



FINANCIAL HARDSHIP & CREDIT REPORTING

Short Guide for Financial Counsellors

Many things can lead to financial difficulty. We all may experience financial hardship at some time. This guide is designed to assist financial counsellors to understand how financial hardship arrangements will be reflected on your client's credit report from 1 July 2022 onwards.

WHEN YOUR CLIENT GETS IN TOUCH WITH THEIR BANK

If your client is experiencing financial difficulty and believes they will not be able to make their loan or credit card repayments on time, it is important for them to get in touch with their bank. Depending on the situation, your client and their bank may agree to a financial hardship arrangement.

A financial hardship arrangement is an agreement between a borrower and a bank to adjust the individual's loan repayment obligation because something unexpected has occurred and has had an impact on the borrower's ability to repay.

If a financial hardship arrangement is made, the bank will tell your client.

It is important to note that not all arrangements are treated as financial hardship arrangements. For example, 'promise to pay' arrangements are for overdue payments that are not the result of financial hardship. These types of arrangements have a different credit reporting treatment.

WHAT DOES FINANCIAL HARDSHIP MEAN FOR MY CLIENT'S CREDIT REPORT?



WHAT IS A CREDIT REPORT?

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

- **personal information** to identify them
- **loans and other credit** they've opened or applied for
- a month-by-month **repayment history**

Your clients are entitled to request a **FREE** copy of their credit report every 3 months from any of the credit reporting bodies. These are **Experian, illion** and **Equifax**.

WHAT IS A REPAYMENT HISTORY?

A repayment history is a 24-month view of how your client manages their credit:

0 or **✓** means they are up-to-date with repayments

1-6 generally indicates how many months their repayments have been overdue

X generally means repayments are 7 or more months overdue

A good repayment history helps your client get credit in the future. If they've missed a repayment, restarting their payments as soon as they can will help improve their credit report.

If your client has agreed to a financial hardship arrangement with their bank, their credit report will show that they are up to date for each month that the arrangement lasts. This will only occur if your client meets the terms agreed with their borrower.

For example, if they have agreed to make a lower repayment, they will need to make the payment on time for their repayment history to be shown as up to date. If they have agreed to a deferral, they do not need to make a payment and will still be shown as up to date.

In addition, your client's credit report will show an indicator or letter alongside their repayment history information, indicating that a special payment arrangement was in place for that month. These indicators are called financial hardship information. The credit report will not include the reason for the hardship arrangement or its specific details.

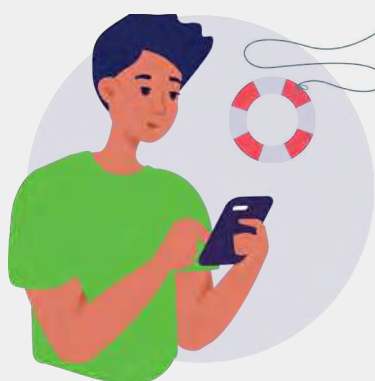
Two different types of financial hardship information can be included in your client's credit report:

- A** reflects a **temporary arrangement**, such as a loan deferral.
- V** reflects a **permanent change** where the contractual obligations are varied.

To help you understand how your credit report may be impacted by a financial hardship arrangement, the following example goes through the **three steps that might be followed by credit providers**. The following examples are illustrative and may not reflect your client's needs or the offerings available.

step 1

Gil's loan repayments are \$2,000 per month. He stays up to date until April 2023, but then his work hours are cut down. **He misses his scheduled payment in April and doesn't know when things will return to normal.**



In May, Gil speaks to his bank to explain the situation. They agree to a temporary financial hardship arrangement (shown by an **A**) under which he can make reduced payments (of \$1,000) for the next three months.

From May to July, Gil makes reduced payments on time.

Note: The balance of missed regular payments is temporarily deferred. It still needs to be dealt with by the end of an arrangement. Unless Gil speaks to his lender by then, his history will show missed repayments.

(See 'What if things go wrong?')

2022			
June	July	Aug	
0	0	0	
Sept	Oct	Nov	Dec
0	0	0	0
2023			
Jan	Feb	Mar	Apr
0	0	0	1
May	June	July	Aug
0/A	0/A	0/A	
Sept	Oct	Nov	Dec
2024			
Jan	Feb	Mar	Apr

step 2

Gil speaks to his bank in July and advises it that his work hours are returning to normal.

But while he is confident normal payments of \$2,000 can be resumed, Gil can't immediately repay the balance of the missed regular payments that were temporarily deferred.

The bank agrees for Gil to make normal payments for the next 6 months.

This is **another temporary financial hardship arrangement** (shown by an **A**).

2022			
...	June	July	Aug
	0	0	0
Sept	Oct	Nov	Dec
0	0	0	0
2023			
Jan	Feb	Mar	Apr
0	0	0	1
May	June	July	Aug
0/A	0/A	0/A	0/A
Sept	Oct	Nov	Dec
0/A	0/A	0/A	0/A
2024			
Jan	Feb	Mar	Apr
0/A			

step 3

Gil makes normal repayments on time for the next 6 months. By the end of this second arrangement, Gil and his bank are now confident he has financially recovered.

The bank adjusts the loan by adding the balance of the reduced payments back onto Gil's loan (which means they can now be paid off over the rest of the loan term).

This is a variation of the loan and is a permanent change (shown by a **V** in February).

From then on, Gil keeps up with repayments and no further financial hardship information is recorded in his history.

As it only stays for 12 months, the financial hardship information will disappear completely from Gil's credit report by March 2025.

2022			
...	June	July	Aug
	0	0	0
Sept	Oct	Nov	Dec
0	0	0	0
2023			
Jan	Feb	Mar	Apr
0	0	0	1
May	June	July	Aug
0/A	0/A	0/A	0/A
Sept	Oct	Nov	Dec
0/A	0/A	0/A	0/A
2024			
Jan	Feb	Mar	Apr
0/A	0/V	0	0

WHAT IF MY CLIENT DOES NOT WANT TO SPEAK TO THEIR BANK?



It is important for individuals to continue to come forward and speak to their bank if they are in financial difficulty.

If your client does not enter into a financial hardship arrangement and is unable to meet their monthly contractual repayment obligations, their credit score may be impacted. Credit reporting bodies are not permitted to use financial hardship information when calculating a credit score. However, they do include missed repayments.

While repayment history information remains on a credit report for 24 months, financial hardship information is removed after one year. This means that, one year on, it will no longer be possible to tell from your client's credit report that they were in a financial hardship arrangement.

WHAT CAN GO WRONG FOR MY CLIENT?

Things can go wrong when:

- your client has agreed to reduced payments under a financial hardship arrangement but does not make those reduced payments on time.
- your clients' temporary financial hardship arrangement is coming to an end and they have not made arrangements to deal with what comes next.

In both cases, unless your client communicates with their bank, their credit score may be impacted. The balance of all missed, reduced or deferred payments may become immediately payable and be reflected on their credit report, meaning their account may appear very overdue.

To avoid this, it is important for your client to speak to their bank as soon as they realise they are going to struggle to make a payment, and also before their arrangement comes to an end.

EXAMPLE 1

CREDIT REPORT - HISTORY			
2022			
...	June	July	Aug
	0	0	0
Sept	Oct	Nov	Dec
0	0	0	0
2023			
Jan	Feb	Mar	Apr
0	0/A	0/A	0/A
May	June	July	Aug
4			
Sept	Oct	Nov	Dec
2024			
Jan	Feb	Mar	Apr

In February 2023, Kel and his bank agree to a temporary financial hardship arrangement for 3 months.

Under this arrangement, Kel's monthly payment is deferred fully between February and April so that Kel doesn't have to make any repayments until May. The bank tries to get in contact with Kel multiple times before May to discuss what to do with the deferred payments. **They cannot reach him, and he does not get in contact with the bank.**

As a result, the three deferred payments plus another missed one in May now add up to a repayment history of **4** recorded for May.

EXAMPLE 2

CREDIT REPORT - HISTORY			
2022			
...	June	July	Aug
	0	0	0
Sept	Oct	Nov	Dec
0	0	0	0
2023			
Jan	Feb	Mar	Apr
0	0	0	0/A
May	June	July	Aug
0/A	0/A	0/A	1/A
Sept	Oct	Nov	Dec
4			
2024			
Jan	Feb	Mar	Apr

In April 2023, Vic agrees with her bank to make half-payments for 6 months under a temporary financial hardship arrangement.

In August, **she misses a payment and doesn't communicate with her lender.**

Vic's credit history now shows one missed payment under the temporary financial hardship arrangement.

The bank tries to get in contact with Vic to discuss her situation but cannot reach her. **By September, Vic has made no attempt to communicate with her bank**, so the arrangement is cancelled early. As a result, the balance of all deferred and missed payments are now counted, adding up to **4**.

WHO CAN SEE THAT MY CLIENT HAS BEEN IN FINANCIAL HARDSHIP?

Any lender with an Australian credit licence that participates in the credit reporting regime will be able to see whether your client has been in a financial hardship arrangement within the last 12 months.

This is provided they have a valid reason to check their credit report, such as if your client has made a consumer credit application with them.

When your client applies for new credit, this may prompt the lender to ask a few questions to understand whether they are still experiencing hardship and can afford the new loan.



WHAT IF I HAVE A COMPLAINT?

If you or your client are not satisfied with the services, products or staff of the bank or think that they have recorded incorrect information on your client's credit report, it is important to let them know.

If you are not satisfied with the outcome of your complaint, you can lodge a dispute with the **Australian Financial Complaints Authority**. They provide a fair, independent and free complaint resolution service. For more information visit: www.afca.org.au.

WHERE CAN I GET MORE INFORMATION?



The **CreditSmart** website is a useful resource to learn more about what's in a credit report. For more information visit: www.creditsmart.org.au

The **ABA Financial Assistance Hub** includes a step-by-step guide for customers about what to do when they are experiencing financial difficulty.

For more information visit:
www.ausbanking.org.au/assistance

Australian Credit Reporting Bodies

Equifax

Visit: www.equifax.com.au/personal/

Call: 13 83 32

Experian

Visit: www.experian.com.au/order-credit-report

Call: 1300 783 684

illion

Visit: www.illion.com.au/#illion-for-individuals

Call: 13 23 33