

# Persistent debt – frequently asked questions

I've been contacted to say I've paid more in interest and charges on my credit card than I've repaid of the amount borrowed

## **Why have you contacted me about this, and why now?**

The Financial Conduct Authority (FCA) has carried out a study looking at how consumers use credit cards and whether they're working as well as they could. As a result, credit card providers are taking a series of steps, including providing support to customers where their repayment choices could be costing them a lot in interest and charges.

## **What do you mean by 'persistent debt'?**

It's where, over a period of 18 months, you've paid more in interest and charges than you've repaid of the amount borrowed on your credit card. It's a description used by the FCA and they've introduced some rules and guidance about this – so you might notice credit card providers referring to it more frequently.

## **Why has the FCA introduced rules about persistent debt?**

The FCA was concerned that some customers could end up having credit card debt over a long period, without making any significant contribution toward repaying the amount borrowed. This can happen, for example, where you only make minimum payments on your credit card for an extended period, which means it can take a long time to clear your balance.

## **What's the purpose of the letter you've sent me/ how many of these letters will I receive?**

The FCA rules mean we have to take a series of steps when you're in persistent debt, to support you if you're in this situation and help you save money:

- 1. We first contact you to tell you you're in persistent debt**  
This is to explain that the way you're repaying your credit card balance could be costing you more in the long run – and how, with some changes, you could pay less interest and see your balance reduce much faster. We also provide information to help you review what you pay, and get support if you need it.
- 2. We contact you after 9 months to tell you how you're getting on**  
This is an opportunity to take another look at what you're paying and make sure it's enough to get you out of persistent debt in another 9 months. This is important because, if you stay in persistent debt, we'll have to take further action which could include suspending your card. If you're already on track, we'll let you know.
- 3. We keep monitoring your account**  
We may also contact you again about increasing your payments if you're not yet on track and we think it will help you get out of persistent debt by step 4.
- 4. We contact you 18 months from step 1 to let you know whether you're still in persistent debt**  
If you've made changes and paid more towards the amount borrowed on your card than in interest and charges over the 18 months since we first wrote to you – you're out of persistent debt. If not, we'll offer ways for you to repay your balance more quickly, over a reasonable period. If you don't choose one of these options, we'll generally have to suspend your card – so it's important to take action before this point.

## **Why does it matter if I'm in persistent debt?**

Credit cards offer a lot of flexibility to decide how you want to repay your balance, which is a feature lots of customers value. But credit cards aren't really intended for long-term borrowing, and making consistently low payments may not be a cost-effective way to borrow. It's important to remember that just making the minimum or low payments over a long period of time will take you longer to clear your balance and cost you more in the long run.

### **But I've been making my minimum payment – have I done anything wrong?**

Under your credit card agreement, you have to pay at least your minimum payment each month – so if you've done this and stayed within your credit limit, then you haven't done anything wrong. We're encouraging you to review what you pay, as it could be costing you a lot in interest and charges over a long period. If you're not able to increase your payments over the 18 months from when we tell you you're in persistent debt, then we'll need to take further steps which could include suspending your card.

### **How could I have paid more in interest and charges than I've repaid, when I've been making my minimum payment?**

Due to the way it's calculated (there's more about this on the back of your statement), if you only make the minimum payment, it can mean you're paying more towards interest and charges than towards the amount you've borrowed. As a simple example, if you owe £2,000 at an interest rate of 18%, your minimum payment would be £50 – made up of £30 interest charged for the month, and £20 towards the amount you owe.

### **Is this affecting my credit score?**

There's no direct link between being in persistent debt and your credit score.

I'd like to know what I can do to pay my balance faster and save money on interest

### **How do I review what I'm paying?**

You should always carefully consider what you can afford – the key point to remember is that, by paying even a bit more each month, you could save money and see your balance reduce much faster. A good way to explore how long it'll take to repay your balance and how much you could save by paying a bit more is by using the calculator at [www.cardcosts.org.uk](http://www.cardcosts.org.uk) – you'll find all the information you need to use it on your monthly statement.

### **What's the best way to change what I pay?**

There are different ways to pay, so you can work out what's best for you:

- ◆ You can use the 'voluntary payment' amount on your statement as a guide to how much to pay to get on track – you can even set up or amend a Direct Debit for this amount by calling us.
- ◆ You might prefer to carry on making your minimum payment each month, and to make additional one-off payments when you can. You can make a one-off payment by logging on to Online Banking and selecting 'make a payment', transferring from another account or even posting a cheque – there's more information on the back of your statement.

- ◆ If you prefer to budget for a fixed amount each month, setting up a Direct Debit for a fixed monthly payment could be a good option. You can do this by logging on to Online Banking, or calling us. Even paying just a small amount more than your minimum payment each month can make a difference in the long run, as long as you keep an eye on what you're paying as you might need to adjust it if you spend more on your card. Here's a simple illustration (it assumes you don't keep spending on your card and that there's no change in the interest rate):

### **Using our example of spending £2,000 on your card at an interest rate of 18%...**

	<b>If you make your minimum payment</b>	<b>If you fix your payment</b>	<b>If you fix your payment at a higher amount</b>
<b>Monthly payment</b>	Starts at £50 and reduces over time	Fixed at £50 per month	Fixed at £75 per month
<b>Time to pay off your balance</b>	24 years, 1 month	4 years, 11 months	2 years, 10 months
<b>Total interest paid</b>	£2,594	£940	£516

I'd like to know more about the 'voluntary payment' option I've seen on my statement

### **What's the 'voluntary payment' option?**

It's an amount we show on your statement over 18 months if you're in persistent debt. It shows how much you need to pay that particular month to stay on track – so that, at the end of the 18 months, you're out of persistent debt. It also means you'll pay off your balance sooner and pay less interest than if you stick to making the minimum payment.

### **I already make my minimum payment each month – why are you asking me to make this voluntary payment and how will it help me?**

The minimum payment you have to make under your credit card agreement isn't affected by the voluntary payment. But if you choose to make the voluntary payment, it'll vary each month to make sure you pay at least double the interest and charges applied to your account over 18 months – so you save money on interest and get out of persistent debt.

### **Is this as well as my minimum payment, or instead?**

Instead. The voluntary payment option will always be at least as much as your minimum payment – it will usually be more, because it's designed to pay off double the amount you're charged. So using our example of a £2,000 balance at an interest rate of 18%, your minimum payment would be £50 including interest of £30 – but your voluntary payment would be £60.

**Will the voluntary payment option be the same amount each month?**

No. It depends on how you've used your card and what you've paid off, so it'll change each month. It's designed to work over the 18 months from when we first tell you you're in persistent debt, so you can start paying it at any point in the 18 months since your initial letter and the end result will be the same (though bear in mind that, the later you start, the higher the monthly amount will be).

**What happens if I don't make the voluntary payment?**

You don't have to pay it – it's voluntary, and there are other ways to increase what you pay. You might still find the voluntary payment option useful as a guide, to check what you're paying. If you can't pay it any particular month, you can still choose to pay just the minimum – in which case we'll adjust the voluntary payment amount over the remainder of the 18 months, so you can start at any point and still get on track. So in our example, if you made your minimum payment of £50 but weren't able to pay the higher voluntary payment of £60, the £10 difference would be carried over.

**Can I set up a Direct Debit to pay the voluntary payment amount?**

Yes, you can do this by calling us – see contact details in the table below. You won't be able to set up a Direct Debit for the voluntary payment option through Online Banking or by completing a paper mandate (though you can continue to set up your Direct Debit in any of these ways for other payment options – such as paying a fixed amount or your full balance each month).

**I can't/don't want to pay more than my minimum payment****What happens if I carry on paying the minimum amount, and don't increase what I pay?**

You only have to pay the minimum amount, but we're encouraging you to pay more if you can afford to. If we've told you you're in persistent debt and you don't increase your payments, we'll need to take further steps which could include suspending your card to protect you from getting into further debt.

**What should I do in this situation?**

If you can't pay more at the moment – keep it under review, and if things change, remember that even paying a small amount more each month (or making a one-off payment, if you can) could make a difference. If you need some help budgeting, there are some contact details for free, independent advice below. It might also be worth looking at some of the online budgeting tools which are available, for example at [www.moneyadvice.service.gov.uk/en/tools/budget-planner](http://www.moneyadvice.service.gov.uk/en/tools/budget-planner).

**What if I already know I won't be able to increase my payments?**

It may help if you avoid spending more if you know you'll be unable to afford a higher monthly payment. If you're able to fix your payment at the current level, then you'll still clear your balance faster and pay less interest than if you keep making just the minimum payment – take another look at the example we've included under '**What's the best way to change what I pay?**'.

**Will you stop me from using my card?**

We might, in some cases, decide there's an increased risk you won't be able to repay us (for example, if you're still spending on your card but you've told us you won't be able to pay any more than you are currently), in which case there are steps we might consider such as suspending your account or reducing your credit limit. If you're in persistent debt over two consecutive 18-month periods, then we may have to stop further spending on your card if you can't or choose not to increase your payments in accordance with the options we provide.

**I don't want to carry on paying more in interest and charges than I repay – are there less expensive ways for me to borrow?**

Depending on how you use your card, there can be cheaper ways to borrow over a longer term – such as taking out a fixed-sum loan (depending on the rate you're offered). Being in persistent debt on your credit card doesn't stop you applying for a loan, although any application for further credit will be subject to an assessment of your creditworthiness and usual lending criteria, and of course the relevant terms and conditions.

**I'm struggling with my credit card debt****I'm struggling to make my repayments or manage my debts – where can I get help?**

We understand that managing debt can be challenging and we'd like to help – please see who to contact below, or you can also find help online at [www.hsbc.co.uk/1/2/contact-and-support/money-worries](http://www.hsbc.co.uk/1/2/contact-and-support/money-worries).

**You're already aware that I'm struggling to make my minimum payment each month – why are you asking for more?**

If you've already contacted us to discuss your circumstances, or you're already on a repayment plan, we'll continue to work with you. We're not asking you to pay more if you can't afford to, although we still need to make you aware of what could happen if you only make low payments over a long period of time.

**I'm already on a repayment plan – is there any impact on this?**

No – your repayment plan isn't affected and we appreciate you may not be able to increase what you pay at this time. However, we still need to make you aware of the implications of only making low payments over a long period of time.

I'd like to know who to contact with my query, or for further support

**Who should I contact if...**

<b>I want to set up or amend a Direct Debit over the phone?</b>	Call us on <b>0345 300 4781</b> (available between 8am and 10pm, Monday to Sunday)
<b>I've received a letter about paying more in interest and charges than towards the amount borrowed, and I've a query or would like to discuss this letter with you?</b>	Call us on <b>0345 300 4781</b> (available between 8am and 10pm, Monday to Sunday)
<b>I'm facing financial difficulty and would like to discuss my options?</b>	Call us on <b>0345 607 7088</b>
<b>I'd like some free, independent advice to help with budgeting and managing my finances?</b>	Contact StepChange Debt Charity on <b>0800 138 1111</b> or visit their website at <b>www.stepchange.org</b> ; or  Citizens Advice – the contact details of your nearest office are available from their website (England & Wales: <b>www.citizensadvice.org.uk</b> ; Scotland: <b>www.cas.org.uk</b> ), your local telephone directory or library.