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THIS ISSUE

8 Worst Accounting Scandals Ever

Waste Management (1998)

A Houston based publicly traded company waste management company. Reported $ 1.7 billion in fake earnings. The company allegedly increased the depreciation time length for their property, plant and equipment on balance sheets.

Enron(2001)

Houston based commodities, energy and service corporation. Kept huge debts off their balance sheet. Shareholders lost $ 74 billion and thousands of employees and investors lost their retirement accounts.

Worldcomm(2002)

Telecommunications Company inflated assets by much as $ 11 billion leading to 30,000 lost jobs and $ 180 billion in losses for investors. They underreported line costs by capitalizing rather than expensing and inflated revenues with fake account entries.

FREDDIE MAC (2003)

Federally linked mortgage financing giant. Intentionally misstated and underrated earnings worth $ 5 billion.

Risks involved in the 80:20 home loan schemes

The recent measure of abolishing 80:20 payment scheme, a sort of norm followed by buyers and builders in buying new homes, by D Subbarao, on his last day as RBI governor has been misunderstood amply.

It is perceived that the curb has effectively closed the doors on the faces of many home buyers and investors, leaving many critical of the ex-RBI Governor.

What is the 80:20 scheme?

For beginners, it was an arrangement between builders, banks and buyers of under construction property. Here the buyer would pay only 20 percent of the value of the property and would pay rest of the money on the day of possession. This advance payment too was financed by the banks. The equated monthly installments would start only after the possession.

The onus of servicing the loans was on the builders in the interim period and it was the perfect recipe for the builders to offload the high priced under construction inventory of flats in the market. Banks too were happy as long as they were getting the interest on time. And the buyers too were content with the idea that they have to pay only when the building is built completely and they get possession of that property.

What are the Flaws?

However, this arrangement had its own flaws. Many times the buyers chose to overlook the risks associated with this tripartite arrangement.

The builders are expected to service loans taken in the name of the home buyers. Effectively this means that if builders fail to service loans on time, it is the buyer who is defaulting on the loan. The bank would claim such as home loan a Non Performing Asset if the builder does not pay and would tag the home buyer a defaulter.

This means the credit score of the home buyer may go for a toss for no fault of his. If the builder delays and defaults on the payment of interest, the home buyers' credit score would plunge and over a period of time, he would be a defaulter for the CIBIL.

If the scheme was allowed to run, there was a risk of expansion of the 80:20 loans portfolio which would have grown to unmanageable levels. Hence the decision of curbing the 80:20 scheme is in the interest of the greater good.

Bottom Line

But you as a home borrower should not relax, especially if you are one who has booked a flat under such a scheme. Keep a track of the project and check if the project is not getting delayed too much. Keep in touch with your bank. If your builder defaults, effectively you are defaulting on the loan. Your credit report may go for a toss. If you foresee such a situation unfolding it is better to get out of such scheme and opt for a plain vanilla home loan where you start servicing the home loan immediately. This will keep you in a good shape financially.

AMERICAN INSURANCE GROUP(AIG) (2005)

Multinational Insurance Corporation. Massive accounting fraud to the tune of $ 3.9 billion was alleged, along with bid-rigging and stock price manipulation. Allegedly booked loans as revenue, steered clients to insurers with whom AIG had pay-off agreements, and told traders to inflate stock prices.

LEHMAN BROTHERS (2008)

Global financial services corporation. Allegedly sold toxic assets to Cayman Islands banks with the understanding that they would be bought back eventually. Created impression Lehman had $ 50 billion more cash and $ 50 billion in assets than they really did.

BERNNIE MADOFF (2008)

Tricked investors out of $64.8 billion through largest Ponzi scheme ever.

SATYAM COMPUTERS (2009)

Indian IT services and back-office accounting firm. Falsified revenues, margins and cash balances to the tune of 50 billion rupees.

Good Credit Score? How does it help?

Understanding the growing importance of credit score is imperative to the success of financial planning. As sources of income alone cannot always suffice the requirement of funding one has to look at alternatives of credit. Bargaining for the best cost of funding is as important as getting the maximum return for a given level of risk for one's savings. A person looking for credit can obtain lending at a competitive rate if he/she has a good credit score.

Here is an understanding of the important issues regarding one's credit score that can help a person accessing credit:-

What is credit score?

A credit score is 3 digit numeric value, ranging between 300 &900 assigned to a person based on their past credit history. A person with higher credit score has brighter chances of availing credit as lenders are more comfortable in processing their loan application. A lower credit score can lead to denial of loan application. Even if a bank is willing to lend to person with lower credit score, it will be at higher rate of interest.

Who maintains the credit score and how to access it?

Credit Information Bureau of India Ltd (CIBIL) in association with Transunion maintains the credit score of individuals and companies.

Individuals can access their credit reports directly from CIBIL. The credit score is given in a report popularly known as Credit Information Report (CIR). If a person is looking to avail credit then first trying to find their credit score can be a beneficial step. If a person has good score and installment repayment ability, then they stand at an advantage to negotiate with banks for a better interest rate.

How to maintain a good score?

Pay dues like EMI/ Credit card bills before the due date

Try to use less than thirty percent of total available credit for non-secured loans like personal loan and credit cards

Too many credit cards with outstanding balances can be perceived as risky and impact the chances of approval of loan. The loan portfolio of a person should be a healthy mix of credit like home loan, vehicle loan and credit cards (ideally one or two).

Consider before closing credit cards as old credit cards imply the longevity of relationship that a person has maintained with a bank or credit card issuer. While overusing a credit card can impact one's credit history negatively, having a credit card which is not used can be viewed as financial security.

One is responsible equally for joint accounts and add-on credit cards. So monitor them periodically to see if there is any default payment and make corrections when necessary.

Try not to apply for credit that is not required as each application triggers a credit enquiry from the lender and impacts the credit score negatively.

Review your own credit history at least annually for any lapses which can be corrected.

Bottom Line

Unlike past, these days a person's credit history is linked through Unique Identification ID's and PAN accounts. Financial information pertaining to a person's credit is accessible to prospective lenders. In current scenarios understanding and maintaining a good credit history can aid in their future financial planning process.

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