



INVESTOR
EDUCATION
CENTRE
投資者教育中心

Smart Credit

19 November 2013

Content

- **Credit cards**
- **Loans**
- **Debts**

Credit cards

Case 1: Welcome offers

Successfully apply for an ABC University credit card, and you can enjoy fabulous welcome gifts, online application gift and the exclusive privileges!

1. 4 cinema movie vouchers

2. Music library 120-day VIP membership

**3. Online application gift:
4 coffee gift certificates**

**Apply
now**

Case 1: Welcome offers

To qualify for the welcome gift, the cardholder is required to spend with the ABC University Credit Card and fulfil **HK\$2,000 spending requirement** within the **first 3 months** from the date of card issuance.

If the cardholder cancels ABC University Credit Card **within 12 months** from the date of account opening, **a welcome gift administration fee of HK\$500** will be charged to the relevant account without prior notice.

Case 2: Welcome offers

New customers who successfully apply for BCD card through online channel can enjoy fabulous welcome gift

1. HK\$800 cash rebate

2. Tablet 7" wifi (redeem at special price: \$699)

OR

**Apply
now**

Case 2: Welcome offers

To be eligible for the welcome gift, new customers have to spend **HK\$4,800 or above** with the newly approved credit card **within the first 2 months** from the date of card issuance.

If a cardholder who has already received the online application welcome gift cancels the relevant credit card within one year from the date of new card issuance, the bank reserves the right to **charge the cardholder an administration cost of HK\$1,000 for each card cancellation.**

Benefits of credit cards

- Offer **convenience**
- Useful in an **emergency**
- Help you **track your expenses**
- Offer you **rewards** eg. air miles, cash back on purchases, discounts on purchases with retail partners

How do I choose a card?

- **If you always **pay in full** each month, look at:**
 - Annual fee
 - Grace period on retail purchases
 - Features and benefits the card offers
- **If you sometimes **do not pay in full**, focus on:**
 - The interest rates for the different types of balances
 - How the interest rates can change over time



What fees might I pay?

- **Annual fees** (the amount depends on the card category (classic, gold, platinum, etc.)
- Most cards offer an **annual fee waivers**, or at least for new customers
- Some card issuers offer permanent annual fee waiver while some offer waiver for customers reaching a specific spending amount
- As annual fee is reflected in the monthly statement, check carefully and call the issuer for waiver proactively

What fees might I pay?

- **Finance charges** (If you do not make full payment, finance charges for purchase will be calculated at a certain percentage)
- **Late charges** (If you do not pay at least the minimum amount due, credit cards will charge a late fee. Paying late may also cause your **interest rates to increase**)
- **Foreign transaction fees**

Case 3: Interest-free instalment plans

“Pretty Beauty Salon & Spa” offers interest-free instalment with ABC credit card for facial packages

“JimJim Fitness” offers interest-free instalment with BCD credit card for 1-year VVIP membership

**Join them
or not?**

Grace periods on purchases

- It is the **period between the date of the purchase and the due date**

Comparisons of grace period

- Different card issuers offer different grace periods, ranging from **52 to 90 days** (Source: Consumer Council, May 2013)
- To get grace period on purchase, **most card issuers** require you to pay your bill in full every month, or else **interest will be applicable to all your newly purchased items, including those paid in monthly instalments** eg. facial package, gym membership, insurance, etc.

Credit limit

- The **maximum amount** set by a card issuer for a cardholder
- Card issuers have introduced **a cap of HK\$10,000** on the credit card limit granted to **students in an institutions of higher education**
- Over time, based on your needs, usage, and qualifications, **the limit may change**
- Current credit limit **appears on your billing statement** each month
- If you go over your credit limit, you may have to pay a fee, and your **interest rates may increase**

Different types of balances

Purchase balances

- Transactions you made to purchase something in **a store or online**
- **Account fees** are usually added to the main purchase balance

Cash advance balances

- Many credit cards let you get **cash advances from ATMs or at a bank**
- You usually pay interest from the date you take the cash advance
- Usually a **higher interest rate** on cash advances and a transaction fee



Different types of balances

Cash instalment balances

- **Convert your available credit limit in your credit card into instant cash**
- With “low” **monthly handling fee**
- **No/ low finance charge if you make full repayment** of the balance in credit card account statement on or before the payment due date of each month
- If you fail to **make full repayment**, you will pay a finance charge on all outstanding balance at the **prevailing interest rate** applicable to the credit card account



Case 4: Reward system

5X Points all year round at department stores and telecom providers

For every HK\$250 retail spending with your card, you can earn \$1 cash reward which can be used as instant cash at merchant outlets

Convert your cash reward into cash coupons or air miles

Simply allocate the extra 5X cash reward to your preferred spending categories to enjoy the year-round rewards

So many reward systems! How many cards do you need?

Consolidating credit card debt

- **Transfer your balances**

Transfer your unpaid balances into **a single consolidated loan or credit card account** to keep track of your debts - and you may be able to take advantage of lower interest payments

- **Cancel some cards**

Having fewer lines of credit available may help you **manage your spending patterns**

- **Keep up with your repayments**

Any **new purchases you make with your card will be charged at the original/ normal credit card interest rate.** Keep up with your repayments to avoid penalty fees

Case 5: How long will it take you to pay off the balance if you make only the minimum payment?

Jenny

**APR:
36%**

**Monthly
repayment:
5%
(minimum
payment)**

**Credit card
balance
owed:
\$10,000**

**Required time
to get rid of
debt if no new
transaction:
10 years
5 months**

**Total interest
to be paid:
\$10,687**

Minimum payment

- A standardised definition of minimum periodic payment, i.e. all interest and fees and charges (including annual membership fees), plus at least 1% of outstanding principal
- Card issuers should disclose generic information on periodic statements about **the amount of time** and **total cost involved** in paying a balance in full by making only minimum payments

Credit card statement

- How much you spent since the last statement
- Any cash you withdrew using your card
- Any interest due
- The total balance - the amount you owe
- Payment due date

Annualised percentage rate

- In Hong Kong, banks are required to state their **annualised percentage rate (APR)**, which is calculated according to the Code of Banking Practice
- Includes the **interest rate and other fees and charges** of a financial product expressed as an annualised rate
- The **more risk** financial organisations take, the **more interest** they charge

Comparison of credit card interest rates

- If the cardholder does not pay in full the credit card balance, an APR would be applicable
- Some banks set the APR for individual customers based on their **financial situation and credit record**
- A **bad credit record** may lead to a **higher APR**
- **APRs for purchase balances: 8.75 to 34.49%**
(Source: Consumer Council, May 2013)

Avoid the trap for paying minimum payment

- Interests will be **charged immediately on any new transactions**
- Paying only this minimum **payment stretches repayment over many months or years** while interest continues to add up

Case 6: Cash advance for holiday

Jasper

**Age:
23**

**Monthly
income:
\$13,000**

**Way to
finance:
Savings
(\$60,000) and
cash advance
(\$10,000) from
credit card**

**Budget:
\$70,000**

**Objective:
2-week
holiday in
Europe with
girlfriend**

Fees and charges for cash advance

- **APR for cash advance: 20.39% to 37.14%**
- **Administration fee/ handling fee: 1% to 4%**
(Source: Consumer Council, May 2013)

Cash advance is a loan

- Short-term currency loan
- Easily get from ATM or bank counter
- **No grace period** for interest
- Any money borrowed through an advance will be added to the balance owed on the card, along with any applicable interest payments and other finance charges
- Interest is generally higher than retail purchase balances

What have you learnt about credit cards?

- **Benefits**
- **APRs, other fees and charges**
- **Credit limit**
- **Different types of balances (purchase balance, cash advance, cash instalment)**
- **Minimum payment**

Loans



Factors to consider before you borrow

What am I borrowing money for?

Is borrowing the best way to pay for it?

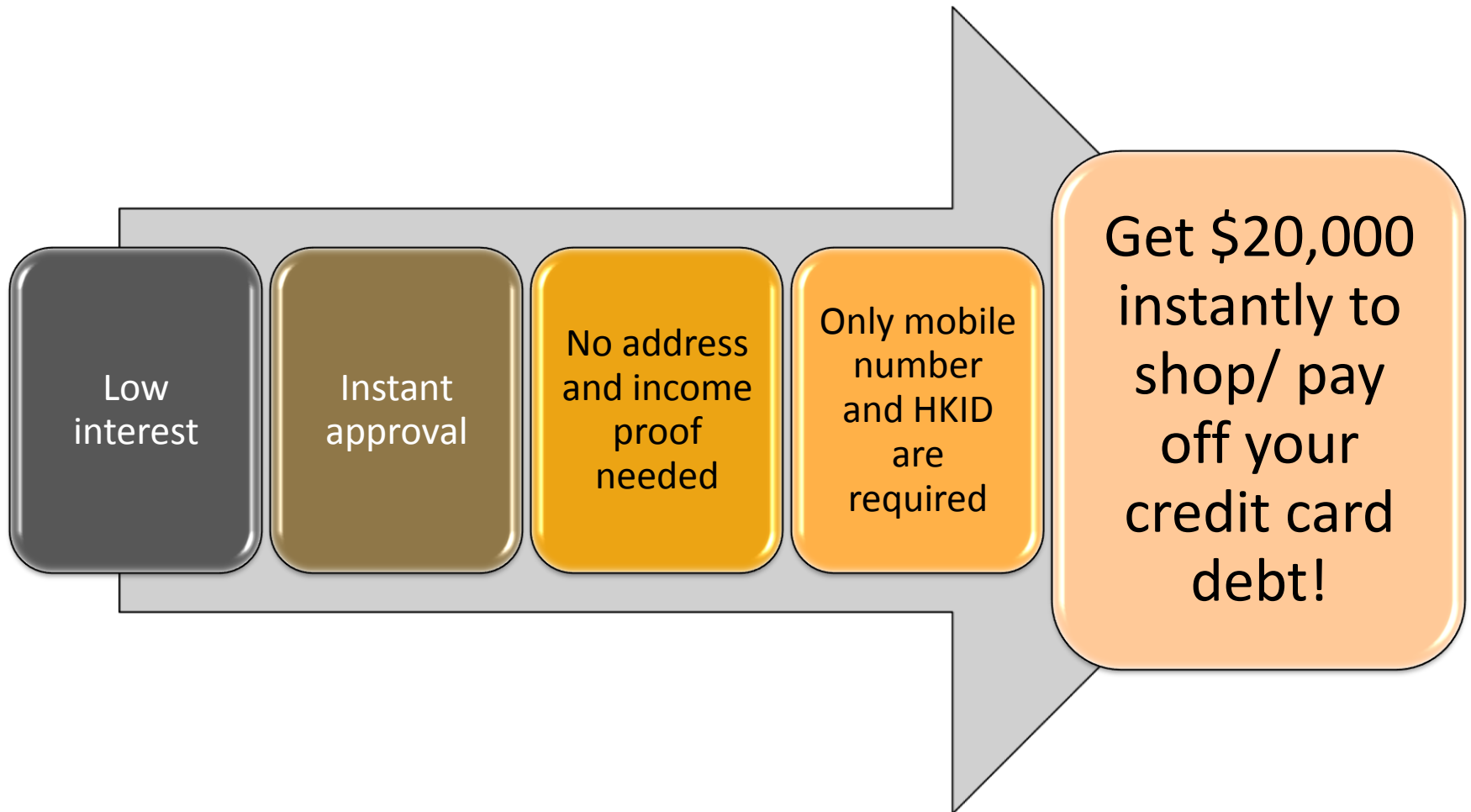
Can I afford the repayments?

Is it the right time to borrow?

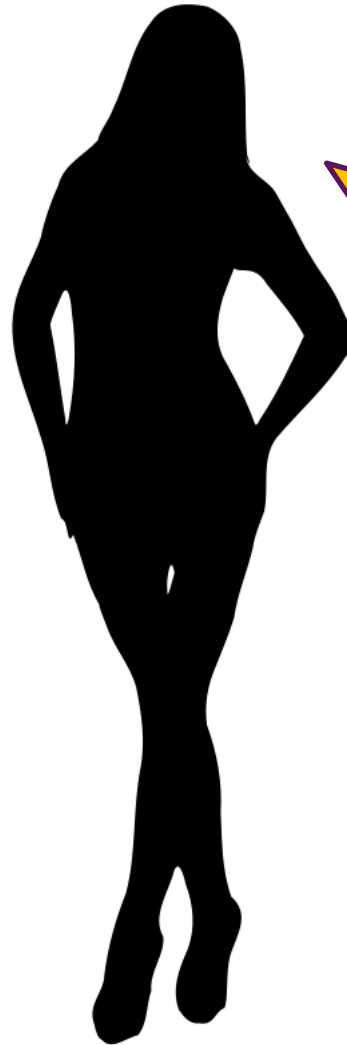
Six steps to smarter borrowing

- Work out if you can afford to borrow
- Compare and get the best deal
- Check the sources of credit
- Keep up with your repayments
- Get help if you can't make repayments
- Complain if things go wrong

Case 7: “Easy money” advertisement

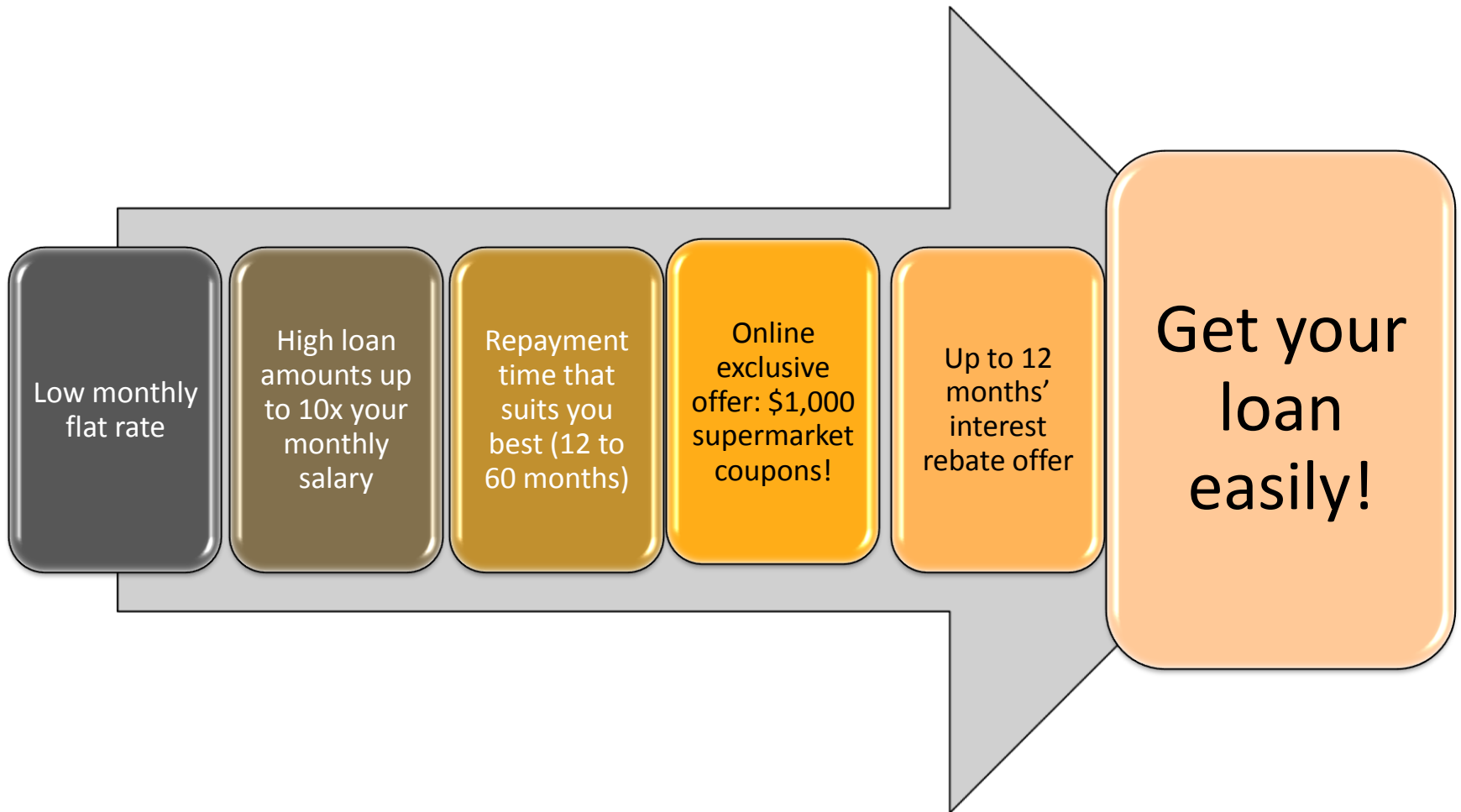


Case 7: “Easy money” advertisement



I need \$20,000 to buy a brand new handbag. The “easy money” advertisement is soooo attractive!

Case 8: Personal loan advertisement



Case 8: Personal loan advertisement



I need \$200,000 to refurbish my home. The personal loan advertisement is soooo attractive!

Why loans are needed

- Provide you with a **fast way to obtain funds** for a special purchase or project that requires immediate payment
- Allow you to **spread the cost** of expensive purchases
- Allow you to **manage your short term finances** more easily, especially if your loan has a fixed interest rate
- Examples: Mortgage loans, personal loans, student loans

Institutions providing credit

1. Licensed banks

- Banks offer a **variety** of consumer credit services, including credit cards, mortgages and personal loans
- Regulated by the Hong Kong Monetary Authority (“HKMA”) under the Banking Ordinance

2. Deposit-taking companies (DTCs)

- Operate as **subsidiaries of banks** or associated companies
- Specialise in the consumer finance and securities businesses and are authorised **to accept deposits of HK\$100,000 or more with maturity terms of at least three months**
- Regulated by the HKMA

Institutions providing credit

3. Money lenders

- Provide loans to people who might not qualify to borrow from a bank or DTC because of a lack of collateral, a poor credit score or other reasons
- May charge **higher interest rates** than banks and DTCs, make **faster approvals** and place less emphasis on the borrower's credit history
- Must have a **valid money lender's licence**
- Governed by the **Money Lenders Ordinance**
- Must also be members of the Licensed Money Lenders Association of Hong Kong

Institutions providing credit

4. Student Financial Assistance Agency

- The Government's policy on student finance is to **ensure that no student is denied access to education due to of lack of means**
- **Administers a number of publicly-funded financial assistance schemes** to help post-secondary students pay their tuition fees, academic expenses and living expenses

What should the loan contract tell me?

- The amount of the loan
- The interest rates, fees and charges
- Whether the loan is secured (where the borrower has to put up an asset, such as their home, as security)
- How long the borrower has to repay the loan
- The amount of the repayments

Credit report

- Credit agencies keep track of your personal information about your credit accounts when they review your loan or credit application
- **Your personal information**
- **Your current credit usage**
- **Your repayment history**
- **Public records** such as litigation relating to debt recovery, bankruptcy and winding-up petitions
- A list of loan providers that have reviewed your report within the last two years

Credit score

- A number that objectively predicts the likelihood that you will **repay on time** at a particular point in time

Maintaining a good credit score

- Review your budget and current finances
- Pay all your bills each month on time always
- Avoid over-borrowing
- Check your credit card statements for unauthorised transactions or other signs of identity theft
- Cancel unused credit cards
- Inform your lender if you have difficulty in repaying debts

Consequences of having a bad credit history

- Banks and other lenders may impose **higher interest rates or decline** your loan or credit application
- You may **have difficulty in applying for a mortgage or a credit card** in the future

Student loans

- Help post-secondary students pay their tuition fees, academic expenses and living expenses
- Offer **lower interest rates** and enable you to **borrow money over a longer period of time**
- You **won't start paying it back until you have graduated**
- Required to pay **loan interest and/or administrative fee** until the loan is fully repaid
- Student loan debts may have **an impact on your other financial goals** such as travelling or buying a home

Case 9: Student loans

- **Name: Joey**
- **Level of study: Undergraduate**
- **Study mode: Full time**
- **Tuition fee: \$43,940 per year**
- **Graduation year: 2017**
- **Scheme type: Non-means-tested Loan Scheme for Full-time Tertiary Students**

Academic year	Loan amount	Study interest rate (%)
2013/14	\$43,940	1.395
2014/15	\$43,940	1.395
2015/16	\$43,940	1.395
2016/17	\$43,940	1.395

Case 9: Student loans

- Study interest rate/ annual interest rate: 1.395% (as at Sep 2013)
(*Interest is charged **once the loan is drawn down and throughout the repayment period** until the loan is fully repaid)
- Repayment years: 5

Instalment no.	Due date	Principal (\$)	Interest (\$)	Instalment amount (\$)
1	01/01/2018	2,830.4	306.6	3,137
2	01/02/2018	2,833.7	303.3	3,137
3	01/03/2018	2,837	300	3,137
4	01/04/2018	2,840.3	296.7	3,137
5	01/05/2018	2,843.6	293.4	3,137
(...)				
60	01/12/2022	3,008.9	103.4	3,112.3
Total		175,760	12,435.3	188,195.3

Case 10: Student loans

- **Name: Jeremy**
- **Level of study: Undergraduate**
- **Study mode: Full time**
- **Tuition fee: \$43,940 per year**
- **Graduation year: 2017**
- **Scheme type: Non-means-tested Loan Scheme for Full-time Tertiary Students**

Academic year	Loan amount	Study interest rate (%)
2013/14	\$43,940	1.395
2014/15	\$43,940	1.395
2015/16	\$43,940	1.395
2016/17	\$43,940	1.395

Case 10: Student loans

- **Study interest rate: 1.395% (as at Sep 2013)**
- **Annual interest rate: 9% (which once appeared in Year 2000)**
- **Repayment years: 5**

Instalment no.	Due date	Principal (\$)	Interest (\$)	Instalment amount (\$)
1	1/1/2018	2,330.6	1420.4	3,751
2	1/2/2018	2,348	1430	3,751
3	1/3/2018	2,365.6	1385.4	3,751
4	1/4/2018	2,383.4	1367.6	3,751
5	1/5/2018	2,401.3	1349.7	3,751
(...)				
60	1/12/2022	10,751.8	127	3,728.5
Total		175,760	12435.3	225,037.5

Success secret for managing student loans

First debt

- A student loan can be your first debt you owe
- Repayment period shall commence after the course has officially ended

Good purposes

- Use the borrowed money wisely for education and experience purposes only
- **Don't use it for speculating** in the stock market or **gambling** to avoid losses, or else it may need to bankruptcy in worst case

Mortgage loans

- When you take out a mortgage, you are borrowing money to pay for a home by using it as **collateral**
- Come with **fixed or floating interest rates**
- Banks have to comply with a **70% loan-to-value** guideline on residential mortgage lending
- The bank can lend a mortgage loan **of up to 90% loan-to-value ratio**
- **Mortgage calculator** available on the Hong Kong Mortgage Corporation Limited website

Mortgage loans

Choosing a financial institution for a mortgage

- Length of approval process
- Loan period
- Repayment terms
- Fixed vs. floating interest rates
- Early repayment penalties
- Handling fees, cancellation fees and valuation fees

Personal loans

- Give you access to funds for **family emergencies, buying home furnishings and consolidating other debts**
- Require **regular repayment instalments** over a set period
- When you take out a personal loan to consolidate other debts such as credit card debt, you are **refinancing your loans**
- **Tax loans** are a type of personal loan, usually offered around the time Inland Revenue taxes are due

What have you learnt about loans?

- **Why loans are needed**
- **Institutions providing credit**
- **Credit report and credit score**
- **Student loans, mortgage loans, personal loans**

Debts

What is debt?

- **Debt**: created when a person owes money to another
- **Debtor**: the person who owes debt
- **Creditor**: the person or company who is owed the debt
- There are times that debt may pile up and become out of control

Dealing with debt problems

1. Prioritise your debt

- **Priority debts** are rent (or mortgage) or gas or electricity bills
- **Secondary debt** with the highest interest rates eg. credit card debt, overdrafts and personal loans

2. Revise your budget

- Are there **any non-necessary expenditures** you can cut or delay to help pay off your debts?
- Once you know what you can afford to pay off your debt each week/month, you will feel more confident about **having a conversation with your lender(s)**

Dealing with debt problems

3. Contact your lenders as early as possible

- Have an honest conversation **about how much you can afford to repay each month**

4. Refinance or consolidate debts

- Consider consolidating your loans, lines of credit and credit card balances **into a single loan with a fixed repayment schedule**
- Lower monthly payments
- Save on interest



Dealing with debt problems

5. Seek assistance and advice

Consider contacting the following centres for support:

- Official Receiver's Office
- Caritas Family Crisis Support Centre - Debt and Financial Capability Project
- Christian Family Service Centre - Sunny Life Family Support Project for the Debtors
- Tung Wah Group of Hospitals Healthy Budgeting Family Debt Counselling Centre

Dealing with debt problems

6. Manage new repayments

- Keep up to date with your new repayments
- If you feel that you are continuing to struggle under the new arrangement, go back to your lender

7. Keep on top of your debts

- Once you get back on your feet, make sure to review your finances – you may be able to increase your payments in the future, which will mean you could be debt-free faster.

Case 11: Student loans → Bankruptcy?

Academic Year	2010/11	2011/12	2012/13
No. of bankruptcy application (initiated by borrowers)	235	240	280
Amount involved	\$11.2 million	\$14.7 million	\$13.8 million
Default cases referred to Department of Justice	2,306	2,688	2,690
Default cases filed directly to the Small Claims Tribunal	417	672	808

(Source: Student Financial Assistance Agency, as of 30 June 2013)



Bankruptcy

- Bankruptcy as an option for getting out of a bad financial situation
- Filing for bankruptcy is a **legal process** under which the court declares you unable to pay your debts
- **No minimum amount of debt** for an individual to declare bankruptcy, although the Official Receiver can reject your application if you have previously declared bankruptcy

Consequences of bankruptcy

- Permanently **affect your ability to access credit**
- You'll be classified as bankrupt for **4 years - 5 if you've been bankrupt before** - and the Official Receiver (or a trustee), will look after your financial affairs
- You **won't be allowed to make major purchases** such as a flat or a car
- You won't be able to apply for further loans
- Your **provident fund may be used to repay your creditors**
- Public records related to bankruptcy will be noted on your credit report
- While bankrupt, you **cannot be a director** of a company or operate a business
- You may also be **barred from working in particular trades and professions**
- Once a Bankruptcy Order is made, the Official Receiver will advertise the Bankruptcy Order in the Gazette and in newspaper

Is there any alternative to bankruptcy?

- **Individual Voluntary Arrangement (IVA)** as an alternative to bankruptcy
- This allows the debtor to make a repayment proposal to the court and the creditors
- If approved, it legally binds all creditors
- By applying for an IVA, a debtor **can avoid the legal restrictions of bankruptcy, and may also be able to retain his/her job or profession**

What have you learnt?

- **Credit cards**
- **Loans**
- **Debts**

Visit the IEC website www.hkiec.hk

The screenshot displays the IEC website interface. At the top, there is a purple navigation bar with '聯絡我們' (Contact Us), a search bar, and language options 'A+ A- Eng 簡 列' (English, Simplified Chinese, Traditional Chinese). Below this is the IEC logo and the text 'INVESTOR EDUCATION CENTRE 投資者教育中心'. To the right, it states '投資者教育中心為金融監管當局支持的機構' (The Investor Education Centre is supported by the financial regulatory authorities) and lists the Office of the Commissioner of Insurance, SFC, and the Hong Kong Monetary Authority.

A dark blue navigation bar contains the following menu items: '投資者教育中心簡介' (About IEC), '銀行及信貸' (Banking and Credit), '保險' (Insurance), '投資' (Investment), and '退休' (Retirement).

The main content area features a large banner for '電子通訊' (Electronic Communication) with the text '資訊公正持平，助你作出有根據的財務決定。' (Fair and balanced information to help you make informed financial decisions). To the right, a '熱門專題' (Hot Topics) section lists:

- 留意宏觀經濟風險對你投資的影響 (Pay attention to the impact of macroeconomic risks on your investment)
- 甚麼是高息債券基金? (What are high-yield bond funds?)
- 了解RQFII A股ETF (Understand RQFII A-share ETF)
- 認識黃金掛鈎存款產品的特點與主要風險 (Understand the features and main risks of gold-linked deposit products)

Below the banner is a search bar with the placeholder text '我想...' (I want...). The '多媒體' (Multimedia) section includes:

- 熱門投資話題 (Hot investment topics) with a sub-section '了解衍生產品的特色及風險' (Understand the features and risks of derivative products).
- 了解投連壽險 (Understand investment-linked life insurance) with a sub-section '認識產品資料概要的加強披露' (Understand the enhanced disclosure of product information summaries).
- 更多 >> (More >>) with a sub-section '觀看或收聽其他多媒體檔案' (Watch or listen to other multimedia files).

On the right side, there is a '教育日誌' (Education Diary) section showing a calendar for September 2013, with the 16th highlighted.

Questions and answers

Thank you

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<http://www.hkiec.hk>

