

For information
in October 2000

Information Note

Proposals on Business Practices of Authorized Institutions in Relation to Credit Cards

INTRODUCTION

This Note attaches for Members' reference the proposals of the Informal Working Group on the Review of the Code of Banking Practice (IWG) on how the business practices of authorized institutions in relation to the provision of credit card services can be improved (Appendix A). The IWG is convened by the Hong Kong Monetary Authority (HKMA) and comprises representatives of the Hong Kong Association of Banks and Deposit-taking Companies Association.

PUBLICITY

2. The HKMA will publish the IWG proposals on 4 October 2000 for consultation with the banking industry and the Consumer Council. A press release will be issued on the same day (Appendix B).

**Financial Services Bureau
October 2000**

BUSINESS PRACTICES OF AUTHORISED INSTITUTIONS IN RELATION TO CREDIT CARDS

1. PURPOSE

- 1.1 This paper sets out the proposals of the Informal Working Group on the Review of the Code of Banking Practice¹ (IWG) on how the business practices of authorised institutions in relation to credit cards² can be improved having regard to the recent ruling of the Court of First Instance (the Court) and a survey published by the Consumer Council in August 2000.

2. BACKGROUND

Ruling of the Court of First Instance

- 2.1 On 10 July 2000, the Court ruled that the indemnity cost provisions contained in the credit card agreements of three authorised institutions were unconscionable under the Unconscionable Contracts Ordinance. In reaching this judgment, the Court had regard to the following circumstances:
- (i) the institutions were in a much stronger bargaining position than the customers;
 - (ii) the customers did not appear to understand the indemnity cost provision;
 - (iii) consumers do not have a choice, given that all the 16 most common credit cards in use in Hong Kong contained terms in relation to reimbursement of costs or expense;
 - (iv) the indemnity cost provision was extremely wide and was capable of being applied unconscionably; and
 - (v) the interest charged was extortionate.

Survey by Consumer Council

- 2.2 In the above court cases, the Consumer Council supplied information and offered assistance to the *amicus curiae* representing the defendants (i.e. the

¹ The Code of Banking Practice was issued jointly by the Hong Kong Association of Banks and The DTC Association in 1997, with the endorsement of the Hong Kong Monetary Authority (HKMA). The IWG is a working group formed in July 2000 to undertake a review of the Code. It comprises representatives of the two industry Associations and the HKMA.

² Although this paper focuses on credit card services, the IWG considers that many of the principles contained in this paper are also applicable to other types of unsecured consumer lending. Authorised institutions are therefore encouraged to start preparation for compliance with new standards in respect of other personal finance products.

debtors). Subsequent to the ruling of the Court, the Council published in its Choice Magazine a survey on the business practices of authorised institutions in relation to credit cards and personal finance which was conducted by the Council in May this year. The survey was critical of the lack of transparency as regards the calculation of interest and other charges on credit card debts. The Council requested the banking industry to conduct a comprehensive review of its credit and debt collection policies. It further urged the industry to improve the quality of information disclosed to consumers including the transparency of the “true” cost of credit card borrowing.

- 2.3 Both of the above incidents highlight that there is a need to improve the business practices of authorised institutions in respect of credit cards. Immediate actions should be taken to ensure that the relevant practices and the related terms and conditions are consistent with applicable laws in Hong Kong and therefore can be enforced. The following paragraphs set out the IWG’s recommendations on how the business practices of authorised institutions can be improved to address the issues highlighted by the Court and the Consumer Council.

3. PACKAGE OF RECOMMENDATIONS

3.1 In drawing up the terms and conditions for credit card services, authorised institutions should have due regard to applicable laws in Hong Kong, including, in particular, consumer protection legislation.

As noted earlier, in ruling the relevant indemnity cost provisions to be unconscionable, the Court has considered that the institutions are in a much stronger bargaining position than the customers. The relevant agreements were standard forms and were drafted with the interest of the institutions in mind, leaving no choice to consumers at all.

In this connection, the IWG notes that credit card services, as well as other personal finance products, are offered to a large number of customers. It would not be realistic for authorised institutions to negotiate with each customer about the terms and conditions. This is precisely why customers of personal finance are generally considered as “dealing as consumer³” and are therefore protected under various legislation relating to consumer protection (including the Unconscionable Contracts Ordinance).

³ Section 3 of the Unconscionable Contracts Ordinance provides that a party to a contract “deals as consumer” in relation to another party if –

- (a) he neither makes the contract in the course of a business nor holds himself out as doing so;
- (b) the other party does make the contract in the course of a business; and
- (c) the goods passing or services provided under or in pursuance of the contract are of a type ordinarily supplied or provided for private use, consumption or benefit.

Although there does not appear to be any practical means of addressing the issue of unequal bargaining power or that of choice mentioned above, this does not excuse authorised institutions from the obligation to ensure that the relevant terms and conditions are “fair” to customers. This is indeed one of the most important principles contained in the Code of Banking Practice (see clause 5.2 of the Code). In case of doubt, it is always a good practice for authorised institutions to seek advice from their legal counsel as to whether a term is fair and reasonable to customers.

In considering whether a term is reasonable to customers, authorised institutions should pay particular attention to all legislation relating to consumer protection. This is necessary not only to protect the interests of customers but also those of the institutions themselves, as any terms and conditions which infringe upon the statutory rights of consumers could be void and unenforceable.

3.2 A copy of the written terms and conditions should be provided at the request of customers (or prospective customers).

Both the Court and the Consumer Council doubted that customers were able to understand the indemnity cost provision. According to the Court and the Consumer Council, credit card companies in Hong Kong do not at present inform consumers of this type of provision in the application form for credit cards. There is also no control over the size of the font or the language of the terms and conditions. In addition, as revealed in the survey conducted by the Consumer Council, some institutions failed to supply a copy of the credit card agreements despite repeated requests from staff of the Council posing as potential customers of the institutions. All the above comments show that there is room for authorised institutions to improve the transparency of the terms and conditions of banking services.

It should be noted that clause 5.1 of the Code of Banking Practice already requires authorised institutions to make readily available to customers written terms and conditions of a banking service. Some institutions however have construed this requirement narrowly. According to these institutions, a bank-customer relationship is not established until a credit cardholder actually uses the card. Therefore, these institutions do not provide a copy of the terms and conditions to applicants for credit card services, as they are not at this point considered as “customers” to the institutions. It is only when the applications are approved that a copy of the terms and conditions, together with the credit card, is sent to the cardholders.

The IWG considers that, given that the credit card agreements are prepared by the institutions, it is reasonable that consumers, who may not yet be customers of the institutions, are given the opportunity to review the terms and conditions if they want to. This will allow consumers to compare the different card

services available in the market and hence enable them to select the service which is most competitive and most suitable for them. Above all, authorised institutions should observe the spirit of the recent Court ruling. Providing customers with a copy of the terms and conditions is one way to safeguard the enforceability of the pertinent terms and conditions, which can only be in authorised institutions' own interests. It has been considered whether authorised institutions should provide a full copy of the terms and conditions to customers at the time of application for the banking service. But the IWG considers that this may not be the most effective way to promote transparency as most customers would not actually read the detailed terms and conditions. It may be more appropriate to think of other more effective ways to enhance transparency (see recommendations below). Nevertheless, in order to provide customers with the opportunity to review the full terms and conditions, authorised institutions should provide a copy of the written terms and conditions at the request of customers or prospective customers.

3.3 Customers' attention should be drawn to the major terms and conditions which impose significant liabilities or obligations on their part. These terms and conditions should be highlighted in the application forms for card services. The description of these terms and conditions should be written in plain language (both in English and Chinese) to the extent that is consistent with the need for legal certainty and should be printed in clear and legible type and in a font size that facilitates easy reading.

As noted above, making a copy of the terms and conditions readily available to consumers is not sufficient to enhance transparency and to fully address the concerns of the Court and the Consumer Council. The crux of the problem is whether consumers understand the implications of the terms and conditions of credit card services, particularly those which would impose significant liabilities or obligations on them. To this end, authorised institutions should take reasonable steps to draw consumers' attention to these provisions and explain to them their potential liabilities under these provisions. This can be done by means of the application forms for card services, which can be enhanced to contain a concise but clear description of the major terms and conditions which impose significant liabilities or obligations on the part of customers. The description of these terms and conditions should be printed in clear and legible type and in a font size that facilitates easy reading. Plain language (both English and Chinese) should be used to the extent that it is consistent with the need for legal certainty.

In respect of credit card services, the major terms and conditions that should be highlighted in the application form should include, but not be limited to, the following:

- (i) the responsibility of the cardholder to sign on the card immediately if the card is accepted;

- (ii) the obligation to handle with due care any personal identification number provided and the liability for failing to do so;
- (iii) the obligation to repay the outstanding balance on time and the liability to pay penalty charges if the required minimum payment is not made;
- (iv) in case of default, the liability to indemnify the institution for costs and expenses reasonably incurred by the institution in recovering the debt;
- (v) the liability for all losses suffered by the institution if the cardholder has acted fraudulently or with gross negligence;
- (vi) the maximum liability for unauthorised transactions before a card loss is reported to the institution;
- (vii) the right of the institution to set off any credit balance maintained by the cardholder with the institution (if there is any such right);
- (viii) the respective liabilities of the principal and supplementary cardholders for sums owed to the institution; and
- (ix) the right of the cardholder to terminate the card service if he or she does not accept any amendment to the terms and conditions proposed by the institution.

3.4 Authorised institutions should be prepared to answer any queries of customers (or prospective customers) relating to the terms and conditions for credit card services.

To further ensure that customers understand the terms and conditions, authorised institutions should be ready and able to answer any queries of consumers relating to the terms and conditions. It is recommended that authorised institutions make use of their existing customer service hotlines to answer queries of consumers in this respect. Appropriate training should therefore be provided to the relevant staff.

3.5 Any cost indemnity provision contained in the terms and conditions of banking services should only provide for the recovery of costs and expenses which are of reasonable amount and were reasonably incurred.

Another consideration which the Court referred to was that the indemnity cost provisions were extremely wide. In the ordinary meaning of these provisions, they could extend to all costs and expenses even if these were unreasonably incurred. Moreover, there was no upper limit on the amount of expenses for which the institutions can claim reimbursement from the debtors. The Court further remarked that it was precisely because of these provisions that the institutions did not have to think twice before suing in the High Court, even though the proceedings were within the District Court jurisdiction.

One way to directly address the concern of the Court would be for authorised institutions to set an upper limit on the amount of expenses (including legal fees and charges of the debt collection agencies employed by the institutions) that could be recovered from default debtors. Obviously, this limit would have

to be set at a reasonable level otherwise the purpose of setting such a limit would be defeated. While the IWG would welcome individual institutions setting an upper limit on debt recovery expenses, it is acknowledged that there may be practical difficulties in doing so. In particular, certain debt recovery expenses such as legal fees are more variable and are contingent on factors which may be outside the control of authorised institutions (e.g. the time it takes for a dispute between the debtor and the lending institution to be settled in court, which would have implications for the amount of legal expenses).

Nevertheless, the IWG agrees with the view that authorised institutions should review their terms and conditions to ensure that the indemnity cost provisions only provide for the recovery of costs and expenses that are of reasonable amount and were reasonably incurred. This means that authorised institutions should not only assess whether an item of expense ought to be incurred, but also evaluate whether the amount incurred is “reasonable”. Obviously, whether an item of expense is “reasonable” would need to be assessed on its own merits. However, the following practices should help authorised institutions to assess the reasonableness of such charges and should be implemented by authorised institutions:

- (i) authorised institutions should have in place a system to evaluate on a regular basis whether the charges of their agents or advisers are reasonable having regard to factors such as the prevailing market practices, the reputation of these agents or advisers and the institution’s past performance in dealing with them;
- (ii) in the case of variable charges, authorised institutions should require their agents and advisers to give detailed account for the charges (e.g. the time spent in debt collection efforts) in order for them to assess the reasonableness of such charges;
- (iii) authorised institutions should ensure that their own administrative procedures keep such costs and expenses to a reasonable amount; and
- (iv) any legal proceedings taken by authorised institutions should be instituted in the appropriate court.

The more general issue on the use of debt collection agencies by authorised institutions and the charges for the use of such services will be considered separately in the review of the rest of the Code of Banking Practice.

3.6 At the request of debtors, authorised institutions should provide a detailed breakdown of the costs and expenses for which debtors are required to indemnify the institution.

To enhance the clarity of the costs and expenses for which debtors are required to indemnify the institution, authorised institutions should, at the request of debtors, provide a detailed breakdown of the amount of such costs and expenses.

3.7 While authorised institutions are exempt from the Money Lenders Ordinance to allow them free scope to set interest rates under the Currency Board arrangement in Hong Kong, the annualised percentage rate (APR)⁴ of interest charged by them in respect of credit card lending should not, unless justified by exceptional monetary conditions, exceed the legal limit as stated in the Money Lenders Ordinance.

It was further noted in the Court's judgment that the interest charged by the institutions was extortionate. The effective interest rates exceeded 48% and were very close to 60%, which is the maximum level of interest rate permissible under the Money Lenders Ordinance. While the Court did not give an opinion as to whether the high interest rate should be considered as unconscionable by itself, this issue may arise again in future court cases.

The IWG's view is that although authorised institutions are exempt from the Money Lenders Ordinance in order to allow them free scope to set interest rates under the Currency Board arrangement in Hong Kong, this is no justification for charging consumers extortionate interest rates. If the APR of interest would be higher than 48% per annum, which would be presumed to be extortionate by virtue of section 25 of the Money Lenders Ordinance, the authorised institution concerned should be able to justify why such a high interest rate is not unreasonable or unfair (e.g. a high interest rate is required to compensate the institution for a higher loan loss ratio). In any case, the APR charged by authorised institutions in respect of credit card lending should not exceed 60% per annum except under exceptional monetary conditions.

3.8 Authorised institutions should quote the annualised percentage rate of interest for credit card products to facilitate comparison between different charging structures.

Another issue in relation to interest rates which was raised by the Consumer Council is that authorised institutions do not disclose the "true" cost of credit card borrowing to customers. In particular, the Consumer Council urged the banking industry to quote the APR of credit card advances. In the Council's view, all relevant fees and charges should be taken into account in the calculation of APR.

The IWG understands that the banking industry has encountered some difficulties in quoting APRs of credit card advances and therefore has not been able to fully comply with the relevant clauses in the Code of Banking Practice regarding the quotation of interest rates (e.g. clauses 11 and 23). In 1998, the Hong Kong Association of Banks attempted to develop a standard method for calculating APRs of credit card advances. However, the effort was not

⁴ The APR should be calculated in accordance with the proposed standard method in paragraph 3.8 below.

successful due to the complexity of the computation and the wide variety of practices amongst institutions.

Having regard to the practices in other financial centres, the IWG believes that it would be helpful to standardise the method of calculation used by authorised institutions. This would require the banking industry to agree to a set of assumptions regarding the “typical” behaviour of cardholders (e.g. repayment patterns). Save for certain adaptations to suit the local environment, the IWG believes it would be appropriate to largely follow the same assumptions as those contained in the guideline, “Credit Charges and APR”, issued by the Office of Fair Trading in the U.K. A detailed paper on APR calculation is enclosed at the **Annex**. Subject to any comments that the industry and the Consumer Council may have, the two industry Associations will be requested to issue a revised guideline on this subject. All authorised institutions will then be required to provide APRs of credit card advances using the method set out in the guideline. The objective is that customers or prospective customers should be advised of the prevailing APRs (one for retail purchase and one for cash advance) in all advertising materials whenever interest rates of credit card products are quoted⁵.

3.9 Provided that cardholders have not acted fraudulently or with gross negligence, their maximum liability for unauthorised transactions before the card loss is reported should not be higher than HK\$500.

Clause 29 of the Code states that provided that cardholders have not acted fraudulently or with gross negligence, their maximum liability for credit card loss should be confined to a limit specified by the card issuer, which should be “reasonable”. The industry practice, however, is that this limit is usually set at the prevailing credit limit of the cardholders, which would normally exceed HK\$10,000. This is not the usual practice in other comparable financial centres. Consistent with international standards (e.g. US\$50 in the U.S., NZ\$50 in New Zealand and GBP50 in the U.K.), the IWG recommends that this limit should be set at a level not higher than HK\$500.

3.10 While principal cardholders are held liable for the debts of supplementary cardholders, supplementary cardholders should not be held liable for the debts of the principal cardholders.

There appears to be a lack of clarity, and differences in institutions’ practices, as regards whether supplementary cardholders are held liable for the debts of the principal cardholders. In some cases the principal and supplementary

⁵ It should be noted that the APRs required to be provided will be “typical” APRs calculated on the basis of “typical” assumptions. This will enable better comparisons to be made between different issuers. They will not represent “worst case” APRs (e.g. when cash advances are drawn and repaid within a short period of time, the cash advance fees can be translated into a very high APR). In other words, cardholders may incur higher APRs depending on their behaviour pattern.

cardholders are held jointly and severally liable for the sums owed to the institutions. This means that a supplementary cardholder may be pursued by the card issuer for the debts of the related principal cardholder. The IWG considers that this practice is not reasonable. In granting a card to a supplementary cardholder, authorised institutions rely only on the credit standing of the principal cardholder. Moreover, supplementary cardholders do not have their own credit limits but share the limits of the principal cardholders. For this reason, it is unfair that supplementary cardholders are held liable for the debts of the principal cardholders, over which they have no control. The IWG appreciates that authorised institutions may encounter practical difficulties in the implementation of the above recommendation. In particular, there would be a need to segregate the debts of the principal and supplementary cardholders and devise a method to apportion repayments between the accounts of the principal and supplementary cardholders. System changes may be required. Therefore, if this recommendation is adopted, authorised institutions should be given sufficient time to implement the necessary system changes.

If it is agreed that supplementary cardholders should not be held liable for the debts of the principal cardholders, the next question would then be whether they should be held liable to repay the debts incurred by themselves under the supplementary cards. On the one hand, it can be argued that a supplementary card can be considered as a “gift” provided by the principal cardholder to the supplementary cardholder. Thus, the supplementary cardholder should not be responsible for any amount that he or she has spent using the card. Such is the practice followed in the U.S. On the other hand, it can also be argued that holding a supplementary cardholder liable for his or her own debt is fair and would encourage them to exercise due care in using the card. The views of the two industry Associations and the Consumer Council are welcome.

4. IMPLEMENTATION

- 4.1 The above recommendations will become effective subject to any comments from the two industry Associations and the Consumer Council. In terms of implementation, authorised institutions are expected to comply with the recommendations within 6 months of the effective date of the recommendations. A further 6 months will be allowed for compliance with those parts involving system changes. This is in line with the previous arrangement when the Code of Banking Practice was first promulgated. These requirements will be incorporated into the Code of Banking Practice together with any other amendments that are considered necessary during the rest of the review.
- 4.2 The HKMA considers that some of the recent bad publicity for the banking industry could have been avoided if the spirit of the Code of Banking Practice had been more closely adhered to. In future, the HKMA will strengthen its

monitoring of authorised institutions' compliance with the Code of Banking Practice. The intention is that the internal audit department of authorised institutions should be required to undertake an annual review on the compliance of their institution with the Code. In respect of those institutions which provide credit card services, the internal audit department will be required to submit an assessment report to the HKMA in relation to their compliance with the package of requirements set out in this paper within 6 months after these recommendations become effective.

Calculation of Annualized Percentage Rate in Relation to Credit Card Products

This paper sets out a proposed framework for the calculation of annualized percentage rates (APRs) in relation to credit card products.

Background

Lack of a standard calculation method

2. Section 11 of the Code of Banking Practice provides that institutions should quote APRs on deposits, loans and credit card products to facilitate comparison between different charging structures. It further provides that the formula set out in guidelines issued by the industry Associations should be followed in the computation of APRs.

3. The guidelines issued by the industry Associations in 1997 provide specific recommendations on the method that should be used to calculate APRs for advances such as personal and mortgage loans. It is provided that the “Net Present Value” (NPV) method specified in the UK Consumer Credit Act (see “The Proposed Framework” below for details) should be adopted and the APRs should include interest on loans as well as any other fees and charges to reflect the total cost of credit. If a different formula is adopted, disclosure to this effect should be made.

4. However, in respect of credit card products, the guidelines only give general suggestions that annual fees for the use of cards should not be included in calculating APRs, and that the APRs should reflect the rate charged on outstanding debit balances. Hong Kong Association of Banks (HKAB) attempted to standardize the methods used by member banks to calculate APRs of credit cards in 1998 but concluded that a standard computation method was problematic.

5. A small-scale survey conducted by the HKMA in February 1999 revealed that the methods used by the industry to calculate APRs varied amongst institutions. It was found that some card issuers simply multiplied the monthly rate by twelve. Obviously, this simple calculation method is not suitable for card issuers which charge compound interest on credit card outstanding. Moreover, there was not a consistent way to deal with fees and charges related to credit card products.

Need for greater transparency and standardization

6. The Consumer Council has recently released a survey on the cost of credit card borrowing. The survey is critical of the lack of transparency as regards the calculation of interest and other charges on credit card debts. It highlights that consumers may not easily understand the different calculation methods and thus the true cost of borrowing in relation to credit cards.

7. To enable consumers to make an informed choice in their use of credit cards and to facilitate greater competition amongst institutions, it is considered desirable that the methods for calculating APRs of credit cards should be standardized. The following paragraphs set out a proposed framework for a standardized APR calculation for credit cards.

The Proposed Framework

8. Since the UK method is already used to calculate APRs of personal and mortgage loans in Hong Kong, it is suggested that as a natural extension of the current practice, the method for computing APRs of credit cards in the UK is also adopted.

The formula

9. In the UK, the Consumer Credit Act prescribes that the NPV method should be used to calculate APR:

$$A = \sum_{k=1}^n \frac{X}{(1+i)^{t_k}} \quad \text{where}$$

- A = original loan amount
- n = number of instalments
- X = monthly instalment amount
- t_k = time interval, expressed in years, between the relevant date and the date of the k^{th} instalment
- k = number identifying a particular instalment
- i = unknown APR

The assumptions

10. Since the APRs calculated would depend on the behaviour of the cardholders (e.g. the repayment patterns), a set of assumptions must be made so as to provide a consistent basis for calculation. The guideline, “Credit Charges and

APR”, issued by the Office of Fair Trading in the UK further sets out the assumptions which should be made and the types of fees and charges which should be included for calculating APRs. For credit card products, the following assumptions are relevant:

- (i) A single amount of credit equal to the credit limit provided is withdrawn at the earliest time possible;
- (ii) The amount of instalments is the smallest required under the agreement (i.e. 5% minimum repayments);
- (iii) The borrower continues to make the minimum payments until the balance on the account falls to zero;
- (iv) If the transaction requires a repayment to be made no later than a specified date, that date should be used as the time of repayment; and
- (v) If there are repayments of credit or payments of charges which are to be paid before the relevant date (i.e. the end of the relevant period), it must be assumed that they are paid on the relevant date.

11. It is proposed that the assumptions provided for in the UK guideline should be followed as far as possible. However, certain adaptations are necessary to cater for the local practices. The following assumptions are recommended:

- (i) The retail purchase is made or the cash advance is withdrawn at the earliest time possible (consistent with the UK guideline);
- (ii) The amount of credit used is HK\$50,000;

(This assumption is necessary because most card issuers levy fixed charges. If the amount of credit used is not specified, these fixed charges can translate into different APRs. Industry representatives in the Informal Working Group on Review of Code of Banking Practice (IWG) consider that a limit of HK\$50,000 is reasonable in the context of Hong Kong’s credit card market.)

- (iii) All fees and charges, with the exception of annual card fees, should be taken into account;

(This assumption is slightly different from that adopted in the UK where all fees and charges are included. Annual card fees are suggested to be excluded because they may often be waived in

Hong Kong. It can also be argued that annual card fees do not form part of the cost of credit since a cardholder will need to pay the annual card fee regardless of he makes use of the credit facility or not. This is in line with the existing industry guideline on APR mentioned in paragraph 4 above.)

- (iv) Bonus schemes and cash rebates are ignored since it is too difficult to translate such benefits into pecuniary terms (consistent with the UK guideline);
- (v) All repayments of credit or payments of fees and charges are made at the end of each relevant period (consistent with the UK guideline); and
- (vi) Cardholders make minimum payments until the outstanding balance falls to zero (consistent with the UK guideline)

(Under this assumption, the outstanding balance (including the cash advance fee) would be repaid over an extended period. The IWG considers this assumption more appropriate because it is consistent with the UK guideline and it reflects the typical repayment behaviour of cardholders more accurately than other assumptions such as cardholders repaying the outstanding balance within a stated period of time, e.g. six months or one year.)

12. Simple illustrations of the APR calculation for cash advance and retail purchase based on the above assumptions are shown at Appendix 1 and Appendix 2 respectively.

Appendix 1: APR Calculation for Cash Advance Using NPV Method

Cash Advance

Credit limit: 50,000
 Card fee: 0 Annual card fee excluded in the APR calculation
 Cash advance fee: 3% Plus \$10
 Interest rate: 2.50% Monthly compound
 Minimum repayment: 5% or \$50 whichever is higher until full repayment
 Cash advance date: 01/09/00
 Payment due date: 26 days after statement date

<u>Date</u>	<u>Cash Advance</u> ¹	<u>Fees & Charges</u> ²	<u>Payment</u> ³	<u>Principal Repaid</u>	<u>Interest Accrued during the Month</u> ⁵	<u>Balance</u>	<u>Cash Flow</u>	<u>APR</u>
01/09/00	50,000.00	1,510.00	0.00	0.00	0.00	51,510.00	-50,000.00	36.77%
30/09/00	0.00	0.00	0.00	0.00	1,287.75	52,797.75	0.00	
31/10/00	0.00	0.00	2,639.89 ⁴	1,352.14	1,319.94	51,477.81	2,639.89	
30/11/00	0.00	0.00	2,573.89	1,253.95	1,286.95	50,190.86	2,573.89	
31/12/00	0.00	0.00	2,509.54	1,222.60	1,254.77	48,936.09	2,509.54	
31/01/01	0.00	0.00	2,446.80	1,192.03	1,223.40	47,712.69	2,446.80	
28/02/01	0.00	0.00	2,385.63	1,162.23	1,192.82	46,519.87	2,385.63	
31/03/01	0.00	0.00	2,325.99	1,133.18	1,163.00	45,356.87	2,325.99	
30/04/01	0.00	0.00	2,267.84	1,104.85	1,133.92	44,222.95	2,267.84	
31/05/01	0.00	0.00	2,211.15	1,077.23	1,105.57	43,117.38	2,211.15	
30/06/01	0.00	0.00	2,155.87	1,050.30	1,077.93	42,039.44	2,155.87	
31/07/01	0.00	0.00	2,101.97	1,024.04	1,050.99	40,988.46	2,101.97	
31/08/01	0.00	0.00	2,049.42	998.44	1,024.71	39,963.75	2,049.42	Rows for the period from 30/09/01 to 31/12/15 not displayed
31/01/16	0.00	0.00	50.00	46.74	2.09	35.85	50.00	
29/02/16	0.00	0.00	36.75	33.76	0.90	0.00	36.75	
Total	50,000.00	1,510.00	104,999.03	51,510.00	53,489.03			

- Note:
- 1 The credit is advanced at the earliest time possible.
 - 2 All fees and charges (except annual card fee) are included.
 - 3 Customer repays only the required minimum amount until full repayment.
 - 4 Repayments are due on the 26th day after the statement date, but for the calculation of APR, it is assumed that repayments are made at month ends for simplicity.
 - 5 Assume interest will accrue on fees and charges at the same rate as principal outstanding.

Appendix 1: APR Calculation for Cash Advance Using NPV Method

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Appendix 2: APR Calculation for Retail Purchase Using NPV Method

Retail Purchase

Credit limit: 50,000
 Card fee: 0 Annual card fee excluded in APR calculation
 Interest rate: 2.50% Monthly compound
 Minimum repayment: 5% or \$50 whichever is higher until full repayment
 Timing finance charge starts to accrue: Transaction date
 Date of purchase: 01/09/00
 Payment due date: 26 days after statement date

<u>Date</u>	<u>Purchase</u> ¹	<u>Fees & Charges</u> ²	<u>Payment</u> ³	<u>Principal Repaid</u>	<u>Interest Accrued during the Month</u> ⁵	<u>Balance</u>	<u>Cash Flow</u>	<u>APR</u>
01/09/00	50,000.00	0.00	0.00	0.00	0.00	50,000.00	-50,000.00	34.49%
30/09/00	0.00	0.00	0.00	0.00	1,250.00	51,250.00	0.00	
31/10/00	0.00	0.00	2,562.50 ⁴	1,312.50	1,281.25	49,968.75	2,562.50	
30/11/00	0.00	0.00	2,498.44	1,217.19	1,249.22	48,719.53	2,498.44	
31/12/00	0.00	0.00	2,435.98	1,186.76	1,217.99	47,501.54	2,435.98	
31/01/01	0.00	0.00	2,375.08	1,157.09	1,187.54	46,314.00	2,375.08	
28/02/01	0.00	0.00	2,315.70	1,128.16	1,157.85	45,156.15	2,315.70	
31/03/01	0.00	0.00	2,257.81	1,099.96	1,128.90	44,027.25	2,257.81	
30/04/01	0.00	0.00	2,201.36	1,072.46	1,100.68	42,926.57	2,201.36	
31/05/01	0.00	0.00	2,146.33	1,045.65	1,073.16	41,853.40	2,146.33	
30/06/01	0.00	0.00	2,092.67	1,019.51	1,046.34	40,807.07	2,092.67	
31/07/01	0.00	0.00	2,040.35	994.02	1,020.18	39,786.89	2,040.35	
31/08/01	0.00	0.00	1,989.34	969.17	994.67	38,792.22	1,989.34	Rows for the period from 30/09/01 to 30/11/1!
31/12/15	0.00	0.00	50.00	46.94	1.89	27.31	50.00	
31/01/16	0.00	0.00	27.99	25.42	0.68	0.00	27.99	
Total	50,000.00	0.00	101,903.55	50,000.00	51,903.55			

- Note:
- 1 The purchase was made on the date when the card is available for use.
 - 2 All fees and charges (except annual card fee) are included.
 - 3 Customer repays only the required minimum amount until full repayment.
 - 4 Repayments are due on the 26th day after the statement date, but for the calculation of APR, it is assumed that repayments are made at month ends for simplicity.
 - 5 Assume interest will accrue on fees and charges at the same rate as principal outstanding.

Appendix 2: APR Calculation for Retail Purchase Using NPV Method

5 not displayed

Press Release

The Hong Kong Monetary Authority (“HKMA”) today (4 October) released a set of proposals aimed at improving the business practices of authorised institutions (“AIs”) in relation to the provision of credit card services for consultation with the banking industry and the Consumer Council (see enclosed paper for details of the proposals). The proposals have been formulated by an Informal Working Group (“IWG”) on review of the Code of Banking Practice convened by the HKMA and comprising representatives of the Hong Kong Association of Banks and Deposit Taking Companies Association. In view of the increasing public concern about the practices of AIs in relation to the provision of credit card services, the IWG has accelerated consideration of these issues.

2. “The recent ruling of the Court of First Instance and a subsequent survey by the Consumer Council have highlighted the scope for improving the credit card practices of AIs. This package of measures has been devised with a view to making credit card terms and conditions more consumer-friendly, and ensuring that they are consistent with applicable laws,” said Mr Simon Topping, Executive Director (Banking Policy) of the HKMA.

3. In working out the relevant proposals, the IWG considers that the overriding principle is that the terms and conditions for credit card services should be “fair” and “transparent” to consumers. In particular, it is recommended that any cost indemnity provision in relation to recovery of debts contained in the terms and conditions should only provide for the recovery of costs and expenses which are of reasonable amount and which were reasonably incurred.

4. The IWG also proposes a series of measures to promote greater transparency of credit card services, including a requirement for AIs to highlight all major terms and conditions which impose significant liabilities or obligations on customers in the application forms for credit card services, and to follow a standardised method in calculating and quoting the annualised percentage rates (APRs) of interest for credit card lending. The latter measure should facilitate consumers’ comparison between different charging structures which may be adopted by different AIs.

5. Another recommendation of the IWG is that except under exceptional monetary conditions, the APR of interest charged by AIs in respect of credit card lending should not exceed the limit stated in the Money Lenders Ordinance.

6. The IWG has also put forward two proposals to bring the existing practices of AIs more into line with international practices, to the benefit of consumers. First, it is proposed that, as long as a cardholder has not acted fraudulently or with gross negligence, his maximum liability for unauthorised transactions before a card loss is reported should not be higher than HK\$500 (the relevant limit in the US and UK is US\$50 and GBP50 respectively). Second, it is proposed that supplementary cardholders should not be held liable for the debts of principal cardholders.

7. “We believe this is a good set of proposals for consumers which addresses concerns raised by the Court and the Consumer Council. Further measures in relation to other business areas will be proposed shortly as we continue our review of the Code, which we plan to complete by early in the new year,” Mr Topping added.

8. Subject to the views collected from the consultation, AIs should implement the proposals within six months.

Hong Kong Monetary Authority
4 October 2000