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24 July 2002

Mr Frederick Ma
Secretary for Financial Services and the Treasury
8/F, Central Government Offices, West Wing
11 Ice House Street, Central
Hong Kong

Dear Mr Ma,

I am writing in relation to the proposal for banks to share positive consumer credit data.

As you may be aware, an article in the Financial Times on July 18 reported that a US credit card company, Capital One Financial, was forced by US federal regulators to set aside more money for potential bad loans, resulting in a sharp drop in the company's shares. The article is enclosed for your easy reference.

Although banks in the US are allowed to share positive consumer credit data, yet the problem of bad loans still looms so large. To tackle the problem, US regulators have to increase scrutiny of credit card issuers and banks. This is what the Hong Kong authorities should do.

The case of Capital One Financial appears to show the implementation of positive credit data sharing does not help to solve the bad loan problem. Furthermore, many people in Hong Kong fear such an arrangement might lead to invasion of consumers' privacy. If positive credit data sharing in US does not seem to have achieved the desired effect, I don't think we should pursue this idea any more.

Yours sincerely,

Emily Lau

c.c. Mr Joseph Yam, Chief Executive of HKMA
Mr Raymond Tang, Privacy Commissioner for Personal Data
Chairman and Members, Legislative Council Panel on Financial Affairs

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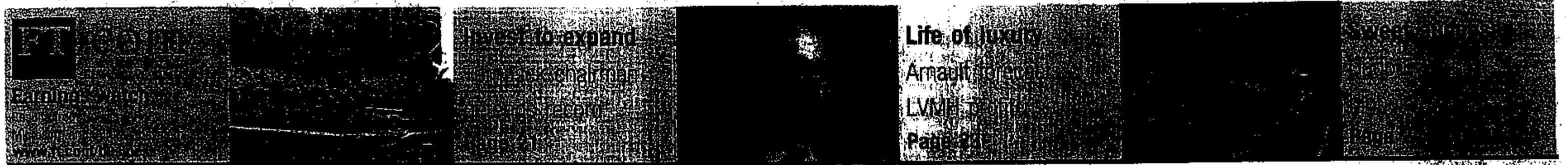

Shares in Capital One fall by more than 35%

News that federal regulators forced credit card group to set aside more money for bad loans hits stock

By Elizabeth Wine in New York

Shares in Capital One Financial fell more than 35 per cent by mid-morning yesterday after the US credit card company revealed that federal regulators had forced it to set aside more money for potential bad loans.

The news hit other credit card issuers, amid investor concern that the regulators would take similar action against other lenders with a high proportion of risky consumer loans. Capital One said on Tuesday night that it had reached an informal agreement with regulators to increase allowances for bad loans by $247m. The company already had reserves of $990m against loans of $24.4bn in the first quarter. Capital One disclosed in a regulatory filing that it was moving to improve its internal controls.

The agreement on reserves followed a routine regulatory review of the company's finances. However, analysts said it was likely that regulators would increase scrutiny of other credit card issuers and banks with a high percentage of subprime, or less creditworthy, loans.

"Regulators are highly sensitive to reserves of subprime loans, so we wouldn't be surprised to see other actions with other lenders, but the focus will be on companies that specialise in credit card lenders," said Thomas Abruzzo, a credit analyst at Fitch Ratings.

Credit card companies with high exposure to subprime loans have struggled as the economy has slowed and their lower-quality customers have stopped paying their bills.

Providian Financial, another credit card issuer with a high percentage of business in the subprime market, triggered fears about deteriorating credit quality last year, after it was forced to make big write-offs as the economy slowed. As a result its profits plunged by more than 90 per cent.

Providian shares were down 15 per cent to $3.43 in late morning trading yesterday. Other credit card issuers hit by the news included MBNA, the largest independent credit card issuer, which fell $1.34, or 7 per cent, to $19.01.

Capital One's shares tumbled from $50.60 to $35 despite reporting a 37 per cent jump in quarterly earnings and raising its guidance for next year.

Fitch Ratings cut the company's credit rating from B/C to B and a number of Wall Street analysts removed the buy recommendations.

Capital One is one of the fastest-growing credit card issuers, and the fifth-largest issuer of MasterCard and Visa credit cards.

Its share price fell by 40 per cent in the second half of 2001 amid concern that the company's exposure to "subprime" or less creditworthy customers could lead to heavy losses.

However, a brightening economic outlook combined with better-than-expected financial results had led to a recovery in the stock price.

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