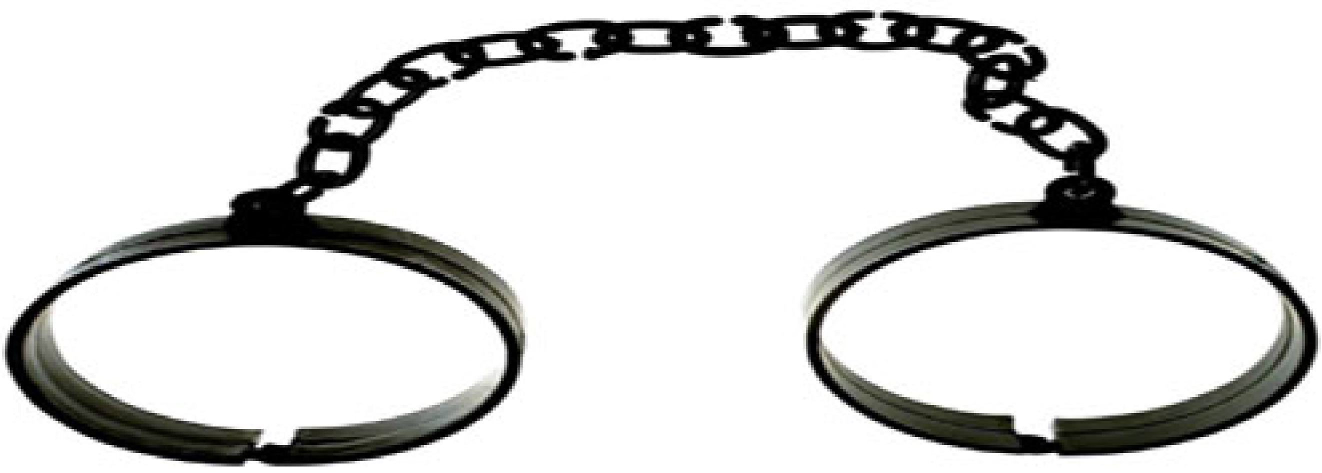

The secured credit card has been available in Singapore since 2004. However, there is a drawback that consumers are often not aware of.

What are secured credit cards?

Secured credit cards were introduced by banks in 2004 after the Monetary Authority of Singapore (MAS) first relaxed the rules regarding the issue of credit cards. The amended rules then allowed the issue of credit cards to banking customers who do not meet the S$30,000 per annum minimum income criteria, provided they pledge to their banks at least S$10,000 in fixed deposits, against which credit is secured.{loadposition advert1}

Secured credit cards are thus a boon for retirees and housewives during trips overseas, where debit cards are not always accepted. Like regular fixed deposits, the pledged funds continue to earn interest and they may also be held in foreign currencies.

Little-known shackle

Lately, some secured credit card holders have discovered to their detriment that they are not able to access urgently-needed funds held in the fixed deposit accounts which are linked to their credit cards. This is due to a little-known rule, often hidden within the fine-print of the terms and conditions. The rule generally states that the fixed deposit linked to the credit card may only be withdrawn between 30 to 45 days after the credit card is terminated. It is intended to protect a bank against the loss of its collateral before the last credit bill is paid.

For example, CIMB has among the longest non-withdrawal period at 45 days after the secured credit card is terminated. DBS imposes a similar period of 42 days and UOB 30 days.

In other words, secured credit card holders will not be able to withdraw their pledged funds at short notice. Moreover, even if the credit granted is just a fraction of the linked deposit, the entire sum in the account will be effectively frozen for the duration of the non-withdrawal limit.

Alternative to secured credit cards

While the non-withdrawal period cannot be circumvented, there is another option which is far more flexible. In 2007, MAS further relaxed rules which allow banks to grant unsecured credit of up to $500 to consumers who do not meet the income criteria. Although the $500 unsecured credit is too low to be useful to pay for air tickets and overseas hotel accommodation, consumers can often top up their spending limits by making prepayments on the card. Therefore, with the advent of these “low credit” cards, secured cared cards are now less relevant in today’s market.

Conclusion

If you must have a secured credit card, it would certainly be wise to ensure that you will not require urgent access to your pledged funds, or at least avoid banks that impose long non-withdrawal periods.

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