

WHEN A LENDER AGREES TO WAIVE YOUR DEBT

This explanation applies to you if your lender has agreed to waive your debt.

This is usually because you are unlikely to be able to repay the debt due to an unforeseen hardship. The waiver might be subject to you first paying a portion of the debt (with the rest waived).

Key points:

- **Once waived, the lender agrees that you no longer owe the debt** and it will be closed on your credit report.
- **A default will not be recorded on your credit report** (if it hasn't already been reported), and the debt will not be sold to a debt collector.
- **A debt waiver is a type of financial hardship arrangement.** It will appear on your credit report for 12 months from when the debt is waived.



If you experience a serious hardship (like a natural disaster, an illness, or a relationship breakdown) that makes it unlikely you will ever be able to repay your debt, a lender may agree to a 'debt waiver'.

A debt waiver is a type of financial hardship arrangement, where the lender agrees that:

- you no longer owe the debt
- you are no longer required to make repayments in relation to this debt.

This agreement may apply to the entire debt, or be subject to you paying a portion of the debt first.

What is the impact of a debt waiver on your credit report?

No further missed payments will be recorded in your repayment history, and the loan will be closed.

What is the impact on defaults?

If a default has not yet been recorded, no default will be recorded once the debt is waived.

If a default has already been recorded, it will be updated to show it has been paid.

Defaults stay on your credit report for 5 years (even if paid). It is important to avoid defaults on your credit report to help your long-term financial recovery.

CREDIT REPORTING BASICS



An agreement to waive a debt is a type of financial hardship arrangement.

It appears on your credit report as '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.

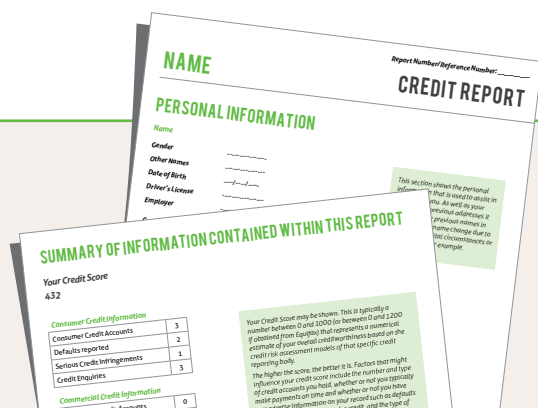
If your lender agrees to waive the debt in full, a permanent change to your loan is recorded as a **'V'** in your credit report and the loan is **closed**.

If you are required to make a partial repayment of the debt before it is waived, there may be a gap between the time of the agreement and when the waiver is applied. A temporary arrangement (**'A'**) may be recorded in your credit report during this time.

Once the repayment has been made, the debt is waived and a permanent variation to the loan will appear as a **'V'**.

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

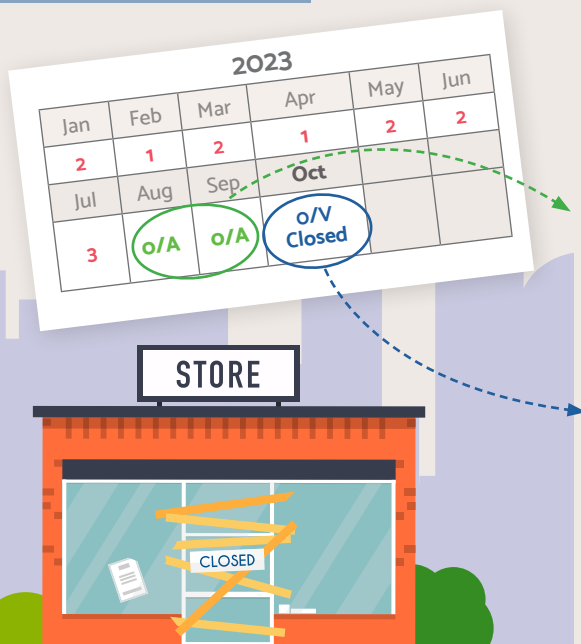
A good repayment history helps get credit in the future.

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



Len owned a small shop that went out of business in 2022. Since then he has struggled to keep up with the minimum monthly payments on his credit card. By July 2023, he is 3 payments behind, and his total balance is \$6000.

In August, his lender agrees to accept \$2000 in full settlement of his debt by the end of October, which is when Len expects a tax return related to the closure of his shop.

His lender doesn't expect any payments until October, and treats the gap as a **temporary financial hardship arrangement (A)**. Until then, Len's repayment history will not show the payments he has missed: between August and September, the repayment history will show **O** or **✓**.

When Len receives his tax return in October, he repays the agreed portion of the debt, ie \$2000. His lender waives the remaining \$4000 and Len is clear from further repayment obligations in relation to the debt. Len's account is recorded as **closed**, and his repayment history shows **O** with a **V** to reflect the **permanent variation to the loan agreement**. No more information is recorded after this.

By October 2024 (i.e. after 12 months), the financial hardship arrangement information (**A** and **V**) will disappear: Len's credit report will only show that the loan was closed, and that Len was up-to-date when it did.

From October 2025 (i.e. after 2 years), all records of the loan and its repayment history will have disappeared from Len's credit report.

Will I be able to access credit in the future?

The debt waiver helps protect your credit report as further missed payment will stop being recorded. Importantly, provided it hasn't been recorded already, it means you can avoid a default from being reported (which can make it harder to get credit for up to 5 years).

Whether you can – or should – obtain credit in the future will depend on whether you can afford the repayments. You may not be able to until your financial circumstances improve.

Be careful of lenders who offer 'easy' credit, including "payday lenders". This type of credit is often very expensive, and these lenders may do a poor job of assessing whether you can realistically afford it.

If you take out further credit and can't repay it, more negative information will appear on your credit report which can further delay your financial recovery.

Communicate with your lender as soon as possible if you are required to make a payment before a debt is waived, but you think you will struggle to make this payment.

If the payment is not made on time, and you haven't agreed to any other arrangement with your lender, all payments missed up to that point may appear on your credit report, making your account look very overdue.

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.

FHA Debt Waivers - v1.3 - 280622

© ARCA (Australian Retail Credit Association) 2022