

Frequently Asked Questions

Paying more in interest and charges than reducing the amount borrowed on a credit card.

1. Why have you contacted me about this?

The Financial Conduct Authority (FCA) has carried out a study looking at how credit cards are used and if they're working as well as they should. Because of this, credit card providers are being asked to provide extra support, including contacting customers who are paying a lot in interest and charges to highlight how they could save money and where to get help if they need it. These rules mean we need to:

- **contact you to explain** the way you're repaying your credit card is costing you more than it needs to, that reducing your balance faster means you'll pay less interest, how to work out how much to pay and where to get support if you need it
- **contact you again 9 months later** with an update on your progress, to see if you're on track to be paying more off the balance than you're paying in interest and charges in the next 9 months, and what could happen if you aren't
- **contact you after another 9 months** to confirm if you've paid more off the balance than you've paid in interest and charges since we first wrote to you. If you haven't, we'll explain your options to repay your balance more quickly and what happens if you don't, which may include restricting or stopping your card. We really don't want to get to that stage so it's important to take action as soon as possible before this.

2. How can this help me save money?

In our letter we've explained that how you're repaying your credit card balance could be costing you more in interest and charges – as a general rule, the less you pay each month, the more it will cost overall. So by paying just a small amount more each month, you could reduce your balance faster and save money.

3. I've seen other banks referring to 'persistent debt' – what does this mean?

This is the FCA's official way to describe the situation where a credit card customer has paid more in interest and charges than they've repaid of the amount they borrowed over an 18 month period.

4. Why has the FCA introduced rules about this?

The FCA is concerned that some customers could end up having credit card debt over a long period which can be an expensive way to borrow, so they're asking card providers to highlight this and the repayment options to help customers clear their balances faster and save money.

5. Are you writing to all customers about this?

No, we're only writing to customers who are in this situation now and we'll also contact any who are in similar circumstances in the future.

6. Can customers who aren't in this situation also get support?

Of course – whether you just need some tips on bringing your balance down faster or if you're struggling to make inroads, give us a call on the number below and we'll be happy to help. If you're worried about your finances, you can also find help online at firstdirect.com/money-worries

7. Why does it matter if I have a balance on my credit card for a long time?

Credit cards give you flexibility on how you repay your balance but they aren't designed for long-term borrowing so there may be cheaper ways to do this. It's worth bearing in mind that if you only make minimum (or close to minimum) payments each month, it'll take longer to clear your balance and cost you more overall.

8. Am I doing anything wrong by just paying my minimum payment?

In line with your credit card agreement, you need to pay at least your minimum payment each month – so if you do this and stay within your credit limit, you aren't doing anything you shouldn't. But the FCA have introduced new rules for card customers who've paid more in interest and charges than they have towards the amount they borrowed over an 18 month period. These rules mean we need to highlight your options for paying the balance off faster and explain what can happen if you don't.

9. How have I paid more in interest and charges than I have off what I owe?

Your minimum payment is based on the interest and any default charges that month, plus 1% of the rest of your balance (or 3% of the full amount you owe, whichever is higher) eg if you owe £2,000 on your account at an interest rate of 18% and had a £12 default charge, your minimum payment would be £62 (£20 off the balance and £42 interest and charges). So if you only paid the minimum payment, you'd pay more towards interest and charges than you would towards paying off what you've borrowed.

10. How can you make changes to my account when I haven't broken our agreement?

We haven't changed what you have to pay under your credit card agreement, you only have to pay the minimum amount. We're just contacting you to explain that where you do over a long period, FCA rules now mean we need highlight this to you, explain how you could save money by reducing your balance faster and explain what can happen if you don't.

11. What could happen if I don't repay my balance faster?

If you've paid more in interest and charges on your card account than you have towards reducing the amount you've borrowed for 2 consecutive 18 month periods (36 months in total) we may need to consider other ways to bring down the balance eg asking you to increase your payments or even restricting the card. We really don't want to get to that stage so if possible, we'd prefer to help you avoid it.

12. Will this affect my credit score?

No, as long as you make at least your minimum payments each month and stay within your credit limit – we'd always contact you before logging any information with credit reference agencies.

13. How much difference will increasing my payment make?

For more information about how long it'll take to repay your balance, how much interest you'll pay and how much you could save by repaying more visit cardcosts.org.uk – all the information you need to use the calculator is on your monthly statement.

14. How do I decide how much to pay?

If you need some help budgeting give us a call on the number below or you could try using online budgeting tools eg moneyadviceservice.org.uk/en/tools/budget-planner.

15. How can I change what I pay?

Once you've worked out what you can afford, there are different ways you can reduce your balance eg:

- keep paying your minimum payment each month but **make additional one-off payments** when you can 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
- **set up or amend a Direct Debit for a fixed amount each month** by logging on to Online Banking or calling us.

Setting up a fixed monthly payment could help you budget. Even paying a small amount extra each month makes a difference in the long run, but it's worth keeping an eye on how much you're paying to make sure it's enough based on how you use your card in between. The table below is based on the example of spending £2,000 on your card at an interest rate of 18%, assumes you don't continue spending on the card and that the interest rate stays the same:

	If you make your minimum payment	If you fix your payment	If you fix your payment at a higher amount
Monthly payment	Starts at £60 and reduces over time	Fixed at £60 per month	Fixed at £80 per month
Time to pay off your balance	16 years, 8 months	3 years, 10 months	2 years, 7 months
Estimated total interest paid	£1,640	£705	£474

16. What's the 'voluntary payment' amount?

This will show on your statement over 18 months and is designed to give you an idea of how much it would cost to pay at least double the amount you're charged, off your card balance by the end of that 18 month period.

17. Why are you asking me to pay a voluntary payment?

The voluntary payment doesn't change what you have to pay, so you can still choose to pay just the minimum if you can't afford more on a particular month. But we're adding this to your statement for 18 months as a guide to show how much it would cost to pay at least double the amount you're charged off your card balance, clearing your balance faster and saving you money.

18. Is this as well as the minimum payment or instead of?

If you choose to pay the voluntary payment, this would be instead of your minimum payment but only pay it if you can afford to – you can always choose to pay more another month if you're feeling flush. So using the example in question 9 above, if you owe £2,000 at an interest rate of 18% plus a £12 default charge, your minimum payment would be £62 and the voluntary payment amount to pay instead would be £84.

19. How does the voluntary payment help?

We'll add it to your statement for 18 months as a guide for how much it would cost to pay off at least double the amount you're charged. And if you can afford to pay this amount (or more) each month, you'll clear your balance faster and save money.

20. Will the voluntary payment be the same each month?

No – the amount will also change depending on how you've used your account and how much you paid off eg if you use your card a lot one month, it will increase so you'd still be on target to pay off at least double what you've paid in interest and charges over the 18 month period. So as long as it's affordable, you can start paying it at any point although it's worth bearing in mind, the later you start the higher the voluntary payments will be.

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

Yes, just give us a call on the number below and we can sort that for you.

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

You don't have to pay the voluntary payment, it's just a guide so you know how close you are to being on target to pay off double the amount you're paying in interest and charges. If it's better for you to pay just minimum payments for a few months then a lump sum, your voluntary payment will change to reflect that so you always know where you are.

23. I've already contacted you and agreed what I can pay – why are you asking for more?

If you've already contacted us about your card and agreed how you plan to repay your balance you can continue paying that amount. We're not asking you to pay more if you can't afford to – but based on the new FCA rules, we need to explain what could happen if you continue paying more in interest and charges than you pay off the amount you borrowed.

24. Will you stop me from using my card?

We'd only ever do that as a last resort eg if we believe there's a significant risk you won't be able to repay the money you've borrowed, but we'd always write to you first and try to help you find other ways of bringing your balance down. If you pay more in interest and charges than you've repaid of what you borrowed over 2 consecutive 18 month periods, we may need to stop further spending on your card if you can't (or choose not to) increase your payments as requested.

25. Are there less expensive ways I can repay my balance?

Depending on how you use your card, there may be cheaper ways to borrow over a longer period eg repaying the balance with a loan at a cheaper interest rate. If you'd like to discuss the other options available to you, give us a call on the number below.

26. Who should I contact?

To set up or amend a Direct Debit, discuss increasing your payment or if you're struggling to bring your balance down please give us a call on **03 456 100 100**[†]. If you're worried about your finances, you can also find help online at [firstdirect.com/money-worries](https://www.firstdirect.com/money-worries) or get free independent advice from:

- StepChange Debt Charity: visit [StepChange.org](https://www.stepchange.org) or call 0800 138 1111
- The Money Advice Service: visit [moneyadviceservice.org.uk](https://www.moneyadviceservice.org.uk) or call 0300 500 5000
- National Debtline: visit [nationaldebtline.co.uk](https://www.nationaldebtline.co.uk) or call 0808 808 4000
- Citizens' Advice: visit [citizensadvice.org.uk](https://www.citizensadvice.org.uk) or call 03444 111 444.

firstdirect.com
03 456 100 100[†]
40 Wakefield Road
Leeds LS98 1FD

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[†]Text-phone **03 456 100 147** or if calling from abroad **+44 113 234 5678** (Text Relay **+44 151 494 1260**).

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