

Debt Management Plans: A Practical Solution for Debt-Laden Individuals*

I. Introduction

1. How does one achieve financial freedom? One typical answer may be to spend below our means. Unfortunately, some of us may already be beyond the point of no return, with interest causing a seemingly-unstoppable spiral into [bankruptcy](#).¹
2. Still, there is still hope for individuals who are unable to pay off their debts. Various repayment schemes are available for struggling debtors to renegotiate repayment terms with creditors and avoid bankruptcy. The main schemes in Singapore are the [Debt Consolidation Plan](#),² [Debt Repayment Scheme](#)³ and Debt Management Plan (“DMP”). This article focuses specifically on the nature of DMPs, their benefits and limitations, and how creditors can be persuaded to agree.

II. Discussion

A. *What are the key features of a DMP and who is involved?*

3. A DMP is a voluntary arrangement between creditors and debtors who are struggling to repay their unsecured consumer debts.⁴ Like other repayment schemes, its purpose is to facilitate a more sustainable situation for struggling debtors. To be eligible, your total debt must be worth at least \$10,000.⁵
4. DMPs are not governed by any legislation in Singapore. Instead, they are facilitated by credit counsellors, who function as the “middle-man” between creditors and debtors. Several private entities offer DMP services, but most DMPs are administered by Credit

* Su Jin Chandran, Year 4 LL.B. Undergraduate, School of Law, Singapore Management University. Edited by Chai Wen Min, Year 4 LL.B. Undergraduate, School of Law, Singapore Management University.

¹ Lau Kah Hee, “Being bankrupt in Singapore – Should you declare?”, *Asia Law Network* (30 January 2019) <<https://learn.asialawnetwork.com/2019/01/30/being-bankrupt-in-singapore-should-you-declare/>> (accessed 13 October 2020).

² Association of Banks in Singapore website <<https://www.abs.org.sg/consumer-banking/consumers/debt-consolidation-plan>> (accessed 13 October 2020).

³ Lorna Tan, “What is DRS?”, *The Straits Times* (2 July 2017) <<https://www.straitstimes.com/singapore/what-is-drs>> (accessed 13 October 2020).

⁴ See Credit Counselling Singapore (“CCS”) website <<https://www.ccs.org.sg/services/page/debt-management-programme>> (accessed 23 September 2020).

⁵ Lorna Tan, “Schemes that help you manage repayment”, *The Straits Times* (2 July 2017) <<https://www.straitstimes.com/business/schemes-that-help-you-manage-repayment>> (accessed 23 September 2020).

SMU Lexicon

Counselling Singapore (“CCS”), a non-government organisation which has helped over 28,000 debtors address their unsecured debt problems since 2004.⁶

5. Only unsecured loans, such as credit card debts, are eligible for DMPs with CCS; secured loans such as mortgages and car loans are not eligible.⁷ This is because secured creditors lack an incentive to participate in a DMP. For example, a bank does not need to compromise for unpaid housing loans. It could simply sell the mortgaged property to satisfy the outstanding debt.
6. The content of a DMP is simple. The creditor(s) will offer an instalment plan, comprising reasonably smaller instalment payments and a longer repayment period, that would enable the debtor to eventually repay his or her debts while retaining enough cash to meet monthly expenses. Typically, DMP participants will enjoy lower interest rates and a renegotiated loan repayment tenure of 5 to 10 years.⁸
7. When a debtor commences a DMP, CCS will file a report with the Singapore Credit Bureau, which will retain relevant personal information.⁹ Creditors participating in the DMP will have access to this information, but not other parties like family members or employers of the debtor. Therefore, debtors’ financial struggles remain largely confidential under a DMP.

B. How can a debtor commence a DMP with CCS?

8. Debtors must fulfil several requirements before they may commence a DMP.¹⁰ First, the debtor must attend the CCS [information talk on debt management](#).¹¹ It introduces CCS and provides an overview of debt management. Second, the debtor must make an appointment for a [credit counselling](#)¹² session with CCS. This allows the debtor to properly assess his or her financial situation while providing CCS with a comprehensive

⁶ See CCS website <<https://www.ccs.org.sg/about-ccs>> and <<https://www.ccs.org.sg/need-help/page/frequently-asked-questions>> (accessed 23 September 2019).

⁷ *Id.*, at Question 8.

⁸ Lorna Tan, “Spotlight on debt repayment programmes”, *The Straits Times* (5 March 2017) <<https://www.straitstimes.com/business/invest/spotlight-on-debt-repayment-programmes>> (accessed 23 September 2020).

⁹ See CCS website, *supra* n 7, at Questions 5 to 7.

¹⁰ See CCS website <<https://www.ccs.org.sg/services>> (accessed 23 September 2020).

¹¹ See CCS website <<https://www.ccs.org.sg/services/page/information-talk>> (accessed 13 October 2020).

¹² CCS website, credit counselling <<https://www.ccs.org.sg/services/page/credit-counselling>> (accessed 13 October 2019).

understanding thereof. Finally, after an evaluation, CCS will take up the debtor's case with his or her creditor(s), negotiating the terms of the DMP on their behalf. If the negotiation fails or if CCS determines that the debtor is ineligible for a DMP, then the debtor must resort to the other repayment schemes, or eventually face bankruptcy.

C. *When would a DMP be appropriate for you? Is bankruptcy ever a better option?*

9. DMPs are suitable for debtors that are unable to cope with their current repayment obligations but are willing and able to repay their debts in smaller instalments. Thus, to qualify for a DMP, you must have surplus income to repay your debts after paying for living expenses.¹³ However, if you face little difficulty in repaying your current debts, CCS will not intervene. This is because DMPs are not meant to enable debtors to circumvent their repayment obligations if they can afford the instalments.¹⁴
10. One might wonder whether bankruptcy may be preferable to a DMP, but the answer is almost certainly no. A DMP is a simple arrangement which only requires surplus income and financial discipline. By contrast, the law imposes many restrictions and obligations on bankrupts. The only key benefit that a bankrupt may enjoy over a DMP participant is that interest is not charged on the bankrupt's unsecured debts.¹⁵ This must however be weighed against severe detriments under the bankruptcy regime, since the bankrupt may be forced to surrender and sell assets to repay creditors,¹⁶ or face restrictions on business and travel.¹⁷ Failure to comply with any of these obligations is a criminal offence. Evidently, the benefit of zero interest comes with huge costs.
11. In a nutshell, the DMP regime provides a simpler, less disruptive, and less risky solution than bankruptcy. Bankruptcy is almost never preferable.

D. *What potential legal issues may arise?*

12. DMP participants may still face the threat of legal proceedings. If they fail to pay the reduced instalments, the creditor can still bring bankruptcy proceedings against them.

¹³ See CCS website, *supra* n 7, at Question 15.

¹⁴ *Id.*, at Question 16.

¹⁵ See section 94 of the Bankruptcy Act (Cap 20, 2009 Rev Ed).

¹⁶ *Id.*, at section 129 read with section 134.

¹⁷ *Id.*, at section 131. See also section 148 of the Companies Act (Cap 60, 2009 Rev Ed).

SMU Lexicon

Furthermore, creditors are free to renege on DMPs and can insist on being paid the original instalment amount. This is because DMPs are not legally binding contracts; they are merely voluntary arrangements.¹⁸ The DMP regime therefore does not grant any legal protection to debtors.

13. Nevertheless, if debtors duly pay their instalments, then creditors would be content to wait for full repayment, rather than file lawsuits against them. Thus, the most important consideration in a DMP pertains not to legal risks, but to persuading creditors to agree.

E. How can creditors be persuaded to approve a DMP?

14. Obtaining creditor consent for a DMP is essentially a matter of dollars and cents. Creditors are primarily interested in repayment. Therefore, CCS must be able to present a convincing case on your behalf. The creditor must be persuaded that a DMP is more likely to lead to full recovery of his or her debt rather than resorting to bankruptcy proceedings. This involves demonstrating that you have surplus income and that you are committed to financial discipline.
15. Having sufficient surplus income means that your salary is sufficient to cover both your basic living expenses and the reduced instalments. You can demonstrate this to CCS by fully and frankly disclosing your various sources of monthly income and expenses when attending credit counselling sessions and completing the mandatory budget forms.¹⁹ Where necessary (*e.g.*, to provide proof of income), supporting documents such as income tax statements will also be required.
16. Apart from analysing your finances, some significant lifestyle changes are necessary. Debtors who have sought help from CCS often point out that exercising greater self-discipline was fundamental to improving their financial situation.²⁰ This is because CCS greatly emphasises debtors' responsibility to exercise discipline, with expense

¹⁸ This information is not available online. It was verified through a call with CCS.

¹⁹ See CCS "Self-Help Pack" and "Budget Form" available for download at <<https://www.ccs.org.sg/need-help/page/forms-download>> (accessed 13 October 2019).

²⁰ CCS website, testimonials <<https://www.ccs.org.sg/about-ccs/page/testimonials>> (accessed 13 October 2019).

SMU Lexicon

reduction being a key feature of the credit counselling process.²¹ Besides granting you greater control over your finances, financial discipline is essential because banks are most interested in seeing debtors significantly reduce expenses. This usually includes measures like downgrading from a private property to an HDB flat, or selling off your family vehicle.

17. Ultimately, the factors influencing success when negotiating a DMP are simple. CCS must have a full picture of your financial situation and you must be committed to reducing your monthly expenses. This will allow CCS to assure creditors that a DMP would likely succeed.

III. Conclusion

18. DMPs constitute a simple and effective means of coping with snowballing debt. If you foresee your debts compounding, you should apply for credit counselling with CCS at the earliest opportunity. By doing so, you will be more likely to avoid the undesirable outcome of bankruptcy and will receive the help you need.

Disclaimer: This article does not constitute legal advice or opinion. Lexicon and its members do not assume responsibility, and will not be liable, to any person in respect of this article.

²¹ See CCS “Request for Review Form” available for download at <<https://www.ccs.org.sg/need-help/page/forms-download>> (accessed 13 October 2019).