

Press release

LCQ4: Interest rates charged by banks

Wednesday, February 11, 2009

Following is a question by the Hon Albert Ho and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 11):

Question:

Under the Money Lenders Ordinance, if the effective interest rate on a loan exceeds 48%, the loan transaction concerned shall be presumed to be extortionate. Yet, authorised institutions (including banks) are exempt from the Ordinance, so that they are free to set interest rates under the Currency Board arrangement in Hong Kong. It has been reported that a bank has recently charged its credit card customers an annualised percentage rate of interest of nearly 50% on cash advance service. In this connection, will the Government inform this Council whether the Hong Kong Monetary Authority (HKMA) has:

- (a) performed the functions of the Monetary Authority as stipulated in section 7 of the Banking Ordinance by requesting the bank concerned to provide, in accordance with section 12.3 of Chapter 1 of the Code of Banking Practice (the Code), sufficient justifications to explain that the charging of a high interest rate of over 48% is not unreasonable or unfair; if so, of the relevant details; if not, the reasons for that;
- (b) regularly monitored the interest rates charged by banks for various types of loans; if so, of the relevant details and the monitoring results in the past year; if not, what measures HKMA has in place to ensure that banks comply with the provisions on interest rates under the Code; and
- (c) assessed if it is necessary to review the current practice of relying solely on the Code to regulate the level of interest rates charged by banks; if it has not, of the reasons for that?

Reply:

President,

While authorised institutions (AIs) are exempt from complying with the Money Lenders Ordinance (MLO), section 12.3 of the Code of Banking Practice (the Code) sets out certain restrictions on the charging of interest rates by AIs. It stipulates that the annualised percentage rates (APRs) charged by AIs should not exceed the level presumed to be extortionate under section 25 of MLO, i.e. 48%, unless the AI concerned can justify that such rate is not unreasonable or unfair. One possible situation is that the customer to which the credit facilities in question are provided is assessed as having exceptionally high credit risk, and hence there is a need for the AI concerned to charge a comparatively higher interest rate to compensate the possible default losses that may be suffered by the AI. The provision further states that APRs charged by AIs should not exceed the legal limit specified in section 24 of MLO, i.e. 60%, unless justified by exceptional monetary conditions.

The Hong Kong Monetary Authority (HKMA) has all along been adopting and enforcing the principle that AIs should provide their customers with readily available, clear and up-to-date information about the terms and conditions of banking services so that customers can select the service most suitable for them. AIs are obliged under the Code to make readily available to customers information on credit card cash advance services, including but not limited to APRs, to facilitate customers' comparison of different charging structures.

HKMA monitors AIs' compliance with the Code as part of its regular process in the supervision of AIs. It also requires AIs to undertake regular self-assessment of their compliance with the Code. In addition, in case HKMA becomes aware of information through different channels such as regular supervisory activities or complaints from customers, which raises question about certain AIs' compliance with the Code, it will follow up with the relevant AIs and take appropriate actions. In respect of the case mentioned in the question, HKMA has already followed up with the bank concerned. The bank has agreed to adjust the relevant interest rate to a level below 48%.

HKMA will closely monitor the situation and consider the need to improve the relevant regulatory arrangements and enhance its monitoring actions, with a view to further improving the supervision with regard to the requirements under the Code on the charging of interest rates by AIs.

Ends