

COVID-19 PAYMENT PAUSE WHAT DOES IT MEAN FOR YOUR CREDIT REPORT?

Life has changed,
but the requirement
to repay debts hasn't.
It's just been paused.

Payment pause or deferral assistance offered by lenders is here to assist Australians through these difficult times, so they can get back on track once the recovery begins.

Remember, an agreed pause is temporary. Here's what you need to know about it.



HOW DOES A PAYMENT PAUSE OR DEFERRAL WORK?

If you have agreed with your lender on a payment pause or deferral, you won't have to make repayments on principal nor interest for up to 6 months, or a bit longer if you need your pause extended and your lender agrees.

During this time, it is important to understand your loan is not 'frozen': interest will usually still accrue and will be added to the balance of your loan. This means the longer the pause, the more interest will accumulate.

Once regular repayments begin again, there are several options you can discuss with your lender:

- increase your ongoing repayments to pay off the deferred payments in the remaining life of your loan
- extend the life of your loan so your ongoing repayments stay the same
- a broader change to your loan that could include a mix of the above or even a new loan to consolidate your existing loans.



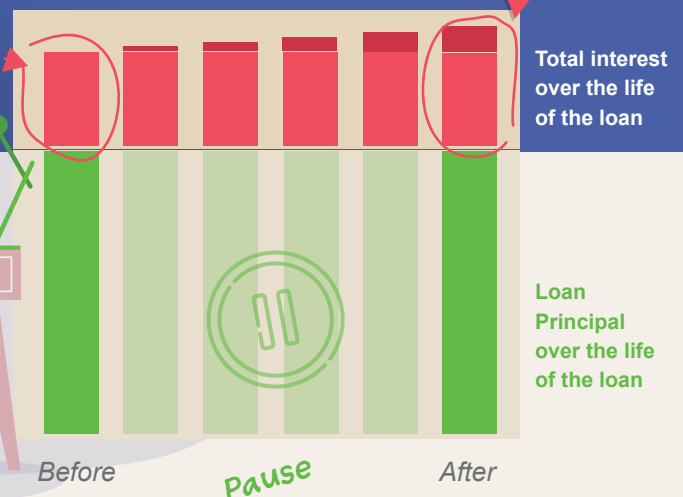
10 years ago, Sarah took out a \$300,000 home loan for a 30 year term. Her fixed interest rate is 3.5% p.a.

Over the remaining 20 years, the total amount of interest would normally add up to **\$91,031**.

Sarah's lender agreed to pause her repayments for 6 months... When the pause ends, she wants to keep repayments at the same amount as before, so Sarah's lender agrees to extend the life of her loan.

Over the new remaining term, with interest on interest, the total interest Sarah will pay will now be \$99,355 - a difference of over \$8,000.

Check with your lender to see if this reflects their treatment of interest.





HOW WILL IT IMPACT MY CREDIT REPORT?

A credit report can include your repayment history, which is a 24 month view of how you manage and pay your loan and credit accounts on time.

- **“0”**: means you are up-to-date,
- **“-” / blank**: means nothing was reported,
- **“1” or more**: indicates how long (in months) the loan is overdue. **“X”** means that the loan is overdue for at least 7 months.

As long as you have agreed on a payment pause with your lender, your repayment history won't be affected: it will only show “0” or “-” / blanks during the agreed period. What happens after depends on your prior circumstances, and how you decide to move forward.

Some lenders also offer other types of assistance, like reduced payments on credit cards. Remember, you still need to make that reduced payment each month, otherwise it will show as missed on your credit report.

The 5 following examples below are common scenarios, to help you understand how your credit report may be impacted.

1 **Sam** has always been up to date with repayments until COVID-19...

In March 2020, Sam and his lender agree to pause Sam's repayments for 6 months.

Sam's credit report shows he is up to date during the pause.

In September, Sam resumes repayments. As long as he keeps making repayments on time, his credit report keeps showing “0”.



CREDIT REPORT - HISTORY			
2019			
...	June	July	Aug
	0	0	0
Sept	Oct	Nov	Dec
0	0	0	0
2020			
Jan	Feb	Mar	Apr
0	0	0	0
May	June	July	Aug
0	0	0	0
Sept	Oct	Nov	Dec
0	0	0	0
2021			
Jan	Feb	Mar	Apr
0	0	0	0

CREDIT REPORT - HISTORY			
2019			
...	June	July	Aug
	0	0	0
Sept	Oct	Nov	Dec
0	0	0	0
2020			
Jan	Feb	Mar	Apr
1	2	0	0
May	June	July	Aug
-	-	-	-
Sept	Oct	Nov	Dec
-	-	-	-
2021			
Jan	Feb	Mar	Apr
-	-	0	0



2 **Mel** is 2 monthly repayments behind in February 2020. In March, she asks her lender for a 6 month payment pause, during which her credit report doesn't show the overdue payments. At the end of the pause, Mel still has overdue payments. She talks to her lender and agrees to resume normal repayments for 6 months starting in September.

Her credit report continues to not show the overdue payments. Then, from March 2021, Mel's overdue payments are 'capitalised' (i.e. added back into the loan so that they're no longer overdue). That way, the payments won't show on her credit history as missed or late.

3

Jon doesn't ask for assistance from his lender, but he doesn't make his monthly loan repayments.

Jon's credit report now shows a series of missed payments.

Jon's lender is likely to take action to recover the debt if he doesn't have a discussion as soon as possible!



CREDIT REPORT - HISTORY				
2019				
...	June	July	Aug	
	0	0	0	
Sept	Oct	Nov	Dec	
0	0	0	0	
2020				
Jan	Feb	Mar	Apr	
0	0	1	2	
May	June	July	Aug	
3	4	5	6	
Sept	Oct	Nov	Dec	
X	X	X	X	
2021				
Jan	Feb	Mar	Apr	
X	X			

WHAT IF I CAN'T RESUME REPAYMENTS AT THE END OF THE PAUSE?

Keep in contact with your lender. Before the end of the pause, think about whether you are able to restart payments, or if a change to your contract or product would help.

Let your lender know:

- if your financial situation is not improving,
- if you expect to earn less income,
- if you need additional time to get back on track.

Resist the temptation to use more credit to cover loan payments. This can lead to a 'debt spiral' where a small debt can quickly become much larger and unmanageable.

The more you communicate with your lender, the easier you can agree on a manageable solution.

4

Kim works in hospitality and was laid off in March 2020. At the time, Kim is up to date with repayments and her lender agrees to pause her repayments for 6 months.

Before the pause ends, Kim speaks to her lender and tells them that she is not able to restart payments straight-away as her employer isn't quite ready for her to start again.

Kim and her lender agree to pause her repayments for another 4 months, during which time her credit report still shows she is up to date.

In January 2021, Kim resumes repayments. As long as she keeps making repayments on time, her credit report keeps showing "0".

CREDIT REPORT - HISTORY				
2019				
...	June	July	Aug	
	0	0	0	
Sept	Oct	Nov	Dec	
0	0	0	0	
2020				
Jan	Feb	Mar	Apr	
0	0	0	0	
May	June	July	Aug	
0	0	0	0	
Sept	Oct	Nov	Dec	
0	0	0	0	
2021				
Jan	Feb	Mar	Apr	
0	0	0	0	

Pause

Pause extended

5

Adam is 3 monthly repayments behind in March 2020, and when COVID-19 hit, he loses his job.

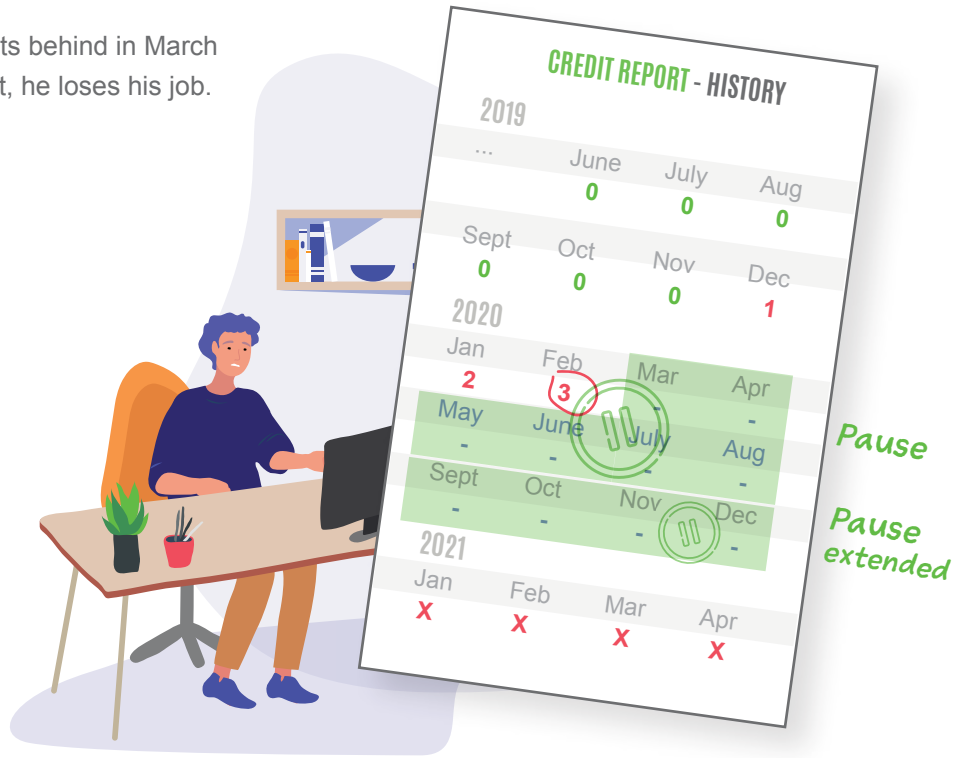
His lender agrees on a 6 month pause to give him time to get a new job.

During that time, Adam's credit report doesn't show any repayment history.

Before the pause ends, Adam tells his lender that he still can't find a job.

Adam and his lender agree to give him another 4 months relief. The lender tells Adam that during this time, his credit report won't show any repayment history but at the end of the 4 months, his credit report will show whether he's behind in payments (including payments he misses during the next 4 months).

Unfortunately, Adam can't find a job and is unable to start making repayments. By January 2021, Adam's credit record report shows "X" (ie 7 months or more behind in repayments).



Free and confidential financial counselling

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

WHAT ABOUT PAUSED REPAYMENTS ON MY CREDIT CARD, WHAT WILL THAT MEAN WHEN THE PAUSE ENDS?

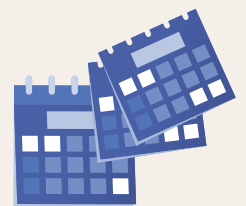


If you have a payment pause on your credit card, your lender may have blocked it during the pause. If not, it is best to only use it as an absolute last resort.

Using a credit card without repaying the balance means interest adds up. In the long term, you will end up repaying much more. Repay what you can as soon as you can to keep interest charges down.

If your lender agreed for you to make smaller monthly payments, make sure you still pay these in time or your credit report will show that they've been missed.

IF I ASK FOR ASSISTANCE DUE TO COVID-19, WILL I BE ABLE TO ACCESS CREDIT IN THE FUTURE?



Seeking assistance due to COVID-19 will not exclude you from applying for credit in the future.

However, a lender is likely to ask if you were impacted by COVID-19 and may seek further information (e.g. bank statements), to check if your financial circumstances have recovered.

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

For more information, visit our website:

CREDITSMART.ORG.AU