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# Common Types of Consumer Credit

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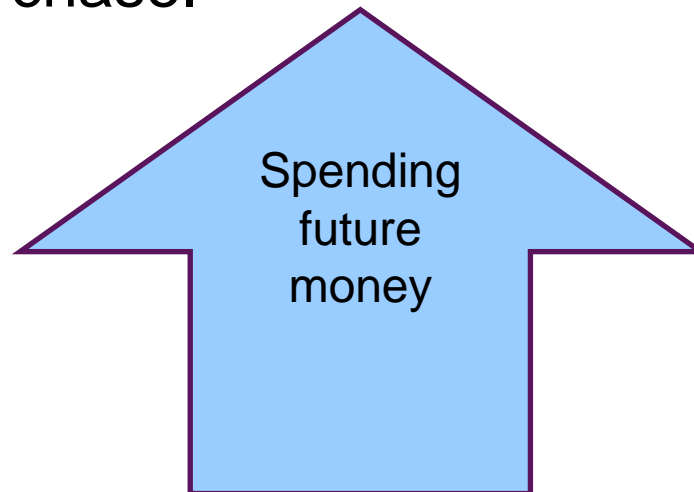
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# What is consumer credit?

- A kind of credit that someone incurs for the purpose of purchasing goods or services. This kind of financing is usually unsecured.
- Consumer credit enables consumers to purchase goods or services without having the money at the time of purchase.

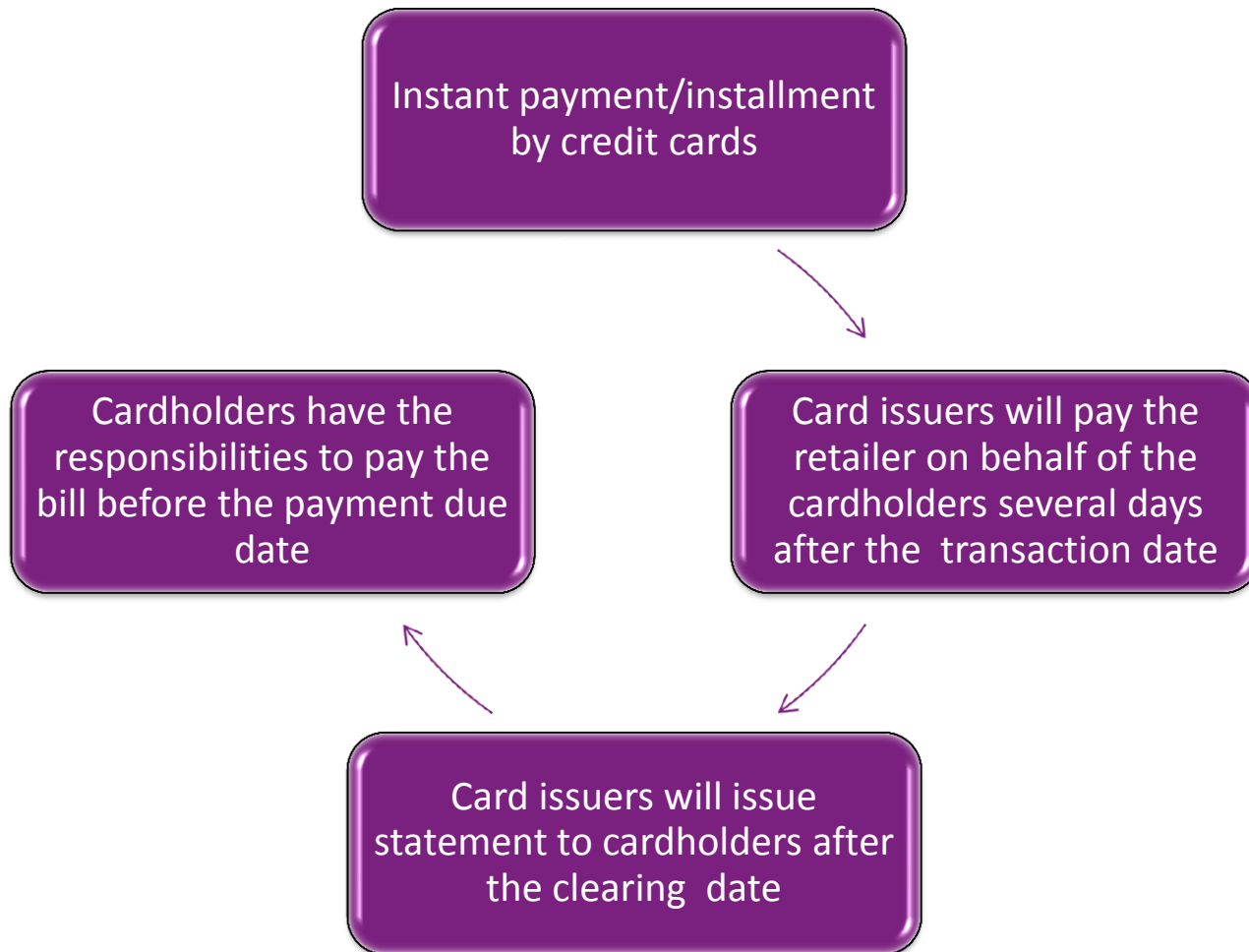


# Common types of consumer credit in Hong Kong

- Credit cards (信用咭)
- Personal loan (私人貸款)
- Bank overdraft (銀行透支)

# Credit Cards

# How credit cards operate?



# Monthly credit card statement

ABC銀行 ABC Bank

信用卡戶口月結單 STATEMENT OF CREDIT CARD ACCOUNT

樣本  
SAMPLE

客戶名稱 Customer Name  
客戶郵寄地址 Customer Address

戶口號碼 Account Number	XXXX XXXX XXXX XXXX
信用卡類別 Card Type	1 信用限額 Credit Limit HKDXX,XXX
結單日 Statement Date	總結欠 Statement Balance HKDXX,XXX.XX
2 到期還款日 Payment Due Date 日/月/年	3 最低還款額 Minimum Payment HKDXXX.XX

交易日期 Trans Date	過帳日期 Post Date	交易說明 Description of Transaction	金額 Amount (HKD)
24 Mar	25 Mar	上期結餘 Previous Balance	
		Happy Meal Restaurant	XXX.XX
		***** 財務費用概覽 Finance Charge Summary *****	
		類別 Type	
		4 實際年利率 APR%	5 財務費用 Finance Charge
		5a 購物簽帳 Retail Purchase	34.46% HKDXXX.XX
		5b 現金透支 Cash Advance	35.61% HKDXXX.XX

上期結餘 Previous Balance	-	還款/其他收入 Payment & Credit	+	購物簽帳 Retail Purchase	+	現金透支 Cash Advance	+	財務費用 Finance Charge	+	6 逾期費用 Late Charge	+	7 其他費用/支數 Fee/ Adjustment	=	今期結餘 New Balance
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8 \*\*\*\*\* 獎賞計劃 Rewards Programme \*\*\*\*\*

積分獎賞上期結餘 Reward Points Opening Balance  
本月賺取積分獎賞 Reward Points Earned  
本月行使積分獎賞 Reward Points Redeemed

Note: The above statement is a sample only. The format of the statements issued by different banks may vary. For any queries on your credit card statement, please contact the relevant bank.

Source: Hong Kong Monetary Authority



# Credit limit

- The maximum amount approved by bank to a cardholder for spending with a credit card
- Considerations of banks when approving credit limit
  - Background
  - Financial status
  - Credit record



# Grace period

- Grace period on purchase is the period between the date of the purchase and the payment due date
- Different card issuers offer different grace periods, ranging from 52 to 90 days (Source: Consumer Council, May 2013)

# Annualised percentage rate

- In Hong Kong, banks are required to state their annualised percentage rate (APR 實際年利率), which is calculated according to the Code of Banking Practice
- Includes the interest rate and other fees and charges that expressed as a yearly percentage rate
- Reflects the actual cost of borrowing and is a benchmark for comparing interest rate and fees for different products (eg. credit cards, personal loans, etc)
- The more risk financial organisations take, the more interest they charge
- A bad credit record may lead to a higher APR
- APRs for purchase balances: 8.75% to 34.49%  
(Source: Consumer Council, May 2013)

# Other fees and charges

- **Finance charge**
  - A finance charge will be levied if you fail to repay the outstanding balance of retail purchase or cash advances on the payment due date
- **Late charge**
  - Late charge will be levied if you fail to make the minimum payment amount by the due date.
  - Should not exceed the minimum payment amount
- **Other fees**
  - Other fees may include the over-the-limit fee. It is normally a flat fee

# Minimum payment

- The minimum amount that must be paid to avoid defaulting on the credit card
- Interests will be charged immediately on any new transactions
- 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
- Paying only this minimum payment stretches repayment over many months or years while interest continues to add up

# Minimum payment - example

<b>Outstanding balance:</b>	<b>\$20,000</b>
Monthly repayment:	Minimum payment: all interest and fees and charges (including annual membership fees), plus at least 1% of outstanding balance or a certain amount (eg. \$50) whichever is higher
APR:	35%
Total amount (principal + interest):	\$67,536 (\$20,000+\$47,536)
Time required for clearing the outstanding balance (assume no new transaction, annual fee and other charges):	26 years

Source: Hong Kong Monetary Authority

# Three types of credit

- Retail purchase (購物簽帳)
  - Transactions you made to purchase something in a store or online
  - 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.
- Cash Advance (信用咭現金透支)
- Cash instalment (信用咭現金套現/分期)

# Cash advance

- Many credit cards let you get cash advance from ATM or at a bank
  - 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
  - APR for cash advance: 20.39% to 37.14%
  - Administration fee/ handling fee: 1% to 4%
- (Source: Consumer Council, May 2013)

## Credit Card - Cash instalment

- Convert your available credit limit in your credit card into instant cash with approved amount
- With low money handling fee
- No/ low interest 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



# Credit cards as a means of credit

- Convenient
- Useful in an emergency
- Flexible
- Help you track your expenses
- Offer you rewards eg. air miles, cash back on purchases, discounts on purchases with retail partners
- Be aware of the interest, fees and charges that may be incurred

# How to choose a suitable credit card?

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

# Personal Loans

# Personal loans

- Give you access to funds for family emergencies, buying home furnishings and consolidating other debts
- Unsecured loan
- Instalment loans (分期貸款) and revolving loans (循環貸款) are personal loans

# Instalment loan

- Successive approval
- Fixed payment amount and period
- Related charges

# Revolving loan

- One-time approval
- Monthly minimum payment amount
- No fixed payment period
- Related charges

# Institutions providing credit

## 1. Licensed banks (持牌銀行)

- Offer a variety of consumer credit services
- Regulated by the Hong Kong Monetary Authority (“HKMA”) under the Banking Ordinance

## 2. Deposit-taking companies (DTCs 接受存款公司)

- 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 Hong Kong Monetary Authority (website: <http://www.hkma.gov.hk>)

# Institutions providing credit

## 3. Money lenders (放債人)

- 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
- 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 (website: <http://www.lmla.com.hk>)
- May charge higher interest rates than banks and DTCs, make faster approvals and place less emphasis on the borrower's credit history



# Bank Overdraft

# Bank overdraft

- Overdraft allows customers to withdraw more money than the amount actually has in the bank account
- Prevent cheques from being dishonoured
- Interest rate calculated based on a certain percentage over the best lending rate
- Related charges

# Personal Credit Record

# Personal credit record

- 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

# Factors affecting credit score

- Repayment history
- Credit history
- Outstanding debt

# Maintaining a good credit score

- Review your budget and current finances
- Pay all your bills each month on time always
- Check your credit card statements for unauthorised transactions or other signs of identity theft
- Cancel unused credit cards
- Avoid over-borrowing
- 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 loan or credit card in the future



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**Thank you**

