

## BE YOUR OWN FINANCIAL MANAGER

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## **Introduction**

### **We are here to help**

As one of the world's largest banking and financial services organisations, HSBC's objective is to help you manage your financial affairs smoothly and without problems. Maintaining a balanced financial position is very important, it can help you to have trouble-free loan repayments and sufficient savings to buy the things you and your family want.

By carefully managing your financial affairs you can achieve your goals. People from all sorts of backgrounds fail to manage their finances and can find themselves in difficulties without really knowing how it happened.

Sometimes things change unexpectedly – people become ill, wages fall, or they lose their job. Managing when this happens can be very difficult, but with a carefully planned budget, and borrowing that's under control, coping with financial problems will be much easier.

This guide aims to help you balance your budget, and so manage your credit record and your finances. But in case you do find yourself needing financial help, it also includes some of the steps you can take to get things sorted out.

### **Your Credit record**

Credit files are made up of your personal credit records and are held by TransUnion Limited, formerly called Credit Information Services (CIS). These records show how well you have managed the credit you have now and have had in the past.

A good credit record is very valuable to you as this information is used by banks, finance companies, and credit card companies when they are deciding whether to approve your application for a new loan or card, or when managing existing credit such as increasing your borrowing limit.

It takes time to build up a good credit file. Making all your card payments on time, avoiding defaults on loans, not filing for bankruptcy, or have any court action taken against you for nonpayment of debts all adds to a good credit history. Longs years of managing your finances well helps to build up good repayment record. If you have a record of good repayment a lender is more likely to offer you credit, and you may find they will also offer it at lower rates of interest.

Treat your credit record like a precious commodity that's hard to replace once you lose it. You need to protect it carefully. Credit can help you manage your financial affairs and your ability to fulfill your dreams and managing your financial affairs well help you improve your credit file. In certain circumstances you may be able to remove a credit record when you have repaid your credit and have not occurred any material defaults. Remember when you ask to delete a good credit record you will be making it harder for a future lender to deliver the decision you may expect or be used to.

For more information, consult the TransUnion Limited web site: <http://www.transunion.hk>.

## If you need extra money, is it better to use credit or savings?

### Credit

When you use credit, you get your money or goods immediately. The interest you pay is the cost of being able to get the money or goods now. You can buy a car on hire purchase, use a credit card to buy clothes, take out a loan to pay for a holiday, or a mortgage to buy a house. But never forget: if you borrow money, you have to repay it sooner or later, and you will pay back more than you borrowed in the first place.

Before you borrow, or use your credit card, always ask yourself the following:

- Do I really need this item?
- How much do I already owe?
- How much extra will all of these repayments really cost me?
- Can I really afford this?

Use the budget planner to see how much you are already spending of what you've got coming in. And remember to leave a margin for emergencies, put this in an account where you can get easy access to it. If you really can't afford to save, it's unlikely that you can afford to repay a new loan.

Be tough with yourself. You might want a new TV set, but will you really be able to keep up the monthly repayments? Try saving the amount of the monthly payment each month for a few months first. If this doesn't cause you any problems, you can probably afford the loan.

**Top tips:** 1. Always keep track of what you've bought with your credit card. 2. Taking regular cash advances is generally not a good idea – it's still money you will have to repay and, if you use it to repay other loans, or to top up your salary, all you are doing is increasing your debt, which will not help you to get your finances in order. 3. Never use a loan or a credit card to repay the monthly repayments on other loans, or to meet regular household expenses if you regularly have no cash left. If you're in these kind of events happen regularly your budget could out of control, you must talk to your creditors about restructuring or refinancing your debts.

### Savings

Some people will save over time in order to buy the goods or get the build up the savings they need. The cost to these people is the time they have to wait until they have enough money to obtain what they want. Many ways of saving are available, from simple deposit accounts for easy access, term investments for higher returns, to MPF schemes for long-term pension savings.

**Top tip:** Always try to have some money set aside for the future. It will help if something unexpected happens. If you only have loans, it will be much harder to manage if something unexpected happens. If you have money left over each week or month, always aim to put some aside for savings.

## **A bit of both**

In most cases, people do a little of both, saving and borrowing for the things they want – this is certainly the best way of managing your financial affairs. The challenge is to get the balance right. And if you're going to borrow, you need to know how it works, and what it will cost you, this will help you budget successfully.

## **What will borrowing actually cost me?**

### **Cost**

The price of the loan is the interest you have to pay. To compare the cost of different types of loans, look at the annual interest rates and any additional fees.

The annual interest rates – sometimes shown as an APR (Annualized Percentage Rate) – are a guide to the cost of the credit deal. As a general rule, if the period of the loan is the same, the lower the annual interest rate, the better the deal.

The longer you take to repay a loan or credit card, the more it will cost you in interest.

***Top tip:** You should always aim to finish repaying a loan before you need to replace or pay again for what you have bought.*

## **Credit agreements**

Always look carefully at credit agreements. If you are in any doubt, get advice and do it quickly. You have to know:

- How much will the monthly payments be and how long will you have to pay them?
- Are there any other charges besides the interest?
- What happens if you can't keep up the repayments?
- Can you settle an agreement earlier without penalties?

## **How do I know what I can afford?**

### **My finances**

The first step is to know exactly where you stand financially. All of us sometimes spend more than we intend to, or save less than we should. Try asking yourself the following questions:

- Can I achieve my financial goals?
- Can I afford to save for my, and my children's, future?
- If I borrow money now what position will that put me in?
- I already have a lot of debt, do I need to do anything about it?

To know what answers you can give, you need a clear picture of how you budget, and you need to know the difference between your income and your expenditure:

$$\text{Income} - \text{Expenditure} = \text{Surplus or (Shortfall)}$$

You probably have a general idea of how much money you get each month and know it all gets spent, but working out a detailed budget will help you to see exactly where your money is going. It's easier then to see where you can make savings if you need to, help balance the books, or to give yourself some spare cash. Read the notes below and then fill in the budget planner to get an indication or better understanding of your financial position.

### Income

When you calculate your income, remember that you need to allow for deductions from your take-home pay such as income tax and pension scheme contributions.

### Expenditure

With expenditure, the difference between **'needs'** and **'wants'** is a key factor – especially if you need to spend less increase your savings or borrowing more:

- **'needs'** are your everyday living expenses, such as rent, mortgage and food – things that you can't do without
- **'wants'** are the extraordinary expenses, such as a new computer, designer clothes, a new loan – things that you can live without if you have to

If you have to reduce your expenditure, cutting back on the **'wants'** is the easiest and fastest way. If you budget correctly you can increase the number of wants you can afford.

### Surplus

If the budget planner shows that you've got a surplus each month, you may be able to commit to a regular savings plan or use it to make the repayments on a new loan.

*Top tip: Only borrow or commit to regular savings when you are absolutely sure that you can afford to make the monthly payments.*

### Shortfall

If the budget planner shows a shortfall, you need to understand why.

If it's only a temporary shortfall, you might be able to manage for a short period, by using your savings or credit card for example to make up the difference.

But if you're short at the end of every month, the only ways to solve the problem are either to reduce your expenditure or to increase your income. If this isn't possible you need to seek help from your lenders immediately.

**Top tip:** Only use your credit card or a loan to make up a shortfall when you know that the shortfall is a short-term problem . . . If not you need to re-budget and rearrange your finances, always consult your lender as soon as possible if you think you need help.

**Budget planner**

The budget planner below makes it easy for you to see where you stand. Simply fill in your weekly or monthly costs and calculate the totals. **But you must be totally honest when you complete the table, otherwise the exercise won't work.**

*This is a reference tool only and it should not be considered an absolute or conclusive assessment of a customer's financial position and customers are advised to consult their professional advisers*

Expenses	Weekly	Monthly
<b>1 Fixed costs ('needs' items)</b>		
Rent/Mortgage		
Building insurance		
Management fees		
Utility bills (gas, electricity)		
Telephone bills		
Food and groceries		
Life insurance premium		
Health and other insurance payments		
A Total fixed expenses		
<b>2 Variable spending ('wants' items)</b>		
Dining and clothes		
Work lunches		
School uniforms		
Clothes/Shoes for self		
Clothes/Shoes for partner		
Clothes/Shoes for children		
Other		
B Total food/clothes expenses		
<b>3 Miscellaneous</b>		
Childcare/maid		
Payments made to parents/children/family		
Charitable donations		
Medical expenses		
Transportation (taxi bus MTR etc)		
Laundry/Dry cleaning		
Membership fees		
Newspapers and magazines		
Visits to friends/relatives		
Petrol/Car servicing		
Birthday/Christmas presents/Gifts for others		
Others		
C Total miscellaneous expenses		

<b>4 Entertainment</b>		
Cigarettes		
Alcohol		
Dining out		
Holidays		
Other		
D Total entertainment expenses		

<b>5 Expenses summary</b>		
Total fixed expenses (A)		
Total food/clothes expenses (B)		
Total miscellaneous expenses (C)		
Total entertainment expenses (D)		
E Total expenses A+B+C+D		E1

<b>6 Income</b>		
Wages/Salary/Pension		
Bonus		
Contributions		
Investment income (e.g. interest from bonds)		
Other		
F Total income		F1

<b>7 Available for credit repayments /savings</b>		
F Total income (F1)		
E Total expenses (E1)		
G Surplus for savings and loans (F1 – E1)		G1

<b>8 Creditor's name</b>	Amount owed	Weekly	Monthly
Credit card 1			
Credit card 2			
Credit card 3			
Credit card 4			
Credit card 5			
Store card 1			
Store card 2			
Bank overdraft 1			
Loan/HP 1			
Family loans 1	H1		H3
Other 1			
H Total financing	H2		H4

<b>9 Surplus/Shortfall</b>		
I Monthly surplus H4- G1	CR	CR
J Monthly shortfall	DR	DR

<b>Monthly debt to income ratio</b>	(H4-H3) / F1 x 100% >0% <60% input SAFE >60% <80% input. CAUTION >80% input WARNING
SAFE – Your budget indicates that you are financially fit. You appear to have room for saving or borrowing more.	
CAUTION – Your budget indicates that you ought to be watching your spending more closely. Check your budget regularly to see if you can rearrange your spending.	
WARNING – You have a lot of debt and must review your current arrangements immediately. See <i>How am I doing?</i>	

**Top tips:** 1. If you have a surplus each month, this can be saved or used to fund a new loan. 2. If you have no surplus, and this is a regular occurrence you are spending too much. Try to rearrange your finances by spending less on wants. See if you can consolidate your loans so that you are paying less in interest and less each month.

## How am I doing?

### My financial assessment

Sometimes it's difficult to know whether you are experiencing just temporary financial pressures or heading for real difficulties. Or sometimes it just seems easier to ignore the problem and hope that it will go away. The following table will help you to better understand your financial position.

*This is a reference tool only and it should not be considered an absolute or conclusive assessment of a customer's financial position and customers are advised to consult their professional advisers*

<b>Please read each question carefully and score as follows: Regularly 2 Occasionally 1 Never 0</b>	<u>Score</u>
Do you:	
Spend all of your money before you receive your next pay?	
Use cash advances from your credit card ?	
Delay making payments because you do not have enough money?	
Only ever pay the minimum amount on your credit cards?	
Find that your credit card balances are getting bigger and never reduce?	
Apply for new cards when the limits on existing cards are reached?	
Have auto payments or cheques returned unpaid?	
Miss payments on loans or worry about how they will be paid?	
Receive warning letters or calls from people to whom you owe money?	



Put off opening bank and credit card statements because you are worried?	
Avoid discussions or ignore letters from companies you have borrowing with?	
Ever borrow money to temporarily meet existing borrowing repayments?	
Have arrears on your mortgage, or worry about meeting the next repayment?	
Worry that your finances are getting out of control?	
Worry that, without help, you will be unable to regain control of your finances?	
Total score:	

<b>Results</b>
<p><b>1 – 3</b></p> <p>Your assessment indicates that your finances need some attention. The budget planner will help identify if you need to adjust your expenditure to bring it into line with your income. You may benefit from reviewing your credit facilities if you are regularly close to your limit. There may be more cost-effective ways to borrow and it may help you to avoid unnecessary changes.</p>
<p><b>4 - 10</b></p> <p>Your assessment indicates that you need to pay closer attention to managing your finances. A full review should be undertaken. Use the budget planner to determine if there are underlying problems and to identify opportunities for change. You are likely to be encountering significant financial problems that need to be addressed quickly.</p>
<p><b>10 - 20</b></p> <p>Your assessment indicates that you need to take action. <u>Most debt problems can be resolved, provided you take control early enough.</u> There is support available to help you to do this.</p>
<p><b>20 – 28</b></p> <p>You should contact your creditors or seek financial counselling as soon as possible.</p>

If your assessment gives you cause for concern, the problem solving section below should help you.

<b>What can I do?</b>
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Whether you just need to rearrange your finances so they run more smoothly, or are struggling to cope financially, it's important to remember that there are many practical steps you can take to help you get back on track. Different circumstances call for different solutions. If you need

support or advice in dealing with budgeting or personal debt problems, you'll want to consider the following possibilities.

### **Can you spend less?**

Look for ways of spending less money, for example:

- Reduce what you spend on entertainment
- Shop around for the best deals or wait for the sales. Don't buy on impulse
- Draw up a weekly or monthly spending plan and stick to it. Keep track of your personal cash flow – know your spending habits
- Are you buying anything on credit that you could return?
- Can you cut back on presents for friends and family?
- Review your mobile phone arrangements when they are due for renewal. shop around for the most cost-effective plan?
- Are you spending more than necessary on wants rather than needs?

Look very carefully at all the things you buy that are not strictly necessary. Cutting back on essentials like food is not a good idea but you should try to reduce non essential spending.

### **Can you increase your income?**

You might be able to get more money coming in, either regularly or as a one-off. For example:

- If you are not working, can you get a part-time job?
- Could you use your savings to reduce your commitments?
- Do you own anything you could sell to raise some cash?

### **Can your debts be restructured or refinanced?**

If you still have a problem, reducing any loan or credit card payments is the next option to explore.

To do this, you must speak with your creditors to try to get them to agree to refinance or restructure your debts. You may be able to get them to extend the terms of your loans or reduce the interest you have to pay

If you want help before doing this you can speak with the Tung Wah hotline (2548-1010) or look at the website [www.familydebtcounseling.org](http://www.familydebtcounseling.org)

Start with the lender to whom you owe the most – they may also be able to help you in dealing with your other creditors. You'll need to provide them with precise details of what money you have coming in and going out, how much you owe, and what items of expenditure you have managed to reduce.

Use the budget planner to work out how much money is available to put towards repaying your debts (item G, step 7). Don't forget to check that you have accurately completed the 'Amount owed' columns in step 8 and recheck the totals in these columns. Then you can begin to think about making offers of repayment.

One way to decide how much to offer each creditor is the pro-rata method. You can use the formula below to help you make the calculation. But remember, if your situation is complex or you are finding it difficult to reach an agreement with your creditors, independent advice may be advisable.

**Note:** When negotiating with your creditors, you will not be allowed to include repayments to family members. As the creditors may agree to stop charging interest, or even to reducing your debts, repaying family members would have to be deferred until after you have repaid the creditors.

As a guide the following example and Pro-rata repayment calculation method can provide a starting point for negotiations :

Creditor name	Balance owed to creditor	X	Monthly surplus	÷	Total owed to creditors	=	Pro-rata amount to offer creditor
<i>Credit card 1</i>	<i>HK\$32,000</i>		<i>HK\$5,000</i>		<i>HK\$325,000</i>		<i>HK\$492</i>
<i>Credit card 2</i>	<i>HK\$4,500</i>		<i>HK\$5,000</i>		<i>HK\$325,000</i>		<i>HK\$69</i>

Creditor name	Balance owed to creditor	x	Monthly surplus	÷	Total owed to creditors	=	Pro-rata amount to offer creditor
Total monthly repayments							

## Individual voluntary arrangement

If you can't get your creditors to restructure or refinance your debts, or your situation is too complex for you to sort out, you might need to explore the option of an individual voluntary arrangement (IVA).

An IVA is a court-approved agreement between you and your creditors on how your debts will be restructured and repaid, and will contain provisions about the funds you may use for living expenses. It is preferable to filing for bankruptcy as it offers better reputational status and fewer personal restrictions. As there will be fees to be paid it will pay you to look around at a number of companies offering IVA services – do not pay commit yourself to one firm until you have negotiated the best deal.

For further information on IVAs the following website can provide additional information;

<http://www.info.gov.hk/oro/guides/guide2.htm>

## Bankruptcy

As a final resort, if you have no surplus income for repaying your creditors, or no income at all, you may have to file for bankruptcy. This is a very serious step. Your creditors may appoint an external trustee, to whom you will have to submit regular reports on your financial affairs. Or they, and the courts, may contest your bankruptcy petition, and scrutinise your debts and assets, especially if they suspect fraud. Although you may be discharged from bankruptcy after 4 years (5 if previously bankrupt) this can be extended to 8 years in certain circumstances.

Declaring bankruptcy will entail names of bankrupts being kept in the Official Receiver's Office and disclosed to credit providers upon enquiry. Financial institutions are prohibited, under the Banking Ordinance, from employing individuals who have been adjudged bankrupt without the consent of the Hong Kong Monetary Authority. More generally, many employers request a credit report when considering job applications. Declaring bankruptcy would therefore affect your employment prospects. In addition, local newspapers often carry listings of bankruptcy, which could cause you embarrassment with your relatives, friends and neighbours.

**Top tip:** *Most debt problems can be resolved provided you take control early enough – and there is support available to help you to do this. Our trained counsellors deal with people in debt every day, and can provide practical advice and real solutions. Don't wait until it's too late to get help. You can contact this unit directly or writing to the following:*

Hotline 3663 9572 has been set up for the Debt WorkOut Unit, for written enquiries the address is:

HSBC Debt WorkOut Unit  
9/F Tower 1, HSBC Centre  
1 Sham Mong Road  
Kowloon  
Hong Kong

## Key dos and don'ts

- **Don't ignore your debts**

They won't go away – and the longer you leave it, the harder it will be to resolve.

- **Don't make the situation worse**

Do not be tempted to borrow more money or use your credit cards to pay off existing loans or make your monthly repayments. Your debts will only get worse. If you are already having difficulty repaying existing loans, do not borrow more money, this includes using your credit card.

- **Do complete a personal budget plan**

Don't underestimate your spending to make the situation appear better than it is. You need to be realistic about your expenditure and include an allowance for costs that may not always occur predictably, such as doctor's bills.

- **Do speak to your creditors**

Do not ignore phone calls or letters from your creditors. Speak to them and be honest. Explain the situation you are in and take them through your budget. They may be able to arrange a debt relief scheme.

- **Do be realistic**

When you make an offer of payment to your creditors, make sure you can maintain the payments.

- **Do keep your promises**

Always make the payments you have promised, in the agreed amount and on the agreed date. If anything changes and you cannot make a repayment for any reason, speak to your creditors and explain why

- **Do keep a record**

Make a note of every telephone conversation and name. Keep copies of the letters you send and receive. Note down all agreed payment arrangements, including the amount, the dates payments should be made, and when the payment arrangement will come to an end. This will help you when speaking to your creditors.

- **Don't panic!**

Whatever problem you have, there is a solution. These tips are designed to assist you in helping yourself. If you believe you need further advice then please give us a call. Our trained counsellors deal with people in debt every day, providing practical advice and real solutions. Help yourself by letting the experts help you.