 5

If there is any money left over after all that, you should use it for either INVESTMENT & SAVINGS or ENTERTAINMENT NEEDS.

As mentioned earlier, none of this requires much knowledge of accounting or bookkeeping. The essence of what you are doing in this step is zoning expenses and budgeting to "feel comfortable" when spending within an approved budget. These 5 steps are particularly important for those who are married as it ensures each family member has pocket money and can cover their living expenses without depending on each other.

With an income of VND 25,000,000 per month and needs as shown in the table on page 19, Tuan will reset his spending into 3 parts as follows.



1. Investments - Savings (ideally 35%)

Tuan plans to buy a house in the next 10 years, so he needs to accumulate and invest from now on. Tuan will put 35% of his income into an accumulation and investment fund as soon as he receives his paycheck.

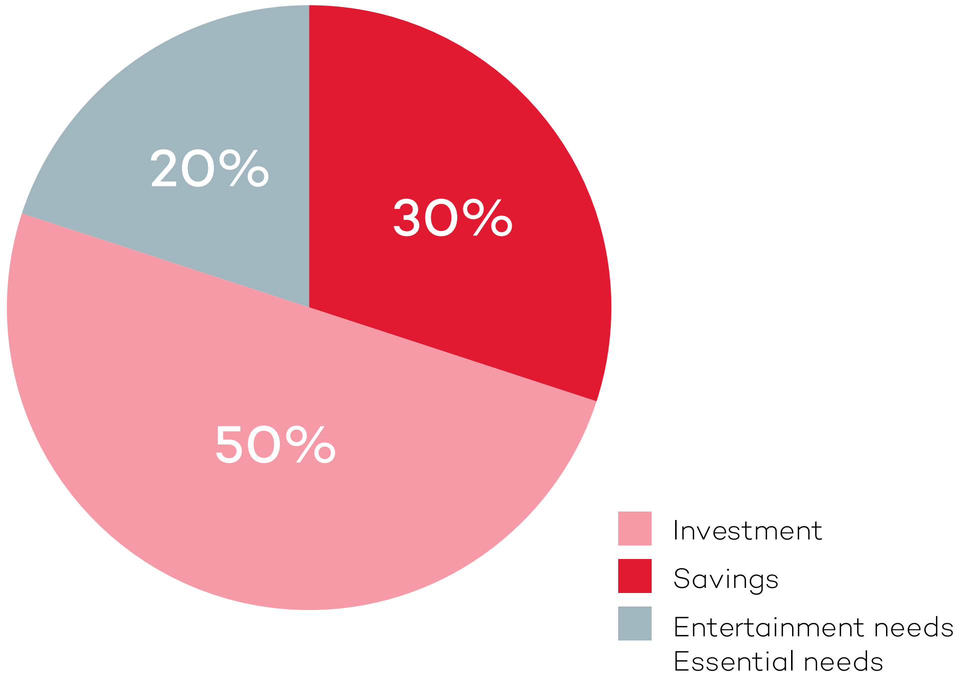
2. Entertainment needs (ideally 15%)

Since his work is intense and stressful, Tuan doesn't want to ignore his entertainment needs. However, this category is also not a priority for him, so he will use up to 15% of his income for entertainment needs. At the end of the month, he will transfer whatever is left to his accumulation and investment fund.

3. Essential needs (ideally 50%)

Essential needs or fixed expenses include rent, electricity, water bills, petrol, and food. At the end of the month, whatever is left of this allocation will also be transferred into the accumulation and investment fund.

In order to achieve her new financial goals, and with an income of VND 7,000,000/ month, Mai divides her spending list according to the new ratio as follows:



1. Investments - Savings (ideally 30%)

Of which 10% is for long-term savings and 20% for investment (10% for financial investment and 10% for personal development).

2. Entertainment, consumption needs (ideally 50%)

Because of her desire to discover new things, Mai has chosen to give this category a large percentage of her total income. Mai will spend this amount on entertainment for the month and save for traveling. Money to buy phones and computers is also included in this category.

3. Essential needs (ideally 20%)

As she lives with her family, Mai's fixed monthly expenses only includes petrol, phone, snacks and gifts for friends and relatives. For Mai, 20% a month is enough for these essential expenses.

CHAPTER 2 FINANCIAL GOALS

LEARN ABOUT BANK CARDS

"THE BANK IS YOUR FRIEND" – this is true. However, you need to know how to effectively use banking services. Understanding how banks work and support your life will help you to achieve your financial goals faster. The simplest and way is a bank card, a "powerful" card that can be used in place of cash. Some cards can be used as an "advance" for spending activities.

When Mai was a student, she preferred to use cash. She liked the feeling of always having cash in her pocket "just in case". However, cash didn't make her richer and she started to worry that her spending was getting out of control. So, she switched to a bank card instead.

Types of payment cards

A payment card is a means of non-cash payment. There are many types of payment cards, but the basic types are credit cards, debit cards, and prepaid cards:

CREDIT CARDS

Credit cards allow Mai to "buy now, pay later". That is, the bank will provide her with a spending limit (advance money), and she will use that limit to pay direct or online bills for goods. Upon about 45 - 55 days, depending on the card type, she has to repay for the previous spending. In order to get this card, she needs to have a regular income or prove her ability to repay a bank loan.

DEBIT CARDS

Debit cards only allow Mai to use the money she has in the account provided by the bank. That is, she can only pay, transfer, withdraw cash at an ATM, or make other transactions within the amount of money she has.

PREPAID CARDS

Mai does not need to open a bank account to get a card, she simply needs to buy a card and then add money to the card to spend. Prepaid payment cards are similar to prepaid phone SIMs. Prepaid card is a special form of payment card that does not require issuance by banks or credit institutions.

TOP-UP PAYMENT CARDS

Top-up payment cards allow you to top them up after the first use. For example: Bus card, travel card, or payroll card.

GIFT CARDS

Prepaid cards that can›t be topped up. These cards can be given as a gift and are valid until the balance is exhausted.

PAYROLL CARD

A payroll card is an alternative payment method to traditional salary payment. The cardholder's income is transferred directly to the card.

CARDS FOR TEENS

Parents can educate their children to be more responsible in financial management and control their children's spending with this card (often popular in developed countries).

TRAVEL CARDS

Travel cards are a more secure payment method than carrying cash or travel checks. Some types of travel cards provide services such as: compensation for lost luggage, replacement for lost cards, and cardholders are not responsible if the card is lost or stolen.

Which card is recommended?

With experience in financial management, Mai opted for a bank card with 2 separate accounts: one for consumption and one for savings. When learning about the banks› interest rates, she found that she could take advantage of a credit card to shop up to 45 days in advance with no additional fees or interest and receive discount codes for Shopee and Grab to go shopping online or use services at bargain prices. Thanks to those outstanding advantages, Mai finally chose to open a credit card. Mai set herself a consumption budget of VND 2 million/month, equivalent to no more than VND 500,000/week. In other words, Mai can shop online, go out for coffee with friends, or do anything as long as the maximum limit is VND 500,000/week.

After a period of use, Mai noticed that her financial situation had significantly improved since making her smart consumption plan, so she opened a deposit account, which offers an even better interest rate.

Unlike Mai, Tuan has been working for a long time, so he has a higher income. He still prioritizes bank cards when spending instead of cash, especially credit cards due to their benefits. Using a card is very convenient because he doesn't have to carry cash and payment is quick and easy. In addition, he can also build good credit through his credit score and enjoy credit card offers.

Tuan often uses a premium credit card, so he can "buy now and pay later" and take advantage of other credit offers. There were times he urgently needed an important deposit for some contracts but didn't have enough cash due to the large-value deposit. However, with a compact credit card, Tuan is able to deposit with a credit account without missing a lucrative business opportunity.

Rules of using a card

If you choose a credit card like Tuan and Mai, here is a set of rules that you should follow.

KEEP TRACK OF TRANSACTIONS AND GET INTO THE HABIT OF CHECKING YOUR ACCOUNT BALANCE

You should check your account regularly (online via a banking app or visit a bank transaction office) to detect and promptly report any anomalies such as fraudulent fees or unauthorized transactions. This will help you avoid any unnecessary losses. In addition, checking your account is also a way for you to manage your money and know your financial health. Monitoring financial data on your account every day makes you face transaction information and your financial limits in an honest manner for timely awareness and adjustment.

MAINTAIN SECURITY

Firstly, you need to keep the PIN (password) of the card safe and you must not share it with anyone. When generating a PIN, you should incorporate a random number that makes sense to you and is hard to guess for others such as "230817" (the date you received your diploma is 23/08/2017). Do not use your date of birth as your password because these numbers are quite predictable (people around you will know it, or it may be available publicly, especially on social media, where information is exposed with low security). Additionally, you keep your credit card with you as much as possible and avoid losing it or dropping and damaging it because if it falls into the wrong hands all your money could be taken. If you lose your card, immediately report the theft via hotline number or to the nearest bank branch. You can also set up SMS alerts to receive messages if any unauthorized transactions occur. This is especially important with credit cards because each transaction affects the cardholder›s credit score, so if there is any doubt about your card's whereabouts, call your the bank and block the card immediately.

UNDERSTAND THE CARD'S TERMS OF USE

It is no coincidence that advertisements for most products emphasize: "Read the user manual carefully before use." That's right, you can›t use something you don›t understand well, unless you want to lose your rights and get into trouble. Therefore, you need to know information such as: the conditions for opening personal credit cards, required fees, debt repayment deadlines, and late repayment terms when using credit cards. Clearly identifying this information will help you understand your rights and obligations when using a bank card. Once you understand the card's opening conditions, you know what information you must provide to the bank or financial institution and how to avoid paying unnecessary fees, for example.

AVOID WITHDRAWING CASH FROM A CREDIT CARD

When you go to an ATM and withdraw cash from your credit card, you are temporarily borrowing cash from the bank. Therefore, the amount you withdraw with the card is considered a credit balance, not a regular withdrawal like with a debit card. When withdrawing cash with a credit card, you will be charged a fee by the bank for the amount you have withdrawn. This fee is usually around 4% at the time of withdrawal, not to mention the minimum requirements. For example, when the bank stipulates a fee of "4% of the transaction amount with a minimum fee of VND 60,000", it means that if you withdraw VND 1 million in cash using a credit card, instead of a VND 40,000 of withdrawal fee (4% of VND 1 million), you will be charged VND 60,000 (minimum amount set by the bank). This fee may vary between banks or financial institutions, so you should also consider this factor when choosing a credit institution.

PAY ATTENTION TO YOUR CREDIT SCORE

Your credit score is one of the most important measurements of your financial health. In fact, improving your credit score through effective use of your bank card will save you time and money. For example, the higher your score, the more attractive you are to a financial institution and thus you are more likely to successfully apply for a loan with more favorable interest rates. We will discuss credit scores in a later chapter.

TAKE ADVANTAGE OF CREDIT CARD OFFERS

Paying attention to credit card benefits and offers will help you take advantage of opportunities when using a credit card. Currently, many banks and financial institutions have incentive programs to retain customers, in particular offering rewards such as monetary incentives and bonus points, or more practical rewards such as suitcases, phones, and trips.

In addition, credit cards also provide discounts when spending at shops and restaurants, promotional offers on major e-commerce sites such as Shopee and Lazada, and reductions in shipping charges when using Grab and Gojek. Plus, for shopaholics, using a credit card to buy things with an interest-free credit period of up to 45 - 55 days is undoubtedly an attractive offer. These are all benefits that smart consumers should not miss.

Be a smart bank card user! Learn carefully about the card type, functions, and incentive programs of the card issuer before you choose.

CHAPTER 2 FINANCIAL GOALS

INSURANCE: ASSET PROTECTION

People spend a lot of time and effort building and saving assets, but little time thinking about how to protect those achievements against risks in life. In the wake of the Covid19- epidemic, health has become a more important issue, and the impact of the disease has been devastating on the global economy.

Insurance is an effective and extremely popular method to protect assets. In addition to insurance provided by the Government (health insurance, social insurance, etc.), forms of commercial insurance (provided by insurers and insurance organizations) are also very popular. There are two main types of commercial insurance: Life insurance and non-life insurance.

LIFE INSURANCE

> **"THIS PROTECTS PEOPLE AGAINST HEALTH - AND LIFE-RELATED RISKS (INJURY, ACCIDENT, DEATH) AND ENSURES FINANCIAL SECURITY WHEN RISKS OCCUR."**

For example, if Mai signs a life insurance policy, she would agree to pay regular premiums (monthly, quarterly, etc.) to the financial reserve fund managed by the insurance company. If Mai suffered from health problems, or at the expiry date of the policy (specified in the policy), she would be paid a certain amount by the insurance company in line with the policy. This amount would be extremely significant to Mai since:

This would be a guarantee for unexpected accidents and risks for Mai, especially for when buying a phone by loan. With the principle of "lump-sum", the amount she would be paid by the insurance company at that time would be much higher than the amount she borrowed to buy the phone (maybe up to 500% higher). In addition, depending on the insurance organization, Mai would also be entitled to a hospital stay of up to VND 300,000/day and up to VND 9,000,000 in case of an accident emergency resulting in death or permanent disability. She would even be paid her monthly contribution if she is hospitalized for at least 7 days due to illness or accident (if Mai stayed in the hospital for 7 - 30 days, the insurance company would pay an installment period on behalf of her; 31 - 60 days is considered 2 periods, etc.).

Mai could use this money to save and make financial plans, but more specifically, to buy a phone sooner. The reason is that, in addition to receiving back the entire amount Mai paid under the insurance policy, if she took out insurance packages with investment products[10], she would also receive additional insurance interest (from the profit of an insurer's financial fund, which is announced every year based on the fund›s performance) and accrue such interest. At the same time, if she bought life insurance, Mai would also have the motivation to focus on saving and being more conscious of her daily expenses to pay for the insurance premium.

If Mai has investments, when she encounters unexpected situations such as a hospital stay or injury, life insurance would also help her limit damage from reduced investment assets, lost income, or even bankruptcy. The compensation from life insurance would help her take care of her family or pay off bank debts that she is unable to fulfill because of unforeseen circumstances.

[10] Some insurance packages include investment products with better returns than bank deposits.

NON-LIFE INSURANCE

A form of protecting property, civil liability, and other insurance operations that are not part of life insurance. Here are several things to keep in mind when choosing non-life insurance:

Unlike life insurance, which often uses the form of "lump-sum", non-life insurance uses principles such as contribution and subrogation. Subrogation is the right of the insured or insurer to pursue the party that caused the loss to them to recover funds paid in the claim. For example, Tuan was crashed into by another car when he was driving. As Tuan had bought non-life insurance, he was not too worried because he knew the insurance company would pay the cost of repairing the car. His insurer pursued the other party to retrieve the insurance money the company had spent. Thus, the risk was transferred from Tuan to the insurance company based on the principle of subrogation.

With non-life insurance, the policyholder only needs to pay a one-time premium and the insurance company will commit to paying and indemnifying the insured in case of risks arising out of loss of material or body. However, if the insured has not faced any risks by the end of the contract, they will not receive the paid amount.

RULES OF INSURANCE SELECTION

As you can see, each type of insurance has different characteristics and benefits. If you›ve decided to buy commercial insurance, here are some rules to keep in mind.

Determine needs and financial capabilities

You need to clearly define what your financial goals are – long-term accumulation, protection (Mai's phone loan) or investment (Tuan's stock investment loan, house loan). Pay attention to your financial capabilities. Non-life insurance premiums will depend on the purpose (for example, valuing the property for property insurance). Meanwhile, determining the life insurance premium is different. If you have a steady income and set aside an investment for the future, the insurance premium will account for 15 - 20% of that amount. For example, in Tuan's case (with a salary of VND 25 million/month, he spends 30% of his income, or VND 7.5 million to invest), he will buy insurance of about VND 1.5 million/month (20% of VND 7.5 million investment). The reason is that if the premium is too high, policy holder may not be able to pay (especially new graduates like Mai, with no official job or stable income). But if the premium is too low, the insured amount will also be same and not higher (especially in the case of protecting Tuan's investments) resulting in the loss of insurance value.

Choose the time and payment method of life insurance premiums in accordance with your financial capability, avoiding the suspension of the policy

Currently, life insurance companies try their best to help customers maintain their policy until maturity. For example, Mai just graduated from school, so it is very difficult for her to pay a large amount each time. She could therefore break down the term by month instead of by quarter to spread her premiums into easily-to-pay amounts. On the other hand, for non-life insurance, you only need to pay the premium once and can sign a new policy when it expires.

Declare truthful and accurate information

For example, avoid falsifying records, or getting sick then buying insurance because the insurance company will rely on this information to verify the profile (before signing the policy) or pay benefits (after signing the policy and the insured event occurs). If you make an error when providing information, the insurance company may refuse to review the application or handle insurance benefits. In addition, you also need to carefully review the benefits, especially any exclusion clauses, to avoid trouble and disputes later. For example, life insurance will cover death, except for in cases such as death due to drugs, stimulants, alcohol, and addiction.

Above are some rules that you need to understand and remember carefully to take advantage of the great benefits of insurance as well as avoid unpredictable risks. Accordingly, you can feel more secure when spending, and improve your quality of life thanks to the financial support from insurance.

Chapter 03

Credit (borrowing)

CHAPTER 3

CREDIT (BORROWING)

Making decisions about money can be hard. Sometimes you must sacrifice what you want now for what you really need in the future. Sometimes the best choice will mean several months of tight budgeting. And if you need money for emergencies, your spending priorities might change, making it hard to focus on your goals.

There's rarely a perfect solution at any given moment. And when you can't count on a steady income stream, making decisions about money can be even harder. All you can do is make the best decision you can with the information you have at the time.

A means to help you buy now and pay later, or solve your financial problems immediately is credit. But before using this financial tool, you need to learn all about it so you can make the best and smartest choice.

SPEED UP THE PROGRESS TO ACHIEVE FINANCIAL GOALS

Credit is a form of lending. One party (lender) provides financial resources to another party (borrower), and the borrower repays the lender within an agreed period and generally with interest.

In essence, a loan has 3 parts:

LOAN AMOUNT

The lender allows the borrower to use needs-based capital, with a limit that the lender considers and provides in line with the borrower's circumstances, such as their income, asset situation, and credit history (the borrower's previous repayment of other debts, if any).

LOAN TERM

This is an agreement between the lender and the borrower regarding by when the borrower must repay the loan.

Debt repayment schedule together with loan term: counted from the time the loan is received until the debt is paid off, the loan contract will also specify the repayment period and the amount to be paid each time.

INTEREST RATE

This depends on the borrower's circumstances and the nature of the loan package.

Types of credit

Depending on the purpose and the borrower, lender, loan term, collateral, etc., there are many types of loans. For example, for credit for production and the circulation of goods, companies borrow money for business purposes such as building new factories, buying inventory, and paying employees' salaries. Since this book focuses on learning about personal finance and consumer credit, we only discuss the topics of personal credit.

> **CONSUMER CREDIT IS THE DEBT TAKEN BY AN INDIVIDUAL TO BUY GOODS AND SERVICES, SUCH AS HOUSES, CARS, AND FURNITURE.**

In order to serve individual consumption needs, consumer credit can be divided into two segments based on collateral, namely:

Secured consumer credit (secured loan): Borrowers mortgage their own property to get a loan; the value of the collateral is always larger than the loan value to avoid risk to the lender.

Unsecured consumer credit (unsecured loan): Borrowers do not need to mortgage any property to get a loan, instead they rely on an unsecured loan (understood as a "mortgage of trust"). Customers must ensure that they have a healthy financial position and have a good reputation with the lender.

Since these two types of credit present a big difference in risk for the lender, the characteristics of these two types of credit are also quite different:

LOAN AMOUNT

Since there is no collateral (the lender will suffer a 100% loss if the borrower becomes insolvent or default), unsecured loans are only approved for much smaller amounts than a secured loan.

LOAN TERM

Due to the higher risk, the loan term of an unsecured loan (usually less than 3 years) is also much shorter than that of a secured loan (from 15 - 20 years).

INTEREST RATE

Unsecured loans have a higher interest rate than secured loans. The higher interest rate of unsecured loan packages is to compensate for the costs incurred to manage the loan - costs such as debt collection fees and service charges. The lenderl increases or decreases the lending interest rate according to the borrower's income and credit history to balance risk and return factors.

GOOD POINTS AND BAD POINTS OF UNSECURED LOANS AND SECURED LOANS IN CONSUMER CREDIT:

	UNSECURED LOAN	SECURED LOAN
GOOD POINTS	- The time to disburse and receive the amount borrowed is usually fast (between 1-2 hours and 1-2 days). - No collateral required.	Lower interest rate and usually equal to deposit interest rate plus 2-5%. - A long loan term is up to 15 - 20 years, so it is also convenient for the borrower to spread the repayment costs in line with increased income at each stage.
BAD POINTS	- Relatively high interest rate from collateral loan. - The penalty for late repayment resulting in overdue debt is very high and with an additional penalty for non-performance of the contract.	- Longer disbursement time and more complicated procedures (review of application, inspection and appraisal of collateral, notarization), from 10 - 20 days. - Collateral required.

There are two more important factors to consider when comparing secured and unsecured loan packages. They are:

- **BORROWER**
- **BORROWING PURPOSE**

Unsecured loan package

An unsecured loan package is for students or those who have just graduated, unskilled workers, or young people who have just graduated from school, and not accumulated many assets as it doesn't require collateral. The main purpose of borrowing is to buy moderate value items such as motorbikes, computers, phones, or to assist in urgent matters that need a little cash. The obvious advantage of unsecured loans is that they can be secured quickly. This helps young people or young families who don't have a stable income or haven't saved much, offering them a quick solution with a reasonable and legal interest rate.

> **“UNSECURED CONSUMER LOANS PRESENT MANY RISKS FOR FINANCIAL INSTITUTIONS, AND THESE RISKS DEPEND ON THE CREDITWORTHINESS OF THE BORROWER.”**

Since most unsecured borrowers have a low income, if there are no unsecured loan packages from reputable and professional credit institutions (banks or financial companies), it is easy for people to fall into "black credit", falling victim to much higher interest rates and risks to themselves and their families. In terms of social security, unsecured loan packages also contribute to a reduced risk of crime due to debt collection from black credit.

However, because the interest rate of this loan package is quite high compared to the bank savings deposit or customers› income growth, the borrower needs to have a specific repayment plan in place before borrowing and must absolutely comply with the repayment schedule to avoid very high penalty interest rates. They also need to avoid developing a bad credit history in the banking system, which would make it extremely difficult to get a loan elsewhere.

Secured loan package

In contrast to an unsecured loan package, this loan package has a much lower interest rate and longer loan term thanks to the use of collateral to secure the repayment obligation to the lender. This loan package is often provided for large-value expenses, such as buying a house, a car, land, or building property.

A secured loan package is suitable for customers who have a relatively stable income and have certain accumulated assets that the bank evaluates before making a decision. In addition, due to the large size of the loan, the repayment time is also suitable for stable or high-income people. Generally speaking, borrowers with a good credit score/ credit history, stable income, and the ability to repay on time are considered for high-value and low-rate loans. We will dive into the subject of credit scores at the end of this chapter.

As a loan package for individuals to buy large-value assets (mainly real estate), it is a good tool for accumulating assets as well as practicing investment and savings habits (due to the periodical principal and interest repayment, meaning there is no chance of unnecessary spending).

LEARNING HOW TO USE FINANCIAL LEVERAGE VIA CREDIT TO AVOID BUYING HIGH-RISK ASSETS PROVIDES MORE OPPORTUNITIES TO INCREASE ASSET VALUE IN THE FUTURE.

CHAPTER 3 CREDIT (BORROWING)

CONSUMER CREDIT

As mentioned in the previous section, there are two types consumer credit loans: unsecured loans and secured loans. After learning and considering which loan package is right for your financial situation, you need to determine where to borrow from (who will lend you money).

Institutions providing lending services in the market include banks and financial companies. Most people have heard of, even approached, banks to apply for a loan. However, it seems that many people still do not know about financial companies.

SO, WHAT'S THE DIFFERENCE BETWEEN A BANK AND A FINANCE COMPANY?

AND WHEN IS A LOAN FROM A FINANCE COMPANY THE MOST APPROPRIATE SOLUTION?

What is consumer credit?

Credit cards, auto loans, home mortgages, pawn shops ... you've probably heard a lot about these forms of credit over the years—advantages and disadvantages. But credit itself is neither advantages nor disadvantages. Credit is merely a tool for buyidisavantagesng something now and paying for it later. How you use credit is what's advantages or .

None of your favorite products would exist if businesses hadn't borrowed money to make the products. For example, small, short-term loans known as micro-loans are provided to micro and small businesses by community development banks. These loans finance start-ups/businesses in low-income communities as part of a plan to reduce poverty. Thus, businesses get more capital to operate production lines and create products for consumers.

In the previous example, Tuan needed a motorbike for work and Mai wanted to buy a phone she loves. Two phone and motorbike manufacturers that Tuan and Mai want to buy from had the same starting point of mobilizing capital from different sources to produce. Usually, companies borrow from financial companies or banks. Accordingly, companies get money to expand their production scale, improve equipment, and increase output. As a result, their products are sold in stores over time, meaning customers like Tuan and Mai can easily buy their products. Once they are stable and profitable, companies pay off their debts and call for new investments to implement new projects.

BORROWING ALSO CAN BE A LIFESAVER IN AN EMERGENCY — YOU CAN'T JUST TELL A RUPTURING APPENDIX TO WAIT UNTIL PAYDAY.

- you can't just tell a rupturing appendix to wait until payday. By accepting a credit card payment, the hospital essentially lets you take a loan from the credit card issuer to pay for the emergency appendix surgery. These are unexpected events that we cannot anticipate. Tuan and Mai, who both have a regular income, set aside savings for emergency cases. However, if the situation becomes so serious and urgent that they don›t have enough money to pay and they are unable to raise the capital in time, things could become troublesome. If this were to happen, they would need to borrow a sum of money and gradually repay the debt later.

On the other hand, too many people eagerly "buy now" without thinking about their ability to "pay later". So, they end up owing money for purchases they might not even remember making or really didn't need in the first place. They also pay more than what each item cost.

In the previous analysis of shopping habits, we learned that Mai often goes shopping for branded goods when there is an announcement of a discount at the stores. Tuan also spends nearly 50% of his spending money on shopping. And it's not just Tuan and Mai – most of us are familiar with the idea of "like to buy". However, if this situation persists without a spending plan, Mai will end up with a large amount of debt due to her inability to balance her income and expenses.

Even if you don't need to borrow money today, you could find yourself flooded with tempting offers for car loans, credit cards, cash-advance loans, and more from pawn shop or apps. These are forms of "hot loans", often targeting individuals who do not know about finance companies. "Hot loan" lenders find a multitude of ways to offer and convince consumers to use their free-interest loan service just by making a phone call. Young people often get caught in a "hot loan" trap in order to pay for their tuition fees, living expenses and accommodation. This results in loss of money or more seriously, them joining an illegal lending group.

SO, BOOSTING YOUR BORROWING IQ NOW WILL PREPARE YOU TO MAKE SMARTER DECISIONS WHENEVER YOU DECIDE TO TAKE THE CREDIT PLUNGE.

CHAPTER 3 CREDIT (BORROWING)

CONSUMER FINANCE COMPANY

A finance company is a form of non-bank credit institution. A finance company uses its own capital, mobilized capital, and other capital sources to lend, invest, provide financial and monetary consulting services, and perform a number of other services as stipulated by law, but must not supply payment services or receive deposits for less than 1 year.

According to Decree No. 39/2014/ND-CP (supplemented in 2019), there are 4 types of finance company, of which a **CONSUMER CREDIT FINANCE COMPANY** mainly operates in the field of consumer credit. The main products of a consumer credit finance company are **CONSUMER LOANS** and **INSTALLMENT LOANS**.

Consumer loan is defined as a finance company extending a loan expressed in Vietnamese Dong to an individual customer in order to meet his/her demand for funds for the purchase or use of goods or services for his/her personal or family purposes. The total outstanding balance of consumer credit owed by a customer to that finance company cannot be greater than VND 100,000,000 (this does not apply to an auto loan under which the auto is pledged as collateral for that loan in accordance with the law).

A demand for funds for the purchase or use of goods or services is comprised of:

Purchase of means of transport, items, or equipment for personal or family use;

Payment of educational, medical, tourism, cultural, sports, and fitness activity costs;

Payment of home repair costs[12].

Installment loan is defined as a consumer lending arrangement under which a finance company and a customer agree to repay the principal and interest in installments over a set period of time.

[11] Article 3.1 of Circular 43/2016/TT-NHNN
[12] Article 3.2 of Circular No. 43/2016/TT-NHNN, amended and supplemented by Circular No. 18/2019/TT-NHNN

DIFFERENCE BETWEEN A CONSUMER CREDIT FINANCE COMPANY AND A BANK

Customers who need an installment loan can easily talk to representatives of consumer credit finance companies in electronics supermarkets. Many people think that this is a bank, but it's not. So, what is the difference between a bank and a consumer credit finance company?

LOAN PRODUCTS

All commercial banks offer unsecured loans and secured loans. However, finance companies provide mainly unsecured loans.

FORMS OF UNSECURED LOANS

Banks usually only lend unsecured loans based on the borrower's salary (the loan amount is usually equal to 3 - 6 months' worth of salary). Finance companies, on the other hand, offer more diverse forms of loans, supporting many different types of customer.

LOAN INTEREST

Because of the "easier" verification of the borrower, loans at consumer finance companies often have higher interest rates than loans at banks. The consumer interest rate at finance companies must obtain approval from the State Bank.

[13] Article 9 of Circular No. 43, amended and supplemented by Article 1.12 of Circular No. 18/2019/TT-NHNN

CUSTOMER SEGMENT

To order to meet the bank's loan conditions, customers usually have to present a labor contract, a salary statement, and prove they have a stable income. Meanwhile, customers of financial institutions are more diverse, from workers to businessmen. In a nutshell, the main customers of finance companies are those who are "sub-standard" for bank credit.

LOAN LIMIT

Banks can lend a large amount, possibly up to hundreds of millions of Dong, if borrowers can prove their income. However, loans from finance companies are smaller, ranging from a few million to several tens of millions of Dong that banks cannot lend due to the high risk of bad debt that can compromise the system's security as well as legal compliance requirements.

MAIN PRODUCTS OF CONSUMER CREDIT FINANCE COMPANIES

After nearly 15 years of officially operating in the Vietnamese market, consumer credit finance companies have thoroughly researched and analyzed market needs so they can offer financial products that banking institutions – for risk management and legal regulations – have not provided in a timely manner. The largest finance companies in Vietnam all provide similar services. Let›s look at the products that Home Credit currently offer their customers.

LOANS TO BUY GOODS AND SERVICES IN INSTALLMENTS through partners of Home Credit, including electronic products, motorbikes, and other products and services.

CASH LOANS: Home Credit make direct disbursement to customers in cash or through the use of non-cash payment services as agreed in the consumer loan contract.

CREDIT CARD allows the cardholder to make card transactions within the credit limit granted under the agreement with Home Credit - the card issuer.

In addition, in order to better support customers with regard to risk management as well as reduce bad debts for finance companies themselves, Home Credit has added a customer repayment-related life insurance.

Home Credit is connected to more than 3,000 Payoo payment points and 4,000 MoMo payment points, and is linked with the post office system in Vietnam, the Viettel store system, and banks nationwide, making payment more convenient and easier than ever.

SERVICES OF A CONSUMER FINANCE COMPANY

A useful way of becoming a smart credit user is to use the services of consumer finance companies. A finance company will help you manage your finances and avoid frauds and scams. At the same time, by learning about emerging scams, you will obtain knowledge and awareness about the safe and effective use of credit.

Loan service

“THIS IS ONE OF THE PROMINENT ACTIVITIES OF CONSUMER FINANCE COMPANIES. LOANS INCLUDE INSTALLMENT LOANS AND CONSUMER LOANS.”

Consumers can get a cash loan, phone or electronic appliance loans, motorbike loan, etc. There are many types of loans to choose from based on your existing financial situation, including installment loans, short-term, medium-term and long-term loans. In fact, the use of loan services from finance companies has become common as it is a way from someone to buy an item they want even if they don›t have enough money, then pay the balance over a period of time.

Tuan could consider this kind of loan service to buy a motorbike for work. There are two options for Tuan. First, he could save until he has enough money to buy a motorbike. However, this option is not very effective because it will take a long time and during that time, he will spend money on traveling. Plus, while he is without a motorbike, Tuan will have difficulty going to meet customers. The second option may be worth considering: Tuan could use a loan service from a consumer finance company, with periodic installments (weekly/quarterly/monthly) at a reasonable interest rate. Then Tuan would have a new motorbike for work instead of waiting until he has saved enough money. He would only need to deduct a periodical expense for the installment payment to the finance company. Paying off the loan would mean that he completely owns the motorbike.

Issuing a credit card

> **A CREDIT CARD IS ISSUED BY THE BANKS OR FINANCE COMPANIES. CREDIT CARDS OFFER FAST AND CONVENIENT ACCESS TO SHORT-TERM LOANS.**

You can borrow up to a set amount (your credit line) and repay the loan at your own pace – as long as you repay the minimum amount due. You will also be charged interest and may incur other fees such as a late repayment penalty. The money you repay to your credit card will immediately be available to use again for a new "loan". VISA, MasterCard, American Express, and Discover are the most widely recognized credit cards in the world.

In the previous analysis, Tuan and Mai spent a significant portion of their income on spending and shopping. However, for high-value items, neither Tuan nor Mai have the available funds. In addition, if urgent expenses were to arise from events such as accidents or illnesses, they would both have difficulty in paying at once since they cannot handle a large amount. Therefore, credit cards could be used as a timely rescue method. For example, Tuan and Mai could use their Mastercard to pay urgent expenses. The credit system would then inform Tuan and Mai of the repayment deadline, with a reasonable interest rate instead of a "high interest rate".

In order to meet the needs of consumers for financial services and minimize financial fraud or "black credit", consumer finance companies have launched consumer finance products and services in a safe, convenient, and effective manner for customers. As a result, you can find a useful method for managing your finances and consumption. Therefore, arm yourself with financial knowledge and choose reputable consumer financial services and companies to support your work and future spending.

CHAPTER 3 CREDIT (BORROWING)

PORTRAIT OF A BORROWER

Meet Tuan and Mai again

Mai can't wait another 6 months to save enough money to buy the laptop, she wants to buy one now. However, her mom won't even discuss it.

Tuan cannot delay buying a new motorbike any longer. An old motorbike won't help build his image. He has only saved 1/3 of the cost to buy a motorbike, so how will he find the remaining 2/3 of the money?

For a young graduate like Mai, a computer can help her work more and provide access to opportunities to learn and improve herself. In addition, setting and reaching a financial goal helps Mai understand that small saving habits are the basis for achieving big things. A laptop will also help Mai to earn money and gain experience from a part-time job, such as managing a community fan page or writing articles for a website. Similarly, Tuan's job requires a neat appearance to meet customers, so a new motorbike or car would an asset.

Basis for loan decision making

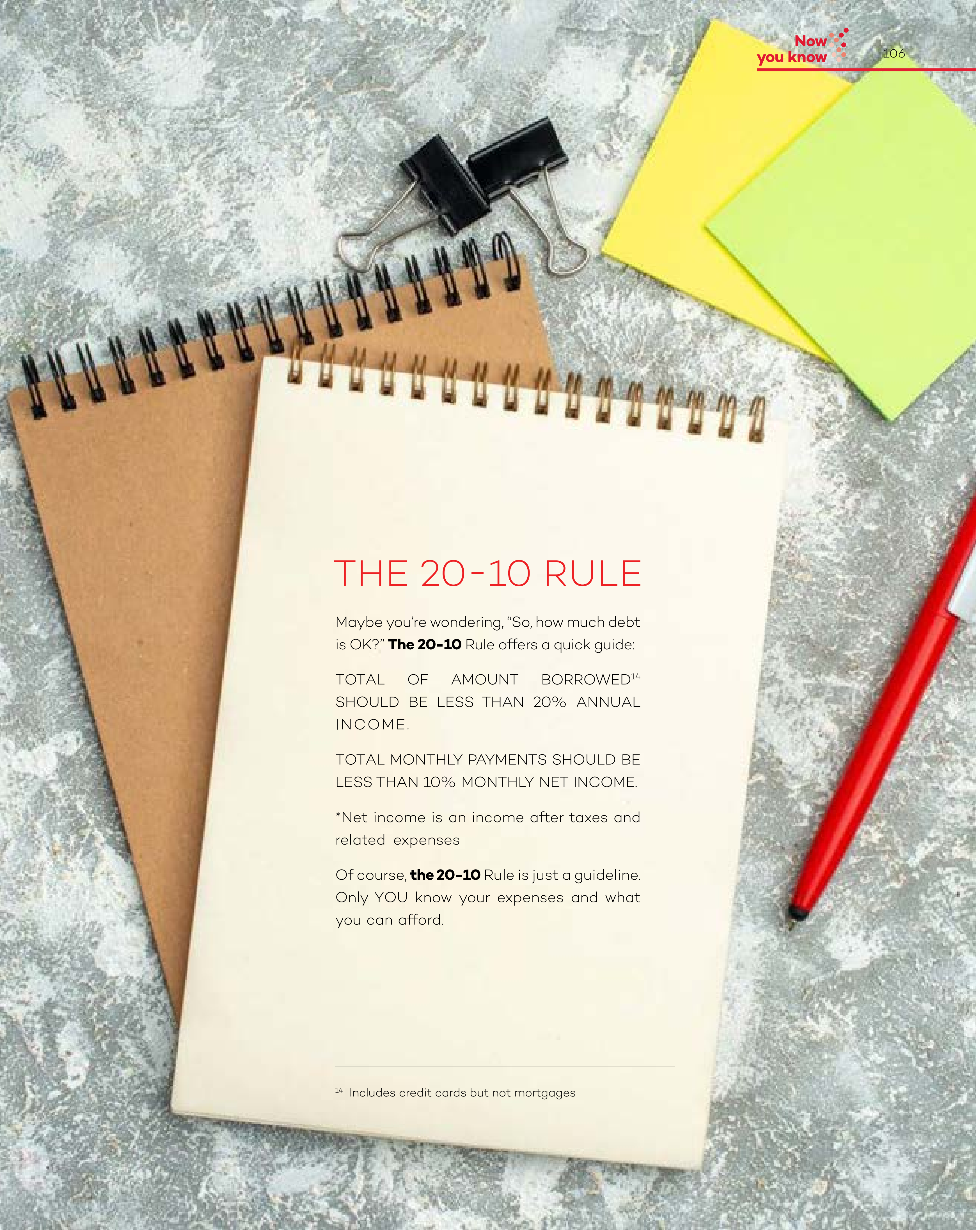
Essentials of a responsible borrower

Do you have what it takes to be a responsible borrower? Find out by answering the questions below.

Do you...	**Yes**	**No**
1. Repay loans from friends and family before they have to ask you?		
2. Often borrow money to pay for something you can't afford right now?		
3. Return library books and other borrowed items before they're due and return them in good condition?		
4. Frequently ask for an advance on your paycheck or allowance?		
5. Replace money you borrow from your savings account or from other spending-plan funds?		
6. Borrow items from your parents or siblings without asking for or getting permission first?		
7. Know how much money you owe others right at this very moment?		
8. Ever make monthly or weekly payments late?		

The more "yes" answers you have on the odd-numbered questions and "no" answers on the even-numbered questions, the more likely you are to be a smart borrower! If you didn't do well, don't worry. Practice the instructions in Chapter 1 and Chapter 2 to make sure you have built good financial habits.

Remember that every time you take out a loan or make credit card purchases for more than you will repay in full that month, you're borrowing from two people: the lender and your future self. Smart borrowers know that **every dollar borrowed today is a dollar less to spend from the next paycheck.**



THE 20-10 RULE

Maybe you're wondering, "So, how much debt is OK?" **The 20-10** Rule offers a quick guide:

TOTAL OF AMOUNT BORROWED[14] SHOULD BE LESS THAN 20% ANNUAL INCOME.

TOTAL MONTHLY PAYMENTS SHOULD BE LESS THAN 10% MONTHLY NET INCOME.

*Net income is an income after taxes and related expenses

Of course, **the 20-10** Rule is just a guideline. Only YOU know your expenses and what you can afford.

[14] Includes credit cards but not mortgages

KNOW THE LIMIT

From the income calculation in Chapter 1, Tuan and Mai determine their maximum loan as follows:

	MONTHLY NET INCOME (VND)	**Annual net income (VND)**	**Maximum total debt (VND)** (20% annual net income)	**Maximum monthly payments (VND)** (10% monthly net income)
TUAN	25,000,000	300,000,000	60,000,000	2,500,000
MAI	7,000,000	84,000,000	16,800,000	700,000

If you have any income now, you should also compute your debt limits this way.

CHAPTER 3 CREDIT (BORROWING)

BORROWER NEEDS TO KNOW

What if a friend were to offer you VND 30 million now and you had to repay them VND 35 million a month for the next six months? If you desperately needed VND 30 million now, you might say "yes". You also might agree to the exchange if you could use that money to make more than VND 40 million within the next six months. Otherwise, you'd probably say "no thanks" to either of the offers above. After all, why should you pay him more than he gave you?

I every time you take out a loan or use a credit card.

CREDIT

means someone is willing to loan you money—called principal —in exchange for your promise to repay the money later, usually with interest.

INTEREST

is the amount you pay to use someone else's money, usually a percentage of the principal. The higher the interest percentage rate, the higher the total amount you pay to buy something on credit.

When you take out a loan, it's a good idea to know how the interest is calculated. Your payments will be different depending on the interest formula used by the creditor. When borrowing, it is both your right and obligation to thoroughly learn about loan products (borrowing forms), processes, methods, and the legal issues of lenders and borrowers before making a loan decision.

LOAN APPLICATION PROCESS

Most finance companies offer unsecured loan products based on the customer›s creditworthiness and credit score only. For example, you can easily apply for a loan with just your ID and household registration book or driver›s license at Home Credit (a multinational company established in 1997, headquartered in the Czech Republic, with total assets of up to EUR 15 billion, thousands of branches worldwide, and more than 130,000 employees). Other documents or proof of income are not required. Home Credit relies on the customer's CIC credit history to approve the loan limit.

Just like any other consumer credit finance company, **Home Credit** supports consumer loans for two types of customers:

Existing customer

A customer who uses other Home Credit services, such as an installment loan, installment motorbike loan, etc. Home Credit allows customers to borrow money online by providing installment contracts with sellers.

New customer

A customer who has never used any services provided by Home Credit. The appraisal process is fast and based on the credit history of the customer at other finance companies and banks.

Here are some of the most common types of loans mentioned.

Installment loan

A consumer installment loan is a type of installment loan without collateral. This type of loan is applied to moderate-income customers who need to spend first and pay in installments later for a fixed period. Currently, most finance companies allow customers to have installment loans of up to VND 80 - 100 million for 36 - 48 months, with an interest rate starting at 1.66% per month.

For example, Home Credit's loans are as follows:

Home Credit installment cash loan of up to VND 80 million without collateral and proof of income.

Home Credit cash loans serve many essential consumption purposes such as phones, computers, construction and repair, tourism, etc. You can receive goods/ enjoy services even when you don't have enough money; the loan term is from 12 to 36 months.

Borrowers can register and follow loan procedures at Home Credit branches in 63 provinces and cities nationwide.

You can visit the website or download the Home Credit app to your phone to receive loan and interest rate details for each loan term. Or if you are not tech-savvy, Home Credit consultants are always willing to assist you when required.

For example, when Tuan needs to borrow a cash loan of VND 50 million to buy a motorbike, he will download the **Home Credit Vietnam app** to his phone, log in with his personal information, and choose a loan term suitable for his ability to repay. The interest Tuan must pay for the installment of VND 2,500,000 per month or VND 4,000,000 per month will vary depending on the loan term. The good news is that customers don't have to calculate this number themselves, Home Credit installs an automatic calculation tool and the result is available right after the relevant data has been entered.

In addition to an application for a cash loan, Tuan could also open a Home Credit credit card and use that card for future purchases. Or Tuan could apply for a "Motorcycle loan" package that's designed for the purchase of any brand-new or used motorbike from legal suppliers.

Tuan has up to 3 loan options, so he should learn which loan is the best for his requirements and conditions.

Unsecured loan

An unsecured cash loan is a cash loan without collateral (referred to as unsecured loan). Unsecured cash loans range from VND 10 to 100 million (depending on the demand and loan agreed). This is a loan paid in installments in each period of the contract and it can be paid off during the loan term.

Here are the outstanding features of Home Credit's unsecured cash loan:

FLEXIBLE LOAN TERM

Each cash loan is processed by Home Credit within 10 - 15 minutes. The extensive lending network covers a wide range of products, meeting all the customers' needs for quick loans.

OFFERED LOAN LIMIT

New customers receive a cash loan limit of VND 20 million. Existing customers with a consumer loan contract at Home Credit can borrow up to VND 60 million.

DIVERSE BORROWERS

50% of borrowers of consumer unsecured loans at Home Credit are workers and unskilled workers; business people account for 11%, office staff 8%.

COMPETITIVE INTEREST RATES

From 25% per year. In addition, customers can also join Home Credit's interest-free 60-day installment plans or consumer loans within the first 1 - 2 months.

Mai's mother did not allow her to get a credit card to buy a new laptop. Mai could consider taking out an unsecured loan to realize her wish.

How to disburse the loan

When you're about to commit to a loan, it's very important to learn how the loan will be disbursed.

Direct disbursement to customers refers to a finance company's direct disbursement of consumer credit funds to customers in cash or by means of a non-cash payment under the terms and conditions of consumer leases, ensuring that borrowed funds are inspected and supervised with respect to their purposes in accordance with the law[15].

For any cash-free loans, by agreement of the two parties (i) the Lender will directly transfer the respective loan to the Seller/Service Provider, and the insurance company (if any), to make payment for goods and/or services that the Borrower wishes to purchase, and (ii) for interest purposes, such loan shall be deemed to have been fully disbursed to the Borrower on the Disbursement Date.

[15] Article 3.5 of Circular No. 42/2016/TT-NHNN, amended and supplemented by Circular No. 18/2019/TT-NHNN

Rights and obligations of contracting parties

RIGHTS AND OBLIGATIONS OF THE LENDER

- Provide the Customer (the Borrower) with a draft of the Consumer loan contract for the customer to consider and decide before signing and explain the details of the contract in an accurate, complete, and honest manner at the request of the customer[16].
- The following information is included: Applicable interest rate, method of interest calculation, loan repayment, monthly repayment date, notices – debt reminders – coordination obligations, insurance, confidentiality obligations, terms of breach of payment obligations, etc.
- Safety and confidentiality of information provided by the Borrower in the Contract or information changed or updated during the implementation of the Contract. Borrower's information can only be disclosed at the request of a competent authority.
- Accurately identify the Borrower's information and disburse under contract or as agreed upon by the two parties.
- Implement debt reminder and debt recovery measures to the right people, under the time frame in compliance with applicable laws.
- Receive complaints and respond to the Borrower›s questions in accordance with the law.
- Request dispute settlement at a competent court or other dispute settlement agency (as agreed by the two parties).
- Other rights and obligations as prescribed by law.

RIGHTS AND OBLIGATIONS OF THE BORROWER

- Provide accurate identification and personal papers to the Lender, including: Full name, date of birth, permanent address, contact address, date of issue and place of issue of ID card; contact phone number and bank account number to receive disbursement (if any), along with other information.
- Perform payment obligations on time as agreed upon by both parties.
- Have the right to inquire and complain about the lending relationship between the two parties.
- Complain to competent authorities, initiate lawsuits to request dispute settlement at a competent court or other dispute settlement agency (as agreed by the two parties).
- Other rights and obligations as prescribed by law.

[16] Law on Protection of Consumer Rights No. 59/2010/QH12, Circular No. 43/2016/TT-NHNN (amended and supplemented by Circular No. 18/2019/TT-NHNN)

OTHER NOTES ON BASIC RIGHTS AND OBLIGATIONS OF THE BORROWER

Some basic things to keep in mind to make sure that you never breach a contract or incur other costs for any future loan.

1

Complete the payment obligation before or on the Monthly Installment Day. You may incur a penalty for delayed payment, and you certainly cannot avoid this amount. The payment needs to be made directly to the bank account stated in the Loan Contract, or via the payment channels mentioned on the Payment Card/Contract. Never make cash payments for any person (including an employee of a finance company), unless that person is authorized by the lender and provides a valid receipt, in order to avoid fraud or appropriation of property.

2

3

For cash loans, you need to ensure you have no bad debt at any credit institutions when signing the Contract. In case you breach this requirement, the credit provider will be entitled to terminate the Contract early – this provision will also be stated in the Loan Contract.

4

The finance company may send messages and/or call to remind you of an upcoming due date. For any partial or overdue payments, the finance company will send messages and/or call the emergency contact numbers you provided when signing the contract to be advised or to communicate with you in the event that you cannot be contacted. This action will be repeated until you contact the finance company to process the payment.

CHAPTER 3 CREDIT (BORROWING)

CREDIT SCORE

In the same way that test scores help assess a student's academic ability, credit scores are a prerequisite for a borrower's ability to repay a loan. A credit score is a number that depicts a consumer's creditworthiness. When you take out a loan, banks and financial institutions check that you are able to pay the loan back in full and on time. Your credit score is a powerful tool to support this decision.

Credit scores have a specific hierarchy. The higher the score, the better a borrower looks to potential lenders. A credit score is based on credit history: the number of open accounts, total levels of debt, payment history, and other factors.

According to FICO (Fair Isaac Corporation), a world-leading credit rating agency, credit scores are calculated by looking at five key factors:

PAYMENT HISTORY (35%)

shows whether a person pays their debts on time. Most credit scores are assessed based on a borrower›s payment history. Serious and timely repayment is the most important factor affecting an individual's credit score.

AMOUNTS OWED (30%)

The total amount of loans and credit utilization ratio you're using compared to your total credit limit issued by banks or credit institutions. According to experts, people with ideal scores tend to keep an average credit utilization ratio of around 7% of their credit limit.

LENGTH OF CREDIT HISTORY (15%)

The length of time you've had your credit account. This length should be as long as possible so that the bank or credit institution can judge your financial behavior in a more comprehensive and complete manner.

NEW CREDIT (10%)

Opening new lines of credit is often unpopular, especially for a short period of time. The longer your lines of credit are (which gives you a long credit history), provided they have been active for at least 6 months, the higher your credit score will be, which helps you build a long and solid credit history.

CREDIT MIX (10%)

The variety of credit products you have, including: credit cards and loans (student loan, house loan, car loan, etc.). Experts believe that if a borrower has used a lot of financial leverage and pays on time, he/she can handle different types of credit debts.

In addition, consumer finance companies use credit scores to evaluate the probability that an individual will repay loans in a timely manner. They also regularly review the borrower's score, especially when deciding whether to change an interest rate or credit limit on a credit card.

In Vietnam, a CIC credit score is available to indicate an individual's creditworthiness. CIC credit scores are assessed and ranked by the National Credit Information Centre of Vietnam (CIC) to judge your potential credit risk. Credit scores are assessed based on credit history and fall within a range of 403 to 706, with 403 being poor and 706 being excellent.

Credit score	Ranking	Rating
403-429	10	Poor
430-454	9	
455-479	8	Fair
480-544	7	
545-571	6	Good
572-587	5	
588-605	4	Very good
606-621	3	
622-644	2	Excellent
645-706	1	

Back to Mai and her dream of a new laptop. Her goal is to buy a MacBook. However, the small amount of money she has saved is not enough to afford the laptop, while the sales promotion for the product is going to end soon. Therefore, Mai thinks of applying for a loan at a reputable consumer finance company, so she doesn't miss out on such an opportunity.

Mai's credit score will help a lot because it is one of the bases for deciding how much deposit she'll need to pay to borrow money for the MacBook she's always dreamed of. Therefore, she needs to check her credit score.

BUT HOW?

How to check your credit score

There are two ways to check your personal credit score: look it up at the CIC counter, or use the website or mobile app. Currently, CIC has deployed a portal to connect borrowers to the website cic.gov.vn and the CIC credit connect mobile app. To view your credit information, you can follow these steps.

STEP 1

Login → Select Khai thác báo cáo và làm theo hướng dẫn (Export reports and follow instructions). Individual borrowers should log in on the CIC credit connect app, while group borrowers should use the website.

STEP 2

Select Mua Báo cáo (Buy Reports) → Enter the OTP to complete the transaction.

STEP 3

Select "Xem" (View) or "Tải về" (Download) to view the report on the screen or download the report to your device.

Regularly checking your credit score will help you determine your ability to repay in a reasonable and clear way recognized by financial institutions. In addition, you can control your financial situation and make plans to improve if your credit score is poor. It›s fine if your credit score is already high, but you should regularly check your credit score and keep it high.

How to maintain your good credit score

Here are some rules to help you improve your credit score.

PAY YOUR BILLS ON TIME

Six months of on-time payments in a row can result in a noticeable difference in your score. Since your transactions do not leave any outstanding balance and don't accrue over the next term, you receive a higher credit score according to your payment percentage. Just like that, your credit score significantly improves over 6 consecutive months and you own a good credit history.

In addition, a bad credit history lasts for at least 4 - 5 years and can't be changed. If you have lots of debt, you should make a plan to gradually pay off the outstanding balance. The more debt you pay off, the more eligible you are when seeking a loan from the bank in the future. You also need to know that late payments or missed payments not only lower your credit score, but also result in much higher late payment fees and penalty interest rates.

INCREASE YOUR CREDIT LIMIT

Regarding the credit utilization ratio (numerator) to credit limit (denominator), if the credit limit is increased (i.e. the denominator is increased), the credit utilization ratio will be decreased. This means that your ability to repay is more secure, leading to an improved credit score. Moreover, remember that when your account is in good standing, you get an increase in your credit limit as this is how the bank helps you to spend comfortably with more available money.

BORROW/OPEN A NEW CREDIT CARD ONLY WHEN REALLY REQUIRED

You need to assess your loan needs based on your current income to ensure that you always take control of loans as well as your credit score. The reason is many people want to open multiple credit cards at many different banks and financial institutions just to take advantage of more offers. However, for credit cards, financial experts recommend opening a maximum of two cards per person: you can diversify offers, consumer loans, and create a basis for credit rating in different cards while easily managing and limiting unnecessary risks and fees.

MONITOR YOUR CREDIT REPORT REGULARLY

This helps you regularly update your credit utilization ratio to make an effective consumption plan and limit unnecessary spending to improve your credit score. What›s more, when paying close attention to your credit report, you can spot inaccurate data in a timely manner to prevent negative actions that impact your credit score: for example, large-value loans made by your account but not requested by you increase the loan, etc.

If you follow the above set of rules, you can improve and then maintain your credit score and create a long and solid credit history.

Chapter 04

Credit risk management

CHAPTER 4

CREDIT RISK MANAGEMENT

BEFORE YOU GET INTO THE DIFFERENT TYPES OF RISKS IN PERSONAL FINANCE, YOU NEED TO UNDERSTAND WHAT RISK IS AND WHY IT OCCURS IN OUR LIVES.

A risk can be understood as an undesirable event that happens to a person. It causes consequences and damage that are unforeseen in terms of space, time, and severity. That which people intentionally cause to themselves, what they can predict in terms of space and time, is not a risk.

The world we live in is becoming more and more dangerous. There are more and more unprecedented risks every day. For example, the risk of a traffic accident: even though you drive carefully, in the correct lane and at the correct speed, you can still get into an accident due to the carelessness of other drivers. Or the COVID19- pandemic that has caused so much damage to mankind in terms of human life and the economy: no one could have imagined a pandemic that could defeat the advanced medical system of humans in a such a comprehensive and profound manner.

In terms of risk classification, risk can be divided into many different types based on classification criteria. For example, by origin, there are natural disaster risks, political risks, and economic risks. Societal risk includes risk in industry, banking, and education.

In terms of risk assessment, there are two commonly used criteria:

FREQUENCY OF RISK OCCURRENCE

This is the number of times a risk is likely to occur in a given time period, or the average time interval between occurrences of a risk. For example, the number of traffic accidents with loss of life in Ho Chi Minh City in a month, or the time period of a severe flood causing great loss in the Central region, compared with the annual average loss.

SEVERITY OF THE RISK

The extent or value of the damage caused by the risk. It can be spiritual, material loss, or more serious, human health and life. Subjects affected by different risks suffer from different damage.

So, what needs to be done to identify, analyze, and handle risks? That is the duty of risk management. The aim of risk management is to help eliminate or outline strategy against risks that may hinder the achievement of goals.

KEY STEPS IN RISK MANAGEMENT INCLUDE

STEP 1

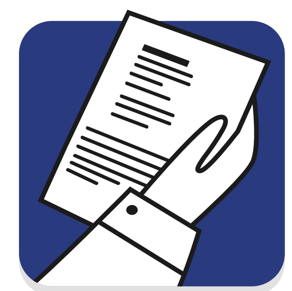
DETERMINE THE SCOPE OF THE RISK

Predict all possible scenarios within a specific scope. For example, to calculate **contingent financing for parenting**, the risks associated with the cause of short-term and long-term loss of income need to be listed, including parental health and income risks. When **taking out a loan**, the scope of risk is different, in addition to the risk of income loss. It also includes a sudden increase in interest rates due to the macroeconomic environment or late payment, resulting in additional an penalty.

STEP 2

IDENTIFY THE RISK

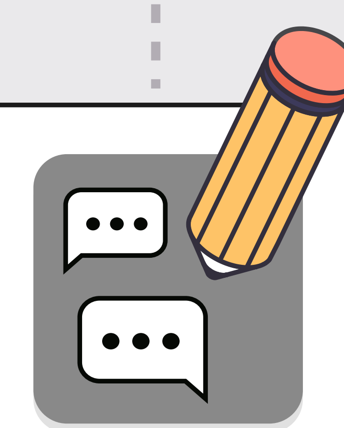
Make a list of possible risks based on prior knowledge and experience, then list them by frequency and impact level.



STEP 3

ANALYZE AND ASSESS THE RISK

Once specific types of risks are identified, each cause needs to be reviewed and analyzed by risk category, probability of occurrence, and associated damages to better understand how it can affect plans and goals.



STEP 4

MAKE A PLAN FOR RISK PREVENTION AND CONTROL

The impact of different risks and scenarios is estimated in case they occur, including how to reduce frequency and severity of risks, prevent recurrence, and make response plans.

STEP 5

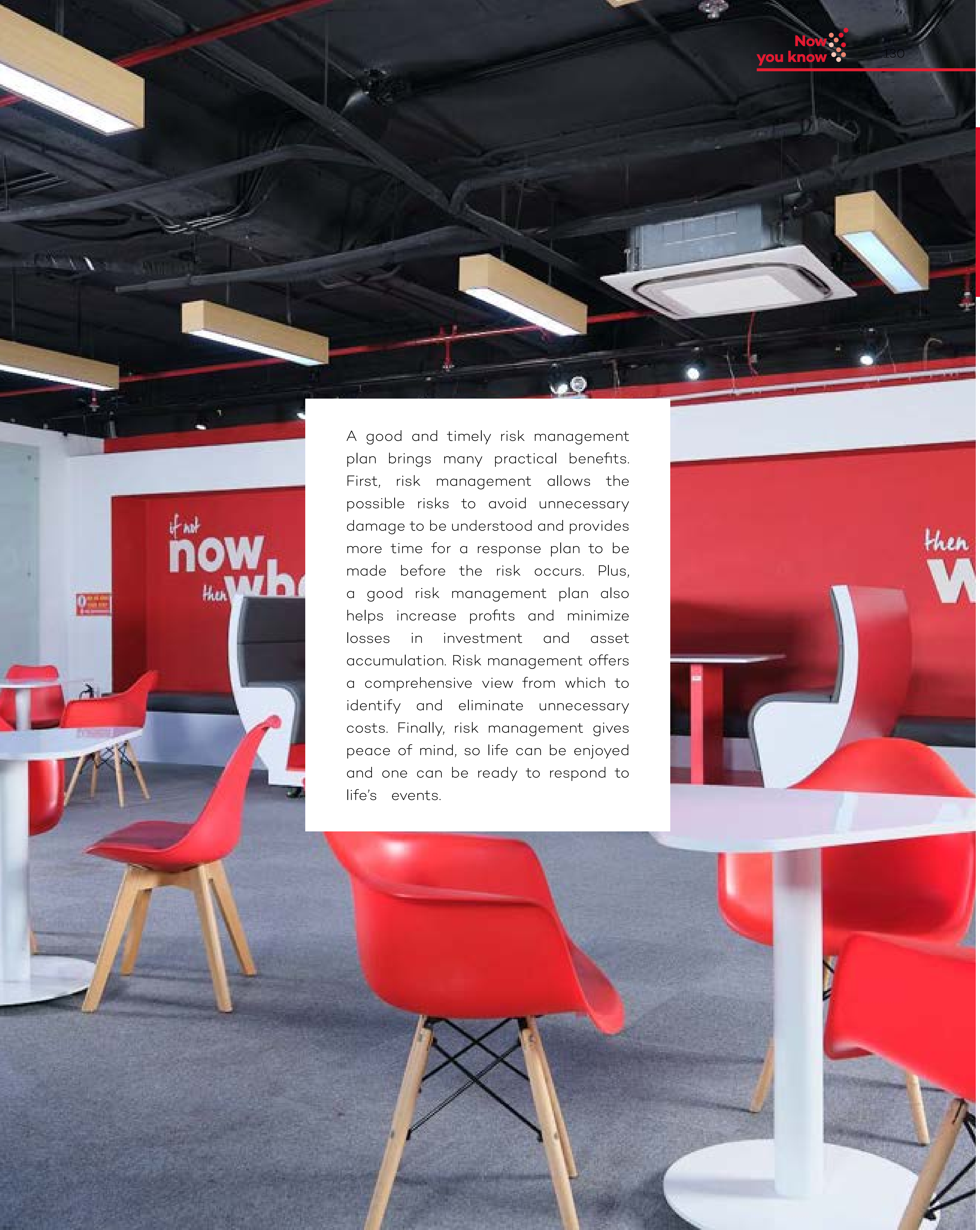
IMPLEMENT AND MONITOR THE RISK MANAGEMENT PLAN

Perform the set plan and monitor the implementation progress to ensure compliance with the plan as well as make timely adjustments when risks occur. For example, if someone decides to buy life insurance to protect their family from major life events, they must look for information, then choose and proceed to sign an insurance policy within the planned time in order to prepare for the events before it is too late.

STEP 6

PERIODICALLY REVIEW THE RISK MANAGEMENT PLAN

Risk management is an ongoing and constant process, even when risks have been identified and minimized. Once the risks have been considered, the response plan should be reviewed, adjusted, and updated on an annual basis.



A good and timely risk management plan brings many practical benefits. First, risk management allows the possible risks to avoid unnecessary damage to be understood and provides more time for a response plan to be made before the risk occurs. Plus, a good risk management plan also helps increase profits and minimize losses in investment and asset accumulation. Risk management offers a comprehensive view from which to identify and eliminate unnecessary costs. Finally, risk management gives peace of mind, so life can be enjoyed and one can be ready to respond to life's events.

CHAPTER 4 CREDIT RISK MANAGEMENT

RISKS TO BORROWERS

Before taking out a loan, the question "Is it really necessary to borrow for this spending need?" is rarely asked. However, it is important that this is considered before deciding to take out any credit, whether unsecured or secured. The first benefit of sitting down and thinking through the pros and cons of an important decision is that it can then be made calmly and carefully. Momentary emotions are quickly brought under control and do not affect important financial decision-making. And the specific measurement by numbers in the following 5 headlines give a much more complete picture.

1. BORROWER'S FINANCIAL HEALTH

In the assessment of the cash flow of income & expenses, there are two factors to be considered:

Monthly balance

Stability of this balance (regular or sudden)

The purpose here is to consider which periodic repayment rate should be selected for a loan.

ASSESSMENT OF THE ASSET SITUATION:

What is the current list of assets (savings, land inherited from relatives, cars, houses, etc.)?

Liquidity: In case it is necessary to use a part of these assets to pay off a debt, which one can be sold first, can it be sold in part or in whole, how long could it take to sell, etc.?

The purpose is to increase ability to repay the loan if there is a sudden interruption of income for a period of time or an increase in expenses because of family problems (illness, care for a sick relative, house repairs, etc.).

For example, if Mai's motorbike were to become badly damaged and she had to use all her money, including the fixed monthly payment for a laptop, to repair it, she would have to try to sell a part of her assets to pay off her debt. To do that, she'd need to consider her list of assets to see which items or amounts could be extracted and converted into cash as soon as possible to pay the loan. Mai would likely determine that the two funds she could use in this case are bank savings and her old bicycle. Instead of first waiting for someone to buy the bicycle, Mai could go to the bank and withdraw her savings and so this asset would be used first to pay for her loan.

2. PURPOSE OF THE LOAN

FOR LOANS USED TO BUY ASSETS WITH POTENTIAL TO INCREASE IN VALUE IN THE FUTURE (HOUSES, LAND, APARTMENTS), MANY FACTORS SUCH AS PROPERTY VALUE, LOAN DISBURSEMENT RATE, CALCULATION, AND LIQUIDITY OF ASSETS MUST BE CONSIDERED.

For example, in the future, Tuan wants to buy a house in Da Lat to have a permanent residence, so he needs to determine what the estimated value of this house is now and what it will be in the future, as well as whether he will be able to sell the house to get his money back quickly in case of an emergency.

As the liquidation value of consumer loans and/or partially used loans for work purposes (vehicle, phone, laptop, electrical appliances, furniture) will decrease over time, the following factors need to be considered carefully:

Use value: Is the item to be bought is absolutely necessary and is there an alternative that could satisfy your needs?

Similarity: Is there an item with similar features at a reasonable price and in line with your budget that you could purchase, instead of borrowing extra? Studying this question carefully can help the function of the product to be understood compared to similar items on the market.

For example, if Mai wants to buy a laptop with a modern, youthful design and a reasonable price tag, she could consider other models with similar advantages like Acer, Asus, etc. However, if Mai wants a laptop with high security and good performance for her work and for long-term use, she could consider taking out a consumer loan to buy a high-value laptop like a MacBook or Microsoft Surface. Mai should consider and compare the value of the laptop to be purchased based on her own purpose and needs.

3. BORROWER'S CHARACTERISTICS

The characteristics of the borrower can be assessed by **AGE, HEALTH** and **PRESSURE AND RISK TOLERANCE** (Risk appetite).

In terms of age, when you are young and your income-generating journey is as long as Tuan's and Mai's, you are more likely to repay debts and more flexible than your parents or people in their 50 - 60s, whose labor capacity is reduced.

In terms of health, if you are healthy, your ability to generate income will obviously be more stable than a person with health problems, so it will also be more feasible to pay off a loan, and vice versa.

The last factor – the ability to withstand pressure and risk – is somewhat subjective and more difficult to assess. The reason is that only you, not any finance companies, can evaluate the factor. Only you can feel and evaluate your spirit when facing loans and having to spend sparingly in the coming months to repay your debt. After previously learning about the Information of loan package and Options for preventing risks, you can now take a quiz on risk appetite assessment to help you understand more about the characteristics of the borrower.

RISK APPETITE

Let's test your risk appetite by taking the following quiz.

RISK APPETITE ASSESSMENT QUESTIONNAIRE **For opening a loan**		
This risk appetite questionnaire is intended to help you better understand your risk tolerance and consider the suitability of a loan for your current financial health and real needs when taking out a loan. This will help you answer the question "Is it really necessary to borrow for this spending need?" and your own adaptability when managing loans in the future.		
1. Which of the following best describes the present stage of your life?	**Score**	**You**
Single with few financial constraints. You are looking to accumulate wealth for the future. Your family has substantial financial potential, and you will probably receive some inherited property such as houses and land. You have some money in your account so you're always ready to pay for consumer needs like cars, clothes, travel, and entertainment.	50	
Single with financial constraints. You are looking to accumulate wealth for the future. Your family is not well off and you have to provide financial support to take care of your family in the long term. However, the allowance makes up no more than 15% of your total income.	40	
Child-free couple. You may be preparing for the future by building and furnishing a house. There are many things you need to buy. You may be wealthier now than in the future.	35	

Family with small children. Perhaps you are planning to buy a house. You have a mortgage and a very small amount of savings. You may not be satisfied with your current financial situation and your savings.	30	
Longtime family. You're likely at the peak of your earning capacity and have to take control of your mortgage (if any). You might have your own business, and your children are grown and need less supervision. You've begun planning your retirement, though you still have to work many years before you can retire.	20	
Prepare for retirement. You may already own a house and have few financial constraints; however, you want to make sure that you can afford to retire comfortably. You are interested in travel, entertainment, and self-education.	10	

2. What is your average annual income growth for the last 3 years?	Điểm	Bạn
About 5% off	10	
Almost no growth	20	
3 - 8% per year	30	
8 - 15% per year	40	
More than 15% per year	50	
3. If you were given the option, how long would you like a loan package to last?		
The shorter the better, I hate living in debt	10	
Less than 1 year, I am not interested in debt	20	
Less than 3 years, debt is not a big problem	30	
Less than 5 years, I am quite comfortable with borrowing money where required	40	
Less than 10 years, I think debt is necessary to build assets and meet the living needs of each individual	45	
More than 10 years, I always want to speed up the process of accumulating wealth and satisfy both my essential and living needs	50	

4. How knowledgeable are you about different types of loans?	Score	You
I almost don't know, don't care	10	
I don't know much	20	
I have enough experience to understand the importance of loan information such as loan terms, interest rates, late payment penalties, etc.	30	
I've spent a lot of time learning about credit and looking for loan information in the market to find the best loan package for me	40	
I have experience with all types of loans, from unsecured to secured	50	
5. What is the purpose of the loan you are considering?		
Consumption loans to buy required items that do not affect my current life much	10	
Consumer loans to buy required items that are also a must-have in my life	20	
Consumer loans to buy supplies for work to generate income	30	
To serve very urgent needs for my life (house repairs) or work (additional capital to expand a business model that has been operating effectively and stably)	40	
To buy high-value and low-risk assets to serve the necessities of life (buying a house)	50	

6. What percentage of your income covers the total amount of both the principal and interest to be paid monthly?	Score	You
Less than 5%	50	
Less than 10%	40	
Less than 15%	30	
Less than 20%	20	
Less than 25%	10	
Less than 30%		
Total score		

RISK APPETITE RESULTS

60 - 80: NOT RECOMMENDED

You have an unstable source of income and too little understanding of the credit market. In addition, your actual need for the loan is not enough for you to take it out. You should consider accumulating more savings or find a more suitable spending alternative.

81 - 120: NOT SO IMPORTANT

You can consider borrowing, but you need to have a stable income for at least 6 - 12 months. Understanding the loan package information is crucial since it's useful for you to find a good interest rate and prepare future risk management options for yourself.

121 - 180: BALANCED

You are in a comfortable situation to take out a loan for your spending needs. The repayments may be in the scope of your ability and calculations. However, it is also necessary to carefully consider the loan details, including loan value, loan term, and other binding terms in the contract.

181 - 230: RECOMMENDED

A stable income and a low percentage of income to repay are two main factors for you to consider when applying for a loan. Remember to carefully consider details such as loan value, loan term, and other binding terms in the contract.

231 - 300: IT'S A MUST

For you, borrowing is essential, so there is no reason to not take out a loan. You have a stable income, rich knowledge, and experience of consumer credit. The loan is also insignificant compared to your ability to generate income. The important thing with this loan is that you can achieve your goals and financial needs as expected.

4. DETAILS OF A LOAN PACKAGE

The details of a loan package include the loan value, loans to assets ratio, loan interest structure, monthly principal and interest, prepayment penalty, and other conditions in the credit contract.

For example, Tuan collects a lot of loan package information from different financial institutions. In order to choose the right package, he needs to compare the above criteria between the loan packages as well as the associated conditions and set his priorities. The better interest rates will come with higher requirements for disbursement to be approved as the basic principle is that high profits will come with great risks. He also gives priority to loans at large banks or finance companies, since they always have superior reputations and offer better interest rates than small-scale ones.

5. INCIDENT PREVENTION PLANS

Anticipating possible bad situations for your income and assets during the loan repayment period and preparing solutions for those bad situations will help you stay in a better financial and mental position when taking out any loan.

If, upon assessment, you feel that the loan package is too risky for you and your family, you can temporarily stop and prepare more before using credit for consumption and accumulation purposes.

For example, if a fixed monthly loan exceeds the balance that Mai can save every month, requiring her to borrow more from relatives or cut down on basic expenses such as meals in order to pay for it, Mai must reconsider or even refuse the loan.

Finally, after going through the above 5 assessment steps, if you still feel confident about getting a loan, you can now also be assured that the risk level of the loan decision has been reduced and its reliability is also quantified much more. In fact, if you are well prepared, have specific plans, and feel confident, dealing with financial pressures will be much easier and more effective.

CHAPTER 4 CREDIT RISK MANAGEMENT

DEBT REPAYMENT PLAN

Once you decide whether to say "Yes" or "No" to a loan, the next step is to decide how you'll repay the loan, how you'll save and cut spending, and importantly, how you'll pay it off and on what schedule.

Inappropriate and ineffective calculation and arrangement of repayment plans can lead to significant financial pressures, affecting yours and your family's daily lives. In general, people are always prone to be insecure, worry about the uncertainties, and do not anticipate the consequences they could face. However, no matter what kind of pressure or difficulty you face, if you are well prepared, have specific plans, and feel confident, the problem solving will be much easier and more effective.

As mentioned above, loans can essentially be classified into two types based on the criteria of whether there is collateral or not to secure the repayment.

An unsecured consumer loan has a higher interest rate than your savings rate or even your annual salary increase, so you need to adhere to the repayment schedule signed with the lender, otherwise, it's better for you to pay it earlier.

In order to make a good debt repayment plan, saving money every month from earned income is not enough, you need to follow few more steps, like the ones below, to complete your plan.

LIST AND CLASSIFY DEBTS

You should record all outstanding debts as follows:

Purpose of the loan	Outstanding balance	Interest	Lender	Repayment – principal	Repayment – interest	Deadline to pay off debt
Buy a motorbike	30 million	15%	Home Credit	3 million	1.5 million	March 2023
......						

You need to list debts by interest rate, from high to low, since the order of priority for repayment should also follow that order, not to mention the fact that high interest debts will require a larger amount of money to repay them. Paying off your debt this way will help you save a lot of money.

ALLOCATE RESOURCES AND PRIORITIZE DEBT REPAYMENT

STEP 1

All loans have a clause allowing interest rates to be increased if you do not repay the loan on time (usually the penalty is 150% of the loan interest rate at the time of late payment). At the same time, your credit history throughout the banking system will also record this event and reduce your credit score for future loan transactions (if any).

Thus, if you have more than one debt, you must allocate funds to make scheduled payments for all of them.

STEP 2

If you still have some money left after deducting scheduled repayments and monthly expenses from your income, you should consider using that amount to pay more of your highest interest rate loan to reduce as much interest as possible. However, in this case, you need to pay attention to the penalty interest rate, in case prepayment incurs any additional fees according to the rules in the signed credit contract.

For example, Tuan has just taken out consumer loans to buy a motorbike (with an interest rate of 5% per month) and buy a house in the future (with an interest rate of 9% quarterly). He should give priority to paying the loan with higher interest rate, i.e. the car loan, to avoid extending the loan term and incurring a late payment penalty.

TIME TO REPAY DEBT

Unless you have a business or an investment where the expected return is higher than the loan interest rate, your first priority should be to repay the debt as fast as possible. This is to reduce interest and focus on saving to repay the debt, minimizing burden in the event of short-term income loss.

For example, if Mai suddenly suffers from serious illness over a short period, she'll have to spend all her salary on treatment. If she has income other than her salary, such as a scholarship, she should pay off the loan to avoid the increased interest while her health isn't fully recovered.

CHAPTER 4 CREDIT RISK MANAGEMENT

IMPORTANCE OF RISK MANAGEMENT

Having a feasible repayment plan does not always ensure that you and your family will avoid financial pressure when a sudden incident happens while you have not fully completed your loan repayment obligations. That risk could be an illness, unemployment, or an accident that means you fall into a deadlock, even debt, or more debts. Therefore, fully considering of these risks and planning appropriate options (also known as risk management) will help you to be better prepared in terms of finance and spirit when taking out a loan or during its repayment.

RISKS FROM THE LENDER

INTEREST RATE RISK

If there is no specific regulation, changes in economic situation may cause an increase in the loan rate. (Fixed rates are usually higher than floating rates, but floating rates expose borrowers to risk if interest rates rise). This will result in changes to the interest payable to the borrower; this risk usually lasts for between 1 year and several years, so the borrower will suffer a lot of financial pressure and damage.

RISKS ON CONTRACT CONTENT

Consumer loan contracts are usually prepared by the lender and then signed by the borrower, so it is almost impossible for an individual to negotiate an adjustment or the borrower will often simply ignore or not read these terms carefully. These terms are of course to bind the borrower legally and guarantee the interests of the lender. When unexpected events happen, the borrower has no choice but to comply with the terms of the signed contract.

HEDGING PLANS

If the interest rate rises suddenly and is expected to be higher than the borrower›s current rate of income growth, the following steps should be considered to solve the problem:

✓

Borrow from relatives and/or use up all your savings to pay off the remaining debt as soon as possible.

✓

If you do not have enough money to do that, you should review your and your family's assets and decide which properties can be used as collateral (houses, cars, land, etc.) for the credit institutions. The purpose of this is to switch to a secured loan package with a better interest rate and enjoy a preferential interest rate for the first 1 - 2 years.

In order to avoid legal risks when taking out a consumer loan, before signing any loan contract, read the contract provisions carefully. PAY ATTENTION TO THE PROS AND CONS IN ALL TERMS. IF THE CONTRACT CAN'T BE MODIFIED, YOU STILL HAVE THE OPTION OF FINDING ANOTHER LENDER.

RISKS FROM THE BORROWER

INCOME RISK

This is when you are still repaying your loans but your income is significantly reduced or interrupted for a while (such as the prolonged lock-downs due to the Covid19- epidemic) or completely lost during for a period of time (unemployment).

For example, if Mai suffers from bad health and her income is suddenly interrupted for a while, or it is reduced due to having to follow a work-from-home regime (such as the prolonged lock-downs due to the Covid epidemic), or she completely loses it (unemployment), she would have to use her provisions. However, Mai should have a specific plan in place before the financial pressure becomes too great or out of control (late payments, for example, would result in penalties with an interest rate 150% higher than the prescribed rate, along with a history of bad debt that would affect any future loans).

HEALTH RISK

If during the loan term, you suffer from an accident or events that seriously affect your health and disrupt your earnings or make you lose your key source of income, you and your family will also face a lot of pressure from debt repayment.

INCIDENT PREVENTION PLANS

Assuming that during the loan term, your source of income is significantly reduced and may only last for a certain period of time, you could consider the following 4 steps to resolve the problem:

USE SAVINGS

For example, Mai needs to buy a new computer worth VND 30 million right away so she will use the VND 10 million she has saved since she went to university.

FIND SOURCES OF CREDIT

(relatives) or inherited sources with the same interest rate and where you can extend the repayment period.
At this time, Mai still needs VND 20 million, so she can ask her family or see if finance companies can give her more support.

FIND A WAY TO RESTRUCTURE YOUR DEBT (you'll need a credit advisor).

Mai can consult with a credit advisor to make a more scientific repayment plan based on a clear breakdown of loans by value, interest rate, and term.
Mai's mother refuses to help Mai buy a laptop as she thinks that it is an unnecessary expense. Mai can contact a credit company for advice on suitable consumer loans for her case.

SELL ASSETS TO SETTLE DEBT

If the loss of income persists and there is no plan to replace the whole/a part in the short term.

Mai finds that the more money she borrows, the higher the interest rate is that she has to pay. She decides to liquidate some of her valuables to minimize the loan.

To sum up, you should start by following a 5-step process to determine your needs and willingness to face financial pressures when taking out a consumer loan. As a result, you will acquire a clear view of all the risks and should find a suitable solution for your situation. In summary, if you have decided to choose a consumer loan, understanding yourself and understanding loan packages - the risks and the benefits - is extremely necessary for debt management in particular and financial management in general.

CHAPTER 4 CREDIT RISK MANAGEMENT

CREDIT INSURANCE

Life is always unpredictable and unexpected things can always happen to you, the borrower. Being aware of that, finance companies have launched insurance plans to protect borrowers from risks and the fear of leaving debts to their loved ones when they encounter unforeseen circumstances and have no money to make repayments. For example, the finance company may require the borrower to purchase credit insurance.

Let›s explore with Tuan and Mai what useful and convenient insurance plans they and their families could use to manage their finances both now and in the future.

PAYMENT PROTECTION INSURANCE – PPI

For example, if Tuan buys a PPI plan with a credit card limit of VND 30 million within 3 years.

Premium = 2.4% x Sum insured = 2.4% x 30,000,000 = VND 720,000

Insurance term in line with the loan term, including:

One-day fee: **(2.4% x 30,000,000)/(365x3) = VND 657.5**

One-month fee: **(2.4% x 30,000,000)/36 = VND 20,000**

According to the example above, the actual amount that Tuan would pay is just over VND 657 per day. In the event of unexpected incidents, such as going missing, accident, illness, or disease resulting in death or total permanent disability, the PPI plan would provide Tuan with 4 basic benefits:

1

LOAN PROTECTION

In the event of Tuan›s death or total permanent disability due to an accident, as the insured, he would receive the sum insured up to 500% of the loan amount from the PPI plan. Therefore, Tuan's family would not be responsible for the loan when he is no longer able to make repayments.

2

FAMILY PROTECTION

If a relative of Tuan is injured (or dies), the insurance company would pay 40% of the sum insured on behalf of the customer (Tuan). The insurance plan would help Tuan reduce his financial burden and give him more time to manage his money.

3

SUPPORTED WITH HOSPITAL FEES

If he had a PPI plan, Tuan would be supported with hospital fees. He would receive an allowance for each day of inpatient treatment, but the total amount would not exceed the sum insured.

4

Tuan would also be entitled to **HOSPITAL EXPENSE INSURANCE**. He would be paid up to 3 installments if he were hospitalized for more than 7 days ad unable to repay credit loans. For example, if Tuan were hospitalized from 7 to 30 days, he would be entitled to a payment covering one installment. From 31 - 60 days, two installments would be available. Similarly, over 60 days would be equivalent to 3 installments.

If Tuan were to sign an insurance policy and then change his mind, he would have 14 days to cancel the PPI plan from the date he signed the loan contract/insurance policy without being charged any fees.

ACCIDENTAL DAMAGE AND LIQUID DAMAGE (ADLD)

This is the insurance plan for anyone who wants to buy a new phone - like Mai. With an ADLD plan, Mai could get free repairs with a total limit up to the original purchase price. In addition, for damages caused by accidentally dropping the phone or water, Mai would be able to fix and exchange her phone for another device of equivalent value if it were unrepairable.

The insurance period for this kind of policy lasts from 6 to 12 months. At first, Mai might not be used to the new phone and it could be difficult to avoid carelessness. Therefore, the above insurance period would allow Mai to use the phone without worrying about repair costs and by the time the period expired, Mai would be able to use the phone more proficiently.

The insurance premium depends on the loan product price and the insurance period.

CRITICAL ILLNESS – CI

Tuan and Mai should consider their own health problems once they have a stable income and financial independence. In order to enjoy life with peace of mind, they should actively protect themselves from risks such as critical illnesses.

Currently, critical illnesses are dangerous and their treatment is expensive. In particular, there are more and more young people infected with these illnesses. So, when three following conditions are satisfied:

1. Critical illness occurs for the first time
2. Critical illness benefit is paid when the Insured continues to live 14 days after diagnosis
3. Waiting period is 90 days (from the effective date of the insurance)

the CI plan will provide financial support (from VND 100 million) to policyholders. Premiums are divided by age group and the older you get, the higher the premium. Specifically, 27-year-old Tuan belongs to the 25 - 30 age group. He would have to pay VND 237,000 per year to buy Home Credit's Critical Illness insurance plan. Mai is a recent graduate and in the 18 - 24 year old age group, with a premium of VND 136,000.

AGE GROUP	PREMIUM (VND)
18 - 24	136,000
25 - 30	237,000
31 - 35	357,000
36 - 39	609,000
40 - 44	965,000
45 - 49	1,443,000
50 - 52	2,018,000
53 - 55	2,533,000

*Updated as of December 2021

HOME CONTENT – HOCO

In the future, when they are financially independent, Tuan and Mai will have their own house or they might buy a house to live in with their family. They shall decorate their new house with modern furniture, equipment, and electronics, but there is a risk that since the furniture will be new, the arrangement may not be tidy and the furniture could be easily damaged.

The HOCO plan would help Tuan's and Mai's family protect furniture and electronics located in their residential area (recognized as the contact address on the contract) with a value of up to VND 50 million. They would only need to pay a premium of VND 572,000 to be insured for 12 months. During this 12-month period, they could get used to and arrange the positions in the house in a reasonable and neat way.

TWO WHEEL INSURANCE – TWI

If you owned a new motorbike like Tuan, you'd likely always be worried that something might happen to your motorbike such as theft or a broken throttle. Problems like these could empty your pockets. Therefore, the TWI plan would be the perfect and safe choice for your vehicle. With a 12-month insurance period, this comprehensive product solves 3 common motorcycle risks: breakdown, accident, and loss.

The premium also depends on the motorbike's value. Home Credit offers 3 main insurance plans for you to choose from for your property:

Plan 20: VND 319,000 for motorbike value ≤ VND 20,000,000

Plan 40: VND 379,000 for motorbike value ≤ VND 40,000,000

Plan 70: VND 629,000 for motorbike value ≤ VND 70,000,000

* Updated as of December 2021

In order to protect yourself and your loved ones from unexpected risks or incidents, you should have plans and options for yourself. Insurance plans are useful as you will always be ready to respond and cope with difficulties. Today, there is a wide variety of insurance plans to suit the needs and financial capabilities of consumers. Therefore, choosing the necessary products for yourself will make your life easier and more fulfilling.

Chapter 05

Financial well-being

CHAPTER 5

FINANCIAL WELL-BEING

If life is a journey, then each of our goals is a milestone on that journey, and finance is the companion to bring you to these milestones. Do you want to reach your goal quickly or slowly? Do you want to feel exhausted when you reach your goal or feel at ease, enjoy the full joy at each milestone? The results come from your attitude and the time you spend taking care of this "financial tool". A person who knows how to get a happy life does not use money to buy short-term happiness, since finance is never the destination, it is always just a means to help them achieve the goal. Therefore, in order to quickly reach your goals in life and enjoy happiness, you cannot separate those goals from an optimal financial plan.

IN THE FINAL CHAPTER OF THIS BOOK, WE WILL BECOME ACQUAINTED WITH THE CONCEPT OF "FINANCIAL WELL-BEING", OR "FINANCIAL FREEDOM."

CHAPTER 5 FINANCIAL WELL-BEING

WHAT IS FINANCIAL WELL-BEING?

We›ve all probably heard of the concept "financial freedom". Most people assume that the point of financial freedom is to earn a lot of money, then take early retirement at 40 and freely go out and enjoy life without thinking of money.

In fact, the goal of financial freedom is to have a free life. If you can do what you love, you'll never work a day in your life. Thus, the "freedom" in "financial freedom" means being free to do what you like and are passionate about without having to worry too much about money. If you live a happy life without any debt, you'll always feel excited when you wake up and get ready for work. Receive the value commensurate with your efforts, then you are financially free. Those who are rich with assets worth trillions of VND but are still working hard and pursuing their goals, have they not achieved the financial freedom to retire and enjoy life?

The concept of enjoyment doesn't have to be luxurious, either, like staying in a villa, driving a luxury car, or dining at the fanciest restaurants. Enjoyment is simply being comfortable with life and loving what we have. Of course, when we have a sound financial plan, we will get what we really need.

In July 2020, Home Credit conducted a survey of consumers in Ho Chi Minh City and Hanoi between the ages of 20-40 and with an average income of VND 5-10 million/month. According to those consumers, consumer financial services help them and their families enjoy a more comfortable and convenient life without waiting too long or resorting to using their personal savings. As a result, customers feel happier and more optimistic about life. This is also what customers expect when they look for a reliable financial service.

CHAPTER 5 FINANCIAL WELL-BEING

HOW TO ACHIEVE FINANCIAL WELL-BEING

We've learned about how to save, but actually being able to save can present major challenges, especially when there are so many things we have to spend money on every day. So, how can you save and achieve your financial goals while being able to ensure a full and satisfied life?

Tuan and Mai could choose to save and spend sparingly, with about VND 5 million per month, for the next 6 months or a year. However, can Tuan and Mai both be satisfied with a frugal life and find positive energy in life? Such energy comes from food and essentials, from maintaining relationships (watching movies, weekend coffee, etc.), and from buying yourself the necessary equipment.

THE ANSWER IS YOU NEED TO BE A SMART CONSUMER.

A smart consumer has a good background in finance and consumption. They understand important consumer finance rules that help them filter, evaluate information, and then make smart decisions in each specific consumption case, based on their wants and needs.

SO, WHAT ARE THE RULES THAT HELP THEM MAKE DECISIONS?

RULE NO. 1:
KNOW WHERE ONE IS

Smart consumers can assess their financial health. They know which assets they own and at what level their income is, what thresholds they should not cross. Thus, they spend wisely, using the 50-30-20 rule, on their essentials and non-essentials. According to this rule, 50% of your budget is for daily essentials, 30% is for wishes and hobbies, and 20% is for savings and investments for future needs and goals (of which you can invest in areas that you consider to have good potential). Following this rule means you won't spend too much on unnecessary activities.

QUESTION: HAVE YOU ASSESSED YOUR FINANCIAL HEALTH?

Tuan and Mai have established a financial health assessment chart and balanced their sources of income and expenses for the month. They also have a weekly list of essentials, and a year-end wish list. How can they balance their sources of money and afford their entire list of needs?

Again, Tuan and Mai review the 50-30-20 rule, all sources of income, and required expenses. Accordingly, Tuan reduces unnecessary expenses, cuts out purchases in excess of 30% for non-essential spending, sets aside at least 20% to pay off undue debts, and finds another part-time job to secure his motorcycle loan repayment. Mai has a plan to live on her own, so she will have to accumulate enough money for her own life next year.

RULE NO. 2:

DELAYED GRATIFICATION

A smart consumer knows what they want and needs to satisfy their desire. When they stop buying something out of habit and only buys it when required, they find they are much more interested in the item! This is the act of delayed gratification.

Delayed gratification is the ability to postpone an immediate gain in favor of a greater and later reward. A person resists the urge to receive an immediate reward and instead waits for the reward to arrive at the right time. A proven paradox is that the more a person shops, the harder it is to be satisfied. Understanding this secret consumption habit can help a person manage their finances and still achieve satisfaction in consumption.

QUESTION: WHAT CRITERIA DO YOU USE TO DECIDE WHETHER TO BUY A PRODUCT?

Tuan and Mai make detailed shopping lists for the week and month and prioritize what they do and don't need to buy at that particular time.

They still need to eat good food, dress beautifully, and feel satisfied with life. However, the food doesn't need to be fancy, so Tuan and Mai can cook at home to save money rather than eat out. Mai needs to cut down on purchases as much as possible, so when shopping, she chooses to only buy clothes that can be worn together to ensure that they are both beautiful and suitable for her profession. The two both love to travel, so need to choose ways to travel that are inexpensive, so they can have fun and be close to friends.

RULE NO. 3:

BALANCE BETWEEN EMOTION AND REASON IN CONSUMPTION

Smart consumers can balance emotions - love for the product, and reason - information about the product. They take the time to look for information about price, quality, warranty, and attached utilities. They are prepared to spend a lot of money on a quality product that can be used many times for various purposes, instead of a cheap product that can only be used a few times. They are also not easily influenced by advertising and high value but impractical discounts.

QUESTION: IS YOUR SHOPPING DECISION BASED ON EMOTION OR REASON?

Both Tuan and Mai used to make emotion-based decisions. They were easily influenced by external factors such as advertising, promotions, or friends' recommendations. So, despite their good income, they rarely saved any money. Whenever they had spare cash, they ended up spending it rather than saving.

Now they have learned how to plan consumer finances and outline the basic criteria for decision-making for themselves, although advertising, promotions, and advice still have an impact on them, their spending decisions have become more reasonable. Now, they both know how to consider their own financial situation as well as their immediate financial goals before buying something. Each day, they set reasonable limits on their spending and within the first few months of following the plan, they both know how to strike a balance between emotion- and reason-based spending.

Every good habit deserves a reward to make it a joy, not a challenge. Giving up the habit of shopping for non-essentials means that longer-term goal can be achieved faster and buying essentials only will create more values.

SMART CONSUMPTION IN THE NEW ERA?

The most recent surveys show that consumers are becoming smarter. According to GE Capital Retail Bank's 2019 annual report, to make shopping decisions, 81% of consumers research products and prices through multiple sources of different information, thereby actively making consumption decisions.

What's more, consumers also have more choice when looking for financial sources to support their consumption, especially for urgent needs. Mai's goal is to buy a laptop for studying and to help her find jobs online. Mai also wants to become more independent and move into her own apartment, so in addition to a source of savings, she also needs to carefully prepare for her new place. This requires Mai to make a reasonable plan so that she won›t need to save for too long to buy the essentials, but also ensure that she won't have to worry about high interest repayments. Mai can learn more about external sources of finance such as family loans, bank loans, and consumer finance loans from reputable consumer finance companies. Information is now available, she just needs to outline specific criteria to see what the most convenient source for her to borrow from is.

A smart consumer knows how to balance between present and future goals, real needs and wants, emotions and reasons. Moreover, they master and adhere to important spending rules. For them, life is a journey of experience, and they are happy with every moment of their life. Each destination is a stop, allowing them to have small celebrations. A nice little gift, or a delicious cup of coffee is the motivation they need to help them go further in their journeys.

CHAPTER 5 FINANCIAL WELL-BEING

HOW TO SPEND WISELY

Reasonable spending is a problem that almost everyone struggles to find the answer to. However, there isn't just one answer to this problem – there are many ways to spend wisely.

As a fresh graduate and an intern just starting her career, Mai has to think about proper personal financial planning in order to achieve her short-term and long-term goals while keeping the joy in her life and avoiding restrictions. There are two ways she can do this: through income growth and reasonable spending. Mai believes that in addition to her current income, she just needs to cut down on her spending by eating less and not going out. However, that wouldn't be fun at all. If Mai cuts everything out, it will only lead to her becoming stressed as she always feels pressured to save money without doing what she enjoys. This is not the way to get rich, but a method of self-limitation people use when they don't know how to spend wisely. Instead, Mai needs to develop "happy spending" habits.

Here are some habits that smart consumers need to know.

FIVE-QUESTION RULE

For this rule, you just need to ask yourself the following five questions before making any shopping decisions:

Do you want it or do you need it?

What you want may be just instant gratification, but what you need is what you lack to serve a key purpose in your life. When you are able to separate them, you can avoid spending money on what you simply want. For example, Mai wants to buy a pretty cup at the store, but in fact, she went there to buy a vacuum flask that she can use in multiple situations, including at work. So, Mai should buy the vacuum flask, not the cup.

Is it really necessary?

Next, you must also distinguish whether it is your own will, or if it is truly a need. For example, if Mai's company already has a hot and cold water dispenser, she doesn't really need to bring a vacuum flask to the office at all, so she shouldn't buy one. But if her company doesn't have any water dispensers, it is a necessary purchase that will provide her with a benefit.

Is there a less expensive option available?

If Mai's company doesn't have any water dispensers, she can examine other options instead of buying a vacuum flask: for example, buying bottled water every day (this option is both expensive and harmful to the environment), or drinking from a colleague's vacuum flask (this is quite sensitive so most people may not agree; if they agree, Mai can't do it for a whole week or a whole month). Once she has made the comparison, she needs to choose the best option, which in this case is to buy a personal vacuum flask.

Have I chosen the best price?

With the emergence of a series of e-commerce platforms such as Shopee, Lazada, and Tiki, consumers have a variety of options with many different prices, usually lower than shopping at the store. Therefore, make sure you check prices from all sources so you can make a decision that is both right for you and at a reasonable price.

How long will it take me to get the item?

This is a key question for those who have just started working or have insufficient financial resources. If you are working for a salary, you can compare the value of the item you intend to buy from many different sources. For example, Mai's income is VND 7 million/month, which means she has a daily salary of about VND 250,000 and the vacuum flask costs VND 300,000 – more than what she earns in a day. If she can manage, the vacuum flask is almost certainly something she needs to buy. So, she can both have the vacuum flask she wants and be financially happy as she knows that it is worth it.

THE 1% RULE

The 1% rule is a practical tip from Glen James, Australia's leading financial speaker. This rule is easy to understand: "If you want to spend on something — a non-essential — that costs or exceeds 1% of your gross annual income, you must wait one day before buying it. During that time, ask yourself: "Do I really need this? Can I afford it? Will I use it? Will I regret buying it?".

Let's say Tuan's gross annual salary is VND 300 million (VND 25 million per month) and he wants to buy a new pair of Adidas sports shoes that cost more than VND 3 million VND (1% of VND 300 million). Tuan would need to wait a day before making an official decision. During that time, he should seriously consider the shoes he currently has and ask himself if they are too old or not comfortable enough and he might decide, for example, that VND 3 million is too much, and that he could spend the amount on something more valuable. If, after a good night's rest, it still seems like a good idea, then Tuan may go ahead and make the purchase.

In fact, we can apply this rule in a more flexible manner. For super high earners, 1% of their annual pay may not be an appropriate and could be increased. Or you could change it to 0.5% if your income level is just average. Whatever the percentage is, it should make sense based on your financial situation, needs, goals, and priorities.

With the two simple and easy-to-follow principles above, you will have a temporary pause to think and consider carefully before making a final decision without feeling regret later. As a result, you can achieve your long-term goal – financial well-being – as you will not only spend more wisely, but also find long-term mental and physical benefits if you keep on track to true prosperity.

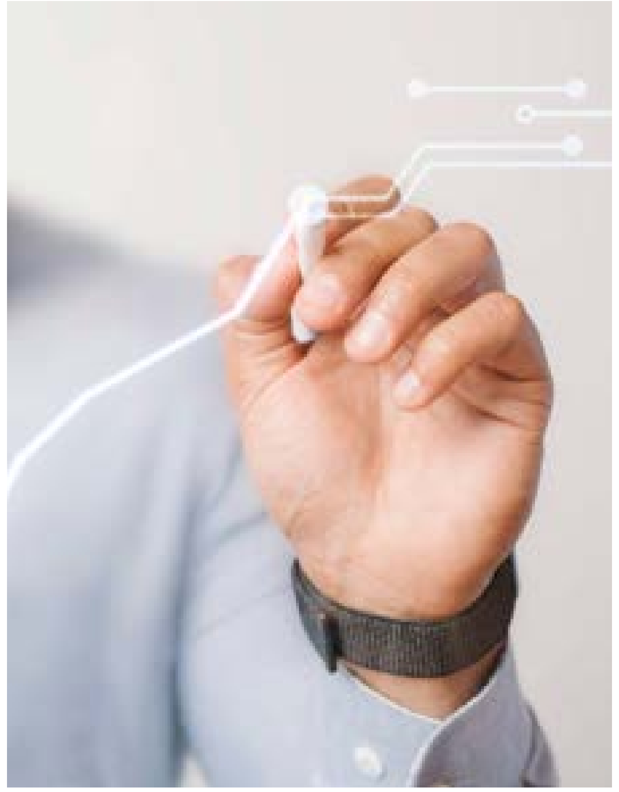
CHAPTER 5 FINANCIAL WELL-BEING

YOUR VALUE SCALE

Your financial goals, whether ambitious or simple, are ultimately targeted toward what truly matters to you. Whether it is as simple as buying an item in the supermarket or as difficult as choosing a house, it is all about meeting your needs and wants. The right choice for you is one that is based on your values and on the beliefs that are most important and meaningful to you. Let's say Tuan attaches great importance to helping others and he spends a monthly amount to support orphans. Tuan's goal is to become a rich so that he can help more children, something he has wanted to do since childhood.

The value scale represents the value and awareness of each individual. It directly affects and determines one's own ideals, beliefs, life goals, and desires. The characteristics of the value scale are reflected in your priorities from high to low.

From the beginning until now, you›ve practiced assessing your financial health, financial goals, and consumption in order to live a happy life. Now let's take a look at whether the goals really meet your values and adjust accordingly.



TO DETERMINE YOUR VALUE SCALE, GIVE AT LEAST 3 ANSWERS TO EACH OF THE FOLLOWING QUESTIONS IN HIGHEST TO LOWEST ORDER.

- WHAT IS IMPORTANT TO YOU IN LIFE?
- IF YOU DIDN›T HAVE TO WORRY ABOUT MONEY OR ANY PROBLEMS, WHAT WOULD YOU SPEND ALL YOUR TIME DOING?
- WHAT ARE YOU MOST PROUD OF ABOUT YOURSELF?
- WHEN DID YOU FEEL THE HAPPIEST?
- WHICH TYPES OF STORIES AND PEOPLE TEND TO INSPIRE YOU?

By writing down concise answers to the questions above, you›ve begun to define your value scale. To help you, here is a list of personal values - you can choose at least 3 words that are most important to you:

SUCCESS	CONQUEST	BRAVERY	CREATIVITY
TRUST	ASSERTIVENESS	FRIENDSHIP	HEALTH
HONESTY	FREEDOM	CONSISTENCY	WISDOM
SYMPATHY	GOODNESS	QUALIFICATIONS	LOVE
PEACE	PERFECTION	SAFETY	SIMPLICITY
SINCERITY	EXPERIENCE	RESPECT	
KNOWLEDGE	WEALTH		

You can select more than 3 values, as many as half of the listed values, or add other values to the list above. From the selected values, how do you know which is the most important? You may need more time to reflect on the original questions and re-think what has happened in life that make you truly happy. And when you can answer those questions with emotion instead of reason, you will determine what your value scale is.

Once you have your own scale, you will have a clearer direction. If you put “health” at the top of your list, you will know that establishing a daily exercise schedule and cutting out unhealthy foods are top priorities. On the other hand, if “success” is at the top of the list, you will spend most of your time and effort on goals that lead to success, be they small successes at work to larger ones.

Take some time to rearrange the values in the list above according to your own value scale. Or you can compare each value and ask yourself what you would choose if you had to remove the less important ones. Take your time and be patient until you have a final value scale that you are satisfied with.

CHAPTER 5 FINANCIAL WELL-BEING

INVESTMENT FOR ASSET GROWTH

As mentioned in Chapter 2 about financial goals, we should allocate income into savings to accumulate assets for ourselves. In particular, the source of savings for possession of a certain type of property right now or in the future is the most important thing since this factor can determine our personal financial situation for many years. Making the right decisions with regard to property investment will help you achieve your and your family's financial goals.

SO, WHAT IS INVESTMENT?

Investment is the process of using financial, material, labor-related, intellectual, and time-related resources to achieve profits and economic benefits for an individual or a group. This profit will be achieved through buying assets at low prices and selling them at high prices.

What is an asset and what are the common types of assets that we can own to generate profits in an efficient and safe manner?

Assets are items, money, papers that we can determine legal ownership over and have value. There are many ways to classify assets: for example, in terms of the ability to store value, we have "assets" and "liabilities" (e.g., land is an asset since its value will increase over time, while household appliances, motorbikes, and cars are liabilities since their value will decrease over time) and in terms of physical characteristics, we have tangible assets and intangible assets. For example, gold is a tangible asset, while copyright is an intangible asset.

Investment channels

In the scope of personal finance, especially in the Vietnamese market, we should pay attention to the following investment channels to increase asset value:

1 SAVINGS

This is probably the investment channel with the lowest risk but the level of return is equally low. Due to the impact of the Covid19- pandemic, inflation is faster and deposit interest rates at banks are lower. However, this is still a traditional investment channel trusted by many people.

2 GOLD AND FOREIGN CURRENCIES (MAINLY US DOLLARS)

Besides savings, gold and foreign currencies are also one of the oldest and most reliable investment channels. In case of investing in gold, its risk is low, so the profit is not too great, but this option can give a higher return than savings if the investor has knowledge of the gold market. In return, investors need to pay attention to storage and preservation. However, in the past few years, with the orientation and monetary policy of the Vietnamese government, the gold and US dollar is no longer as effective an investment and storage channel as it used to be.

3 REAL ESTATE

Real estate investment has never been less attractive to investors. The biggest disadvantage of this investment channel is the large initial investment capital required and long investment period. What's more, to own real estate, buyers also need to be very careful to check the legality through a complicated process. In addition, the influence of fake news and virtual projects is also a factor to be considered before making any decision.

4 (SECURITIES) STOCK

This investment channel does not require a large initial capital investment like real estate, or a place to store something like gold, and its return is much higher than savings. This is considered to be the fastest growing investment channel today. However, investors need specialized knowledge when participating in this investment market and the level of risk is also higher than other forms of investment.

5 (SECURITIES) CORPORATE BONDS

Corporate bonds are securities with a term of more than one year issued by an enterprise, confirming the obligation to repay the principal, interest, and others (if any) to bond investors. When you buy a bond issued by a business, you become a creditor to that business. Bonds have higher interest rates than bank savings and are less risky than stocks. Corporate bonds are a very attractive product that give investors the option of "putting eggs into different baskets" for asset management. However, at present, there are many types of corporate bonds on the market, in which many enterprises raise capital via high interest bonds with many risks, such as bonds of real estate enterprises.

6 DIGITAL ASSETS (CRYPTOCURRENCY)

This is considered to be a bubble because of its rapid changes from day to day, and its unpredictable level of risk. As for the cryptocurrency channel (crypto), investors can enjoy an unimaginable amount of money in a short time, high liquidity, and flexibility, but it is definitely not for the inexperienced investor, because the margin of value fluctuation of this type of asset is unlimited and investors can be cleared out if they do not have enough knowledge and understanding.

Things to look for when selecting an asset for your portfolio

The best way to limit risk is to diversify your investment tools and portfolios and take a long-term view when planning investment strategies. In addition, understanding and judging your own factors, such as good or bad tolerance to risks, stability of the job that generates your main income, your age and health, and inherited financial situation will help you find the right type of assets to invest in and create opportunities for you to increase your assets effectively, meeting your financial goals without putting too much financial pressure on your life.

So, when selecting an asset for your portfolio, what are the unique characteristics of each type of asset that you need to KNOW - UNDERSTAND - USE? Here are the important characteristics that you should pay attention to when selecting types of assets.

1 RATE OF RETURN

Return = (Purchase price – Selling price) – Trade direction (buy/sell) cost

2 RISK MARGIN AND FREQUENCY

- Risk margin is the potential for loss of value from the buying price in percentage.

- Risk frequency is the potential for changes in the values of an asset, leading to damages for the investor.

3 LIQUIDITY

- Liquidity is the time required to convert (sell) an asset into cash.

- There are different forms with different liquidity of the same type of asset (bonds versus term deposits, apartments with certificate versus land plots without certificate, listed stocks versus unlisted stocks, etc.)

4 TIME FOR THE INVESTMENT TO BE PROFITABLE

This is the normal time for an asset group to be profitable or reach its expected level of return. For example, real estate normally needs a -3-5 year cycle to optimize profits; securities, depending on investment needs, generate profits in a period of 6 months, 1 year, or 2 years.

5 PROCEDURES AND TRANSACTION COSTS (INCLUDING PERSONAL INCOME TAX)

6 CAPITAL STRUCTURE AND PROCEDURES

- Definition: (Debt-to-equity) ratio used to purchase the asset. Equity can be cash or bank deposits, savings books, loans from banks and credit institutions, or consumer loans.

- Real estate: In addition to equity, the borrower needs to have a stable income for the bank to verify. Therefore, real estate investment loans are often complicated for low income people due to high borrowing costs and a time consuming procedure.

- Securities – stocks investment: Thanks to securities companies, we can borrow to invest in securities by the stock code. A convenient procedure and method of borrowing allow you to borrow when buying securities and repay the loan when you're making a profit, regardless of the borrower's income, etc.

7 PROPER BUSINESS CYCLE

This is the heneral economic conditions for the accumulation or ownership of assets. Investment is also understood as the accumulation and increase of assets, and investment of any kind always has certain levels of return and risk. Generally, these two factors will be inversely proportional to each other and assets with high risk will give a greater chance of profitability.

CHAPTER 5 FINANCIAL WELL-BEING

HOW TO INVEST IN THE FUTURE

Investing is a way of making your savings bigger and more profitable. For example, the value of a savings book opened at a bank branch will be more or less, depending on the customer's economic ability. The original purpose might have been to find a safe place to keep the money they have saved. However, they receive periodical interest from such deposit. Without realizing, they have invested the money they have saved. But, have you ever thought that the same amount will be more and more profitable without any regular accumulation effort? The answer is investing for the future.

Facing up to the current developing economy and investing in the future is considered essentials if you are to have a prosperous and happy life. Saving and investing mean limiting consumption from now until an unspecified point in the future. So, when looking for reasons to invest, we should think about delayed gratification rather than instant gratification.

Tuan and Mai have learned how to do financial planning, risk management, and achieve financial well-being. It is time for them to start learning how to invest in themselves to build their future. Both have short-term and long-term plans for themselves, aimed at having a prosperous and happy life.

INVEST IN YOURSELF

Billionaire Warren Bufett said: "The best investment you can make, is an investment in yourself."

We all invest in the people and things around us. When going out with friends, you are investing in a relationship. Whether you spend time posting on social media or playing video games, you are investing. For many people, their biggest investment is trying their best at work and investing in their employer. They invest a huge amount of time and money in building connections and recognition within their company. With so many ways to spend money and waste time these days, it's no surprise that many people no longer invest enough in themselves.

Every day, you invest your time and energy in friendships, businesses, goals, and movements. How can you better invest in yourself?

Investing in yourself is not really that complicated. It is found in the daily activities that we usually do. Whenever you watch a documentary, go on a vacation, play Sudoku, go to a spa, or even read an article or a page of a book, you are devoting time and energy to your own health and growth. In return, you become a better version of yourself.

INVEST IN YOUR HEALTH

If you are healthy, you will have a firm foundation to fulfill your wishes. Unfortunately, the rate of people suffering from mild to serious diseases is very high and they often pay a lot for treatment every year. The expense of treatment is always greater than that of prevention. Therefore, investing in and taking care of your health is the foundation for self-development. This is always the most profitable investment. Once your health is gone, no matter how much wealth you spend, you cannot get it back.

INVEST IN YOUR CAREER

Because Tuan has a stable job and is saving money to buy a motorbike for his work, it means that his material and safety needs have been met. Thus, Tuan is aiming at a higher goal, i.e., self-assertion. To do that, he could invest in career development by enhancing his professional knowledge, studying for higher qualifications or improving experience in his field.

Thanks to technology, you can actively increase your knowledge via a variety of methods. You can acquire new knowledge through the mass media, the Internet, books, and newspapers, or take courses specializing in capacity and intelligence development. This will help you discover new things to help you develop yourself to the fullest.

INVEST IN YOUR CHILDREN

Once they've reached a stable income to serve their personal lives, Tuan and Mai may consider getting married. They will have children of their own in the future. As their children grow up, it will become time for them to invest in their children to ensure a good future for them.

A suitable and stable financial plan is required to provide children with the best opportunities and conditions. From their existing income and savings, parents can come up with a bank deposit in a suitable time. For example, one year of college tuition fees will be VND 18 million. If you start saving 4 years before, with VND 1,5 million per month, you will have enough money for your child›s whole college career. In addition, you will get a deposit interest attached. Parents can take advantage of that interest to cover additional costs such as accommodation and vehicles.

Investment in children includes providing them with a good education and development environment, in which the children can receive knowledge, and develop their talents and soft skills. Investing in your children is as important as investing in yourself. There is nothing better than when parents see their children living happily and developing their capability.

INVEST IN FINANCIAL EDUCATION

Financial education always plays an important role, no matter what job you have. Building good money habits and understanding finance will help you, your whole family, your children know how to save and manage money. Families in developed countries teach their children financial matters from an early age so that they get used to making money-related decisions, learn how to manage a bank account, and finally how to invest their own money.

Financial education ensures that we understand topics such as compound interest, diversified investments, and tax-advantaged savings methods. Tuan and Mai will be able to pass on their personal knowledge to friends and family, provide them with financial resources, and encourage them to take personal finance courses in training centers.

The Bottom Line: The future is inherently uncertain and full of unexpected variables. Therefore, use your savings to invest in an important financial tool to cope with life's unexpected events. These are also the savings that act as a buffer to secure your family from both possibilities and risks. An important purpose of investment is to provide a sense of independence and autonomy to do things. So, right now, start investment planning to perfect yourself in the present and invest in your children in the future.

CONCLUSION

We've come to the end of a personal finance handbook for young people - introduces the concept of personal financial management - combines knowledge of consumption, investment, and savings. Financial difficulties can be regarded as a weak body that needs to undergo a basic medical examination by measuring financial health. Once that is done, you can develop short-term and long-term financial goals, and practice exercises to improve your "financial health" — the ability to manage your money. Next, you must know how to spend, use your "health" in the most effective manner, and know how to use financial tools and manage risks. These tools help you to find a balance between savings and spending so that "debt" illnesses don't attack your financial health.

Now, back to the story of Tuan and Mai. Both are young, dynamic, and appreciate their life's experiences, they also have certain confusion in regards of personal finance; but following the instructions in this handbook step by step, Tuan and Mai planned out their short-term financial goals. What's more, they determine the ultimate outcome of personal financial management. The first steps can be very time-consuming and are not immediately effective, but this is a good sign and necessary preparation for further breakthroughs. When Tuan and Mai know where they are on their "value scale" and where their goal is on that scale, all goals will become much simpler. You are also Tuan and Mai in real life. We will also have problems with our personal financial health; however, we can all foster, fix and improve to make the situation become better.

This document is only a small part of the vast ocean of knowledge about personal finance. This handbook is also not intended to help you make a lot of money immediately, but rather to bring the issue of "money" closer to you. We hope that the basics of this handbook will help you take the solid first steps in your journey towards personal financial freedom.

Wishing you both financial and mental well-being!

Best regards!

ABOUT HOME CREDIT VIETNAM

Home Credit Vietnam Finance Company Limited was established and operated in Vietnam since 2008, is currently one of the leading consumer finance companies in Vietnam with outstanding advantages: fast, convenient and friendly.

6000 employees

14 million customers

9000+ Points of sales nationally

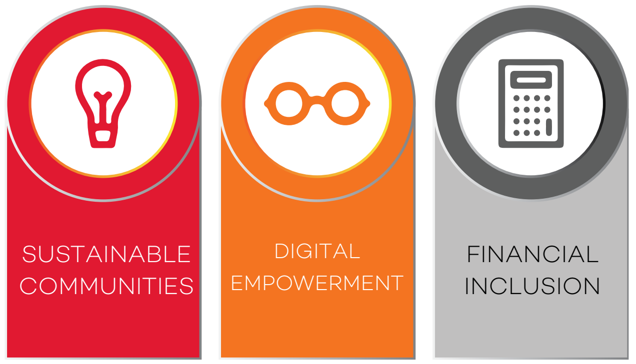
PRODUCTS OF HOME CREDIT

- Electronics
- Motorbikes
- Cash loans
- Credit card
- Others
- Insurance

JOIN HANDS FOR SUSTAINABLE DEVELOPMENT

With the mission of providing reliable financial services for the community and bringing sustainable values for a better world, Home Credit is proud to be a pioneer in the consumer finance industry that integrates sustainability into the business strategy according to ESG approach, focussing on three elements: Environment, Social and Governance.

Key Sustainability Pillars at Home Credit



SUSTAINABLE COMMUNITIES

Home Credit always strives to help communities to become more inclusive and resilient. This includes supporting those living in poverty, people with disabilities, women through activities that promote entrepreneurship, employment and education, as well as emergency support in disaster & pandemic recovery.

DIGITAL EMPOWERMENT

Innovation is opening new opportunities for people to access financial services. We conduct continuous research and development to incorporate innovation into financial services, thereby empowering consumers and partners with everything digitalisation has to offer - while protecting their privacy and security.

HOME CREDIT APP

Home Credit App is an inclusive application, giving customers more comprehensive experience in financial management, payment, shopping, entertainment with a system of attractive incentives from thousands of our partners. With the Home Credit App, customers can easily register and enjoy outstanding utilities, as well as be provided with more knowledge about personal financial management..

FINANCIAL INCLUSION

Throughout our history, we have had a major focus on promoting financial inclusion - helping those who are underserved and new to credit. In addition, we strongly promote financial literacy movement for the community. We believe that with knowledge, everyone can master financial management skills and mobilise the necessary resources to improve quality of life.

For more information about Home Credit and ESG Highlights, visit

www.homecredit.vn

HOME CREDIT

HOME CREDIT | Tài chính số toàn diện