

Smart Tips on Using Credit Cards

Credit cards are one of the major payment methods in our daily spending pattern. Using a credit card to shop entitles you to interest-free repayment period, it also avoids the hassle of carrying large amounts of cash. However, you need to understand the banks' terms and conditions, and their fees and charges when spending with credit cards. As a wise bank customer, you should remember the following tips when using your credit card:

Dos

- Consider your actual needs before shopping with your credit cards to avoid over-spending.
- Understand the terms and conditions of credit cards, including the credit limit, interest-free repayment period, minimum payment amount, other payment terms, and fees and charges.
- Be aware of any conditions attached to a welcome offer as you may be liable for the costs if you fail to meet such conditions.
- Understand clearly the terms and conditions of credit card promotional offers. Some offers may apply only to certain types or brands of cards issued by a bank, while others may require customers to pre-register or first spend a certain amount at designated shops during the promotional period.
- Use the Annualised Percentage Rate (APR) to compare banks' interest charges and other fees on retail purchases and cash advances.
- Understand the banks' credit card charges for foreign currency transactions before travelling. Be aware that such charges vary among banks. If you wish to settle foreign currency transactions in Hong Kong dollars, you should ask the merchants about the exchange rate and the fee to be applied to the transactions because such transactions may involve a higher cost.
- Read carefully the notifications issued by banks as they are required to notify their credit card customers in advance for a specified period, if they wish to

change their related fees and charges, their credit limit and their key terms and conditions.

- If a merchant fails to deliver the goods or services you paid for by credit card, or the goods delivered are damaged or do not comply with the product specifications, check with your bank if you can get a refund through the credit card chargeback mechanism.

Don'ts

- Do not over-spend simply because your credit cards have a high limit. You can ask your bank to lower the credit limit if you think it is too high.
- Do not disclose your credit card number, card expiry date or security code (printed next to the signature panel on the back of the card) to a third party to avoid unauthorised transactions using stolen data.
- Avoid partial repayment or repayment of the minimum payment amount only as this will incur finance charges. By not fully repaying the outstanding balance, new transactions will immediately incur the finance charge.
- Do not make a cash advance transaction with your credit card without careful consideration. Banks normally charge a higher interest rate on cash advances than on the outstanding balance of retail purchases. Also, there is generally no "interest-free" repayment period for cash advances, which means interest will be incurred daily from the date the cash advance is made until it is fully repaid.
- Avoid overdue payment as this will incur a late charge. A poor repayment history will also affect your credit record and future loan applications.

Interest Expenses of Repaying the “Minimum Payment Amount” Only

Do not underestimate the interest burden if you only repay the “Minimum Payment Amount” or make partial repayment.

For example: Assume there is an outstanding balance of \$20,000 in your credit card account without further transactions, annual fee and other fees, and a monthly interest rate of 2.5% (Annualised Percentage Rate (APR) of 35%).

Minimum 26 years

Interest > Double the principal

If you repay the “Minimum Payment Amount” in each statement period, it will take you about 26 years to completely clear the outstanding balance. Your total interest payment will be more than double the original outstanding balance.

\$849 3 years

Interest > Half of the principal

If you repay \$849 per month, it will take three years to clear the entire outstanding balance. Your total interest payment will still be more than half of the original outstanding balance.

Repayment amount per month	Time required to clear the outstanding balance	Total expenditure (principal + interest)	Interest
Minimum Payment Amount	26 years	\$67,536	\$47,536
\$849	3 years	\$30,565	\$10,565

Note: A similar illustration appears in banks’ monthly credit card statements.

How to Read a Monthly Credit Card Statement?

Be aware of the distribution method and the issue date of a monthly credit card statement. Read and check each transaction of the statement carefully. In case of any suspicious or unauthorised transactions, inform your bank promptly.

1. Credit Limit

The maximum amount approved by a bank to a customer for spending with a credit card, or for cash advance through the credit card.

2. Payment Due Date

The date by which a customer needs to pay.

3. Minimum Payment Amount

The sum of all interest, fees (including annual fee) and at least 1% of the outstanding principal, or a specified amount (e.g. \$50), whichever is higher.

4. Annualised Percentage Rate (APR)

The APR is a benchmark for comparing the interest rate and fees for different banking products (e.g. credit cards, personal loans, etc.). It reflects the actual cost of borrowing and is expressed as a yearly percentage rate.

5. Finance Charge

A finance charge will be levied if a customer fails to repay the outstanding balance of retail purchases or cash advances on the payment due date.

(5a) Finance Charge on Retail Purchases

Interest will be incurred over the existing outstanding balances and new purchases for the month. Customers can enjoy an interest-free period on new purchases for the month if there is no outstanding balance.

(5b) Finance Charge on Cash Advances

Cash advance means a cash withdrawal at an Automated Teller Machine or a bank branch from a customer's credit limit on his or her credit card account. There is generally no interest-free period for cash advances. Interest is incurred daily from the date the cash advance is made until it is fully repaid.

Banks also charge a handling fee for cash advances, which is normally equal to a certain percentage of the cash advance amount or a flat fee for each cash advance transaction, whichever is higher.

6. Late Charge

If a customer fails to make the minimum payment amount by the payment due date, a late charge will be levied. The amount is conditional on the total balance of the last statement or the minimum payment amount with a minimum and maximum charge imposed. In any case, a late charge should not exceed the

minimum payment amount.

7. Other Fees

Other fees may include the over-the-limit fee. It will be charged by a bank when the total outstanding balance of a credit card account exceeds the credit card limit*. It is normally a flat fee.

* Banks should provide channels for customers to opt out of the over-the-limit arrangement.

For customers who have not opted out of this arrangement, banks should not impose more than one over-the-limit fee per billing cycle.

8. Rewards Programme

Banks generally offer reward programmes to encourage customers to spend more by using credit cards. Such programmes are subject to specific terms and conditions. The bonus points accumulated are subject to a validity period. For more information, please refer to the monthly credit card statement or check with the relevant bank.

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.

Website: www.hkma.gov.hk

Tel: 2878 8196