

WHEN A LENDER AGREES TO GIVE YOU **TIME TO SELL** YOUR HOUSE OR CAR



Note to consumer:

- Your lender will treat this as a financial hardship arrangement, which will help to protect your credit report.
- While you sell the house or car, your repayment history will show that you are up-to-date
- Financial hardship information does not exclude you from applying for credit in the future.
- Keep your lender up-to-date with your efforts to sell the house or car.

As life events happen and your new circumstances mean you can no longer afford your home or car loan's repayments in the foreseeable future, your lender may agree to give you 'time to sell'.

Selling the house or car yourself can help minimise the amount of interest, fees and charges, and maximise the amount you may earn from the sale to settle your debt.

The 'time to sell' period will be treated as a 'financial hardship arrangement', and your repayment history will reflect what you are expected to pay under the arrangement:

- if your repayments are reduced and you make them on time, your history will appear as up to date (i.e. or ✓)
- If you are not expected to make any repayments while the house or car is being sold, your history will also appear as up to date.

Key points for financial counsellors & consultants:

- The following explains what happens when a 'time to sell' arrangement is treated as a financial hardship arrangement (FHA).
- Whether an arrangement between your client and a lender is treated as a FHA may depend on the lender and the precise circumstances.
- Feedback from lenders is that it is more likely to be treated as a FHA if your client actively engages with the lender and proposes the arrangement at an early stage.
- Proposing the arrangement at an early stage also helps to avoid a history of missed payments on their credit report. While selling the home is a big decision, the client is likely to be better off the quicker they accept it is necessary.
- ARCA is still working with industry and other stakeholders to work out the circumstances (if any) in which a lender may not treat the arrangement as a FHA.
- In the meantime, make sure the lender is clear that the arrangement will be treated as FHA. If it is not treated as such, request to know the reason why, and if you are not happy with the explanation, follow the normal complaint processes.



A lender might not treat the **time to sell** period as a financial hardship arrangement if, for example, a borrower has promised to sell the house before and has not done so, or if the lender does not think the borrower is genuinely experiencing financial hardship.

CREDIT REPORTING BASICS



What is financial hardship information?

Two types of financial hardship information can be included in your credit report, depending on the type of arrangement:

- A** reflects a **temporary arrangement**.
- V** reflects a **permanent change** and the loan is varied.

If your lender agrees to give you **time to sell** your house or car, your credit report will include an **“A”** during that period (unless your lender has told you otherwise).

As long as you make the payments required while you sell the house or car, if any, your history will show you are up to date (i.e. **o** or **✓**).

Financial hardship information (**“V”** or **“A”**) stays on your credit report for **12 months**.

After that time, it's no longer possible to tell from the credit report that any financial hardship arrangement was in place, or that a debt was waived.



What is a credit report?

A credit report is a record of your credit history. It includes:

- **personal information** to identify you,
- **information about loans and other credit** you have opened or applied for,
- **a month-by-month repayment history**,
- **financial hardship information** if you've agreed to a financial hardship arrangement.

Check your credit report for free

You can access your credit report held by each of the credit reporting bodies credit reporting bodies for free, every three months:

- Equifax (www.equifax.com.au) or call 13 83 32
- Experian (www.experian.com.au) or call 1300 783 684
- Illion (www.illion.com.au) or call 13 23 33

Visit creditsmart.org.au for more information about your rights when it comes to your credit report and credit score.

What is a repayment history?

A repayment history is a 24 month view of how you manage and pay your loan and credit accounts:

- **o** or **✓** means you are up-to-date with repayments (and mean the same thing)
- **1 to 6** indicates how many months your repayments have been overdue (unless a temporary financial hardship arrangement applies)
- **X** means repayments are 7 or more months overdue

A good repayment history helps get credit in the future.

If you've missed a repayment, restarting your payments and getting back up to date as soon as you can will help improve your credit report.

Repayment history stays on your credit report for **24 months**.



EXAMPLE

2023					
Jan	Feb	Mar	Apr	May	Jun
1	2	3	o/A	1/A	o/A
Jul	Aug				
o/A	o Closed				



The house is sold at auction in June, and the price is enough to repay the whole debt. Settlement will happen at the start of August. In the meantime, the lender agrees to extend the temporary financial hardship arrangement (shown by an **A** in June and July). This time, the lender doesn't require any repayments (shown by **o** or **✓**).

The settlement happens on time and the full debt is repaid. In August, Kye's credit report shows the home loan as up-to-date and **closed**.

No more information will be recorded for the loan after August 2023.



Kye struggles to pay his home loan several months in a row, due to a drop in his income, rising interest rates and costs of living.

In March 2023, he is **3** payments behind and his lender is about to start legal action to take possession of the house to force its sale.

In discussions with his lender, Kye recognises that he won't be able to afford his home loan payments. To stop interest, fees and legal costs from adding up, he tells his lender that he has hired a real estate agent to sell the house via auction at the start of June.

Kye's lender agrees to delay legal action. As a term of this arrangement, Kye must still pay a reduced payment of \$500 per month to cover the interest only. This is a temporary financial hardship arrangement (shown by an **A**).

In April, Kye makes the \$500 payment on time (shown by a **o** or **✓**), even though he is still overdue by more than 3 payments). In May, Kye does not make the \$500 payment on time (shown by a **1** based on the temporary arrangement).

Will I be able to access credit in the future?

Voluntarily choosing to sell your house or car when you can't afford the debt will help protect your credit report and, provided you can afford more credit in the future, makes it easier for you to get that credit.

Selling the house or car helps to avoid further missed payments being recorded on your credit report.

Importantly, it can prevent a default or court judgment from being reported (provided a default hasn't been reported already). A default or court judgment could otherwise make it harder to get credit for up to 5 years. Keep in mind - if the sale doesn't pay out the full debt you will need to make further arrangements with your lender for the leftover debt.

The financial hardship information recorded on your credit report does not exclude you from applying for credit in the future.

A lender may ask you for:

- more information about your current situation
- reassurance that you are now okay, or that you can afford the new credit (even though you were not able to afford the previous loan).

FREE AND CONFIDENTIAL FINANCIAL COUNSELLING

To help people in financial difficulties, many services offer reliable, professional counselling services, such as the

National Debt Helpline

(ndh.org.au - 1800 007 007).

ASIC's MoneySmart website also contains a list of free counselling services.

(moneysmart.gov.au/managing-debt/financial-counselling)

For more information, visit creditsmart.org.au

Disclaimer: the examples provided here represent broad concepts. Details may vary between lenders.

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