Financial education for young adults

Borrowing

HSBC | Opening up a world of opportunity

Contents

Click to navigate to each section

Ways to borrow

Find out how a bank can help you get the funds you need.

Your borrowing options

There are lots of reasons you might want to borrow money – from buying a new car, to paying for home improvements or a surprise bill. Whatever your situation, it's important to understand how you can finance your needs.

Personal loans

A loan is where you borrow a set amount of money for an agreed amount of time. You pay back the full amount – usually in monthly instalments – plus interest. For most fixed-term loans, the amount you pay and the rate of interest are fixed at the outset and won't change.

Pros	Cons
• Suitable for large purchases or bringing together existing borrowing • You know exactly how much you need to repay each month	• Less suitable for smaller purchases (less than HKD10,000) • Less suitable for short-term borrowing (less than a year)

Credit cards

You can use a credit card to spend up to an agreed credit limit and pay it back later. If you owe money, you have to make at least a 'minimum payment' – a percentage of what you owe – each month. If you don't repay the amount you owe in full each month, you'll usually be charged interest.

Pros	Cons
• Some cards offer interest-free purchase or balance transfer periods and rewards programmes • The monthly repayments are flexible	• Interest can stack up over time if you don't pay your balance in full each month

Overdrafts

Bank accounts with arranged overdrafts let you continue spending money from your current account when your balance falls below zero. To help you manage unexpected bills, your arranged overdraft will usually include an interest-free buffer. But once you pass that amount, you'll be charged interest.

Pros	Cons
• Useful in emergencies	• Not suitable for long-term or regular borrowing • High interest rate, when interest is charged

Borrow more on your mortgage

Borrowing more on your mortgage involves taking on more lending from your current mortgage provider. With a mortgage, you usually pay the loan back in monthly amounts. You'll need to make sure you can afford your repayments, otherwise you could lose your home.

Pros	Cons
• Frees up money for large purchases • Lower interest rates with longer repayment periods are usually available	• Paid back over a longer period, so you could pay more interest • Secured against your home, so you could lose it if you miss payments

Think carefully before you borrow against your home. If you can't keep up with your mortgage payments, you could lose it.

Find the right option for you

Depending on what you want to do, some borrowing options are more suitable than others. Which one is right for you will depend on your personal circumstances, which include why you want to borrow, how much you want to borrow, and the repayment period and your current financial situation. It's also crucial to consider whether you can realistically afford to repay the borrowed amount.

To borrow or not to borrow? Borrow only if you can repay!

How to borrow wisely

Think carefully before applying for a loan.

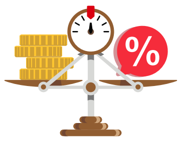
Four factors to consider before applying for a loan

There are some important things to double check before you apply. Not considering these factors might stall the process or even affect your chances of approval!

Assess your ability to repay

Before taking out a loan, evaluate your repayment capacity. Take a moment to list your monthly income and expenses to determine if you truly need a loan and how much you require. Late payments can lead to penalties and fees and impact your credit score. To avoid paying unnecessary interest, don't borrow more than you need.

Compare annual percentage rates

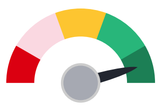


Remember, there's no such thing as a free lunch. Be cautious when you encounter the offer of a '0% interest rate' or extremely high rebates. Apart from interest, there may be additional expenses like handling fees, annual fees or hidden charges. An annual percentage rate (APR) is an annualised rate that includes all interest rates, fees and charges that apply. Comparing the APR allows you to understand the true cost of your loan.

Take advantage of interest discounts

During tax season, you might notice tempting offers and low interest rates that attract people who don't typically consider a loan. But throughout the year, banks frequently launch promotions such as extra rebates for online applications, discounts on interest, or fee waivers. These special offers can sometimes rival the benefits of tax season loans. When choosing a loan, it's advisable to shop around and explore different options to save on costs.

Your money habits affect your credit score



Did you know that banks usually determine your interest rate based on your credit score? When your loan application is being assessed, your credit status from credit reporting agency is a key factor that affects whether the loan is approved, how much you can borrow and what interest rate you can get. Therefore, it's highly advisable to develop good financial management practices and work on improving your credit profile. Here are a few points to keep in mind:

- Always pay money back on time
- Avoid excessive use of credit – maintain a low credit balance
- Review credit reports regularly and dispute any potential inaccuracies

To borrow or not to borrow? Borrow only if you can repay!

Understanding your credit score

Your credit score is an indication of your financial habits.

What is a credit score?

Your credit score is what the bank uses when considering you for a loan. Scores are based on how much you've borrowed in the past, how well you've repaid debt, and other information like your job and your age.

A credit reference agency compiles this information to calculate your credit score for banks making the decision about your loan application. Generally speaking, the higher your credit score, the lower the interest rate.

How is my credit score calculated?

Your credit score is calculated based on your financial habits. Here are the five key factors that affect your credit score:

Payment history

This includes whether you've been paying your credit card bills on time.

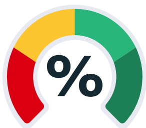
Credit enquiry record

Whenever you apply for a credit product, the creditor will make a credit enquiry about you. Having frequent enquires within a short period may negatively impact your credit score, because it suggests a stronger need for financing.

Available credit

Generally, the more available credit you have, the stronger the positive impact on your credit score.

Credit utilisation



This is the credit you have used as a percentage of your total available credit. The best utilisation level is 30%–50%.

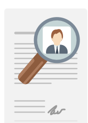
Past use of credit

A significant increase or decrease in your credit usage may indicate fluctuations in your expenses and could be seen as a sign of financial instability.

Sources:
https://personalsolution.transunion.hk/learn/en/credit-score-helps.html
https://www.paoccra.com.hk/personal/-rzxf-FAQ/tyyf/index.html

Why is a credit score important for me?

Your credit score can affect your lifestyle and your plans for the future, from getting a credit card to buying a home.

Life event	Why a healthy credit score is important
 Getting a credit card, personal loan or other credit product	• A good score can help you get approved for credit • A bad score can stop you from getting approved, or you may find you're offered a higher interest rate or a smaller credit limit. This means it can cost you more to borrow money, and you may be limited in the amount you can borrow
 Renting a property	• When renting a property, the landlord may check your credit history as part of their tenant screening process • A good score shows your creditworthiness and reliability as a tenant
 Getting a mortgage	• When applying for a mortgage, you need to provide documents like bank statements to show lenders you can afford the repayments. But to predict how you'll manage the debt, they may look at your credit history too • If you have a poor credit score, you might face higher interest rates and may have to provide a larger deposit. In some cases, lenders may even decide you're too much of a risk and not accept your mortgage application
 Getting a job	• Potential employers can't see your credit score when you apply for a job (because it contains personal information). But they can see a modified credit report with your consent • A healthy credit report can work in your favour. But if you have a history of missed payments, you may be seen as a high-risk candidate, especially if the role involves managing money

To borrow or not to borrow? Borrow only if you can repay!

Sources:

https://personalsolution.transunion.hk/learn/en/credit-score-is-important.html

https://www.paoccra.com.hk/faq.thtml?cid=54&pn=2