

FINANCIAL HEALTH

MANAGING YOUR CREDIT

Managing credit is important to you. Credit makes life easier by giving you the flexibility you need, when you need it. Whether you are taking a vacation, making a purchase, or dealing with an emergency situation, credit can play an important role in your life. And managing your credit wisely ensures that you will have credit when you want it.

Maintaining a healthy credit profile over time is important. Because most lenders report your account activity to credit bureaus as permitted by the applicable Code of Practice on Consumer Credit Data, a healthy credit record enhances your total financial picture and overall credit profile. The next time you apply for a car loan or a mortgage, you will be glad you did.

Managing your credit effectively leads to more personal choice and greater financial freedom, but it also comes with a responsibility to make wise choices.

IMPROVE YOUR FINANCIAL HEALTH

Here are some tips for keeping control of your financial affairs and making credit work for you, not against you.

- ❖ Keep a budget. Make sure that you know what is coming in and what is going out. That way you will avoid nasty surprises.
- ❖ Avoid impulse buying. If you had to pay in cold, hard cash, would you be making this purchase?
- ❖ "Comparison shop" as a matter of habit. Never obtain any form of credit – without comparing costs and value with other forms of credit available.
- ❖ Always read and understand application forms before you sign them.
- ❖ Be careful of co-signing a loan or guaranteeing a loan on behalf of others. Remember that you could end up paying off the loan if the borrower fails to do so. Ask the borrower what the terms of the loan are, what his income is and generally satisfy yourself that the borrower has the means to repay the loan. Know the risks involved so that you can make an informed and sensible decision.
- ❖ Use credit with caution. Are you using the right type of credit for your purpose? Are you using a more expensive form of credit than necessary? How many credit cards do you really need? Are you using them simply because you have them?

FINANCIAL PLANNING

If you are thinking about savings for the future, buying a home or retirement, talk to your banks or visit their websites which provide planning advice and tools. Many of these websites are linked to the website of the Hong Kong Association of Banks (at www.hkab.org.hk).

DANGER SIGNS

Financial problems, from high credit card debt to default on home mortgage repayment, are not necessarily the result of poor financial management. Sometimes financial situations are beyond your control. Regardless of the cause, anxiety about money problems can impact both your work life and family life.

Very often you may not see the signs of a financial trouble until it is too late. But financial crises do not occur overnight. There are several warning signs that indicate debt problems may be getting out of control.

For instance, are you:

- ❖ Regularly paying only the minimum amount due on your bills?
- ❖ Consolidating debts by borrowing from a high-interest lender?
- ❖ Finding it impossible to save money or immediately withdrawing money from your savings to cover bills?
- ❖ Borrowing from friends and relatives to cover basic expenses?

If you have answered "yes" to any of these questions, you may be heading towards serious financial trouble.

COPING WITH FINANCIAL DIFFICULTIES

There is no easy way to get out of debt. Some advertisements promoting services of the advertisers suggest that bankruptcy is an easy way of freeing yourself of debt. The consequences of bankruptcy however are far-reaching and should be a last resort to solving financial problems. In reality, many bankruptcies can be avoided, along with the stigma attached to them. Here are a number of possible alternatives:

Fix it yourself:

- ❖ You may be able to solve your debt problem simply by managing your money a little more carefully. Look for areas where you can cut back spending, and use that money to reduce your debt.
- ❖ Refinance or restructure your home, car or personal loans to reduce the payments.
- ❖ Consider a part-time job or additional hours at full-time job for you or your spouse.

Talk to your lenders:

- ❖ You should make the first call to your lenders. Debt problems are easier to solve if you act early and take advice. Delay piles up problems.

- ❖ Where there is genuine financial difficulty, it will be in the lender's interest, as well as yours, to find a solution. Lenders may extend your payment period, or if you owe money to more than one lender, help you co-ordinate with your other lenders to stop debt collection activities and consolidate or refinance your debt.

BANKRUPTCY

Filing for bankruptcy remains an option you can, and should only, resort to once you have exhausted all of the above alternatives. Once aware of your bankrupt status, your creditors will stop their debt collection activities and a trustee in bankruptcy will be appointed to evaluate your financial position and monitor your financial affairs for so long as you remain undischarged. However, this option is the least desirable credit-wise and comes with a cost. One disadvantage is that this may show on your credit report for a long time. Another disadvantage is that creditors will tighten their credit requirements. You may have a tough time getting financing in the future and in particular you may have difficulties in obtaining credit cards, consumer finance or purchasing a property by way of mortgage finance.

FREQUENTLY ASKED QUESTIONS ABOUT BANKRUPTCY

What should I do to prepare for filing for bankruptcy?

It will be advisable to consult your banks or financial or legal advisers before making a decision. They can help you to evaluate your financial situation and provide the facts to assist you in deciding whether bankruptcy is the best choice for you. A few specific items are worth mentioning:

- ❖ If you intend to file for bankruptcy, you should stop using your credit cards. If you have borrowed money before bankruptcy with the specific intent of discharging the debt in bankruptcy instead of paying it back, the debt may not be dischargeable. In certain circumstances, you may be guilty of fraud.
- ❖ Don't transfer your assets to friends, family and business associates to protect the assets from your creditors. The transfer may be considered fraudulent. If it is, you may lose both the property and your right to a bankruptcy discharge. Also, you may have committed a criminal offence.
- ❖ Don't destroy any business or financial records. You can lose your right to a bankruptcy discharge as a result and may have committed a criminal offence.

What are the consequences of a bankruptcy order?

The consequences are far-reaching and these include:

- ❖ You, as the debtor, are required to disclose to the court all your property and debts and turn over all non-exempt property to the trustee, who then converts it to cash for distribution to your creditors.
- ❖ You may also be required to make contributions out of your personal income for the benefit of your creditors.
- ❖ If you own your home, it may be required to be sold to repay your debts.
- ❖ You may have to inform the trustee that you wish to leave Hong Kong and to return to Hong Kong upon demand by the trustee.
- ❖ You must stop using your bank and similar accounts immediately.
- ❖ You may not obtain credit of HK\$100 or more without advising the creditor that you are an undischarged bankrupt.
- ❖ You may be disqualified from holding certain public offices and acting as a company director without leave of the court.
- ❖ You may cease to be eligible for your particular employment.
- ❖ Bankruptcy stays on your credit report for 7 years and sometimes longer. As a result, you may have difficulty in getting credit in the future. Any credit you get will probably cost you more in terms of interest rates and fees charged.

Will my employer find out about my bankruptcy?

Bankruptcy is a matter of public record. Further, in certain circumstances, you may be required to disclose to your employers existing or past bankruptcies in job applications.

Do I have to disclose all my assets to the court?

Yes. If you knowingly and fraudulently conceal an asset from the court, you have committed a criminal offence and can be imprisoned by the court. In addition, the court may suspend your discharge from bankruptcy for a further 4 years.

Am I automatically discharged after 4 years?

Under normal circumstances, discharge from bankruptcy occurs after 4 years. However discharge does not come automatically. Creditors may in certain circumstances object to your discharge and the period of bankruptcy may be extended to 8 years.

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