<u>HKMA's reply to item 6</u>

(a) comparison of the interest rates charged by individual banks for personal loans and for credit card lending;

The HKMA has conducted a desktop review of the interest rates charged by six major banks for personal loans and for credit card lending. The results, as summarised in the following table, indicate that the annualised percentage rates charged by banks for personal loans are significantly lower than those for credit card lending.

Annualised Percentage Rates		
Personal loans	**Credit card lending**	
	Retail purchase	**Cash advance**
3.2% - 20.1%	25.5% - 36.1%	27.9% - 37.5%

(b) requirements on banks to give advance notice to customers concerned before making amendments to fees, charges and interest rates of their credit card services and measures to ensure compliance with the requirements; and

The Code of Banking Practice (Code), jointly issued by the Hong Kong Association of Banks and the DTC Association, requires authorized institutions (AIs) to give advance notice to customers before introducing any changes to the fees and charges (including interest rates) of their banking services. Section 5.8 of the Code states that AIs should give customers 30 days' notice before any variation of the terms and conditions which affects fees and charges and the liabilities or obligations of customers takes effect.

The HKMA expects all AIs to comply with the Code in their dealing with personal customers. It monitors compliance with the Code as part of its regular supervision of AIs. AIs are required to commission an independent unit (for example, their internal audit or compliance department) to regularly assess the institution's compliance with the Code. The assessment reports should be submitted to the HKMA for review. In addition, the HKMA handles customer complaints about banking services. This provides another avenue for the HKMA to identify possible breaches of the Code.

(c) background and details of the US Credit Card Reform Act 2009 on the reform of credit card services, which impose control on the revision of interest rates, fees and penalties by the service providers.

In May 2009, the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (Credit CARD Act) was passed in the US. The Act seeks to reform the credit card market in the US in order to strengthen the protection of credit card users.

Based on a fact sheet published by the US Government about the Credit CARD Act, there are four key principles underlying the current reform. These are: -

(i) There have to be strong and reliable protections for consumers;

(ii) All the forms and statements that credit card companies send out have to have plain language that is in plain sight;

(iii) People should be able to shop for a credit card that meets their needs without fear of being taken advantage of; and

(iv) There should be more accountability in the system, so that those who do engage in deceptive practices that hurt families and consumers are held responsible.

The key elements of the Credit CARD Act as highlighted in the fact sheet include: -

Bans Retroactive Rate Increases: Bans rate increases on existing balances due to "any time, any reason" or "universal default" and severely restricts retroactive rate increases due to late payment.

First Year Protection: Contract terms must be clearly spelled out and stable for the entirety of the first year. Firms may continue to offer promotional rates with new accounts or during the life of an account, but these rates must be clearly disclosed and last at least 6 months.

Ends Late Fee Traps: Institutions will have to give card holders a reasonable time to pay the monthly bill – at least 21 calendar days from time of mailing. The Act also ends late fee traps such as weekend deadlines, due dates that change each month, and deadlines that fall in the middle of the day.

Enforces Fair Interest Calculation: Credit card companies will be required to apply excess payments to the highest interest balance first, as consumers expect them to do. The Act also ends the confusing and unfair practice by which issuers use the balance in a previous month to calculate interest charges on the current month, so called "double-cycle" billing.

Requires Opt-In to Over-Limit Fees: Consumers will find it easier to avoid over-limit fees because institutions will have to obtain a consumer's permission to process transactions that would place the account over the limit.

Restrains Unfair Sub-Prime Fees: Fees on subprime, low-limit credit cards will be substantially restricted.

Limits Fees on Gift and Stored Value Cards: The Act enhances disclosure on fees for gift and stored value cards and restricts inactivity fees unless the card has been inactive for at least 12 months.

Plain Language in Plain Sight: Creditors will give consumers clear disclosures of account terms before consumers open an account, and clear statements of the activity on consumers' accounts afterwards.

Real Information about the Financial Consequences of Decisions: Issuers will be required to show the consequences to consumers of their credit decisions. Issuers will need to display on periodic statements how long it would take to pay off the existing balance – and the total interest cost – if the consumer paid only the minimum due. Issuers will also have to display the payment amount and total interest cost to pay off the existing balance in 36 months.

Public Posting of Credit Card Contracts: Issuers will be required to make credit card contracts available on the Internet in a usable format. Regulators and consumer advocates will be better able to monitor changes in credit card terms and evaluate whether current disclosures and protections are adequate.

Holds Regulators Accountable to Enforce the Law: Regulators will be required to report annually to the Congress on their enforcement of credit card protections.

Holds Regulators Accountable to Keep Protections Current: Regulators will be required to request public input on trends in the credit card market and potential consumer protection issues on a biennial basis to determine what new regulations or disclosures might be needed. Regulators will also be required either to update the applicable rules, or to publish findings if they deem further regulation unnecessary.

Increases Penalties: Card issuers that violate these new restrictions will face significantly higher penalties than under current law, which should make violations less likely in the first place.

Cleans Up Credit Card Practices For Young People at Universities: The Act contains new protections for college students and young adults, including a requirement that card issuers and universities disclose agreements with respect to the marketing or distribution of credit cards to students.

The HKMA will continue to study the new credit card rules in the US and consider if there are any lessons that can be learned from the US.