



## FINANCIAL HARDSHIP & CREDIT REPORTING

### Frequently Asked Questions

#### 1. WHO CAN REPORT FINANCIAL HARDSHIP?

Only lenders that have an Australian credit licence, such as banks and credit unions, can report if their customer has entered a financial hardship arrangement. Telecommunications, water and energy companies are not allowed to report repayment history or financial hardship information for their customers. This means that a credit report will not show whether an individual has paid their utility, water or telecommunications bills on a month-by-month or if they have entered hardship.

If your client has a Buy Now Pay Later product, their credit report may show its repayment history if it was provided by a bank or lender with an Australian credit license. However, under the law, banks and lenders are currently not allowed to record financial hardship information for Buy Now Pay Later products. The banking industry is working on a solution to suppress the repayment history information of customers with a Buy Now Pay Later product while they are in hardship, so that their credit report does not report them as overdue. Ask your bank if this is available for your client.

#### 2. WHY WOULD MY CLIENT'S BANK NOT AGREE TO A FINANCIAL HARDSHIP ARRANGEMENT?

If your client asks for financial hardship assistance, the bank will consider their circumstances to work out what sort of arrangement is best for them. However, they may sometimes not agree to enter a financial hardship arrangement, and this can happen for a couple of different reasons.

One reason for a bank to not agree to a financial hardship arrangement is if they believe that your client is unable to meet their obligation to repay the debt (even if their payments were reduced). They may also not agree to a financial hardship arrangement if they consider that a customer is not experiencing financial hardship.

If a bank does not agree to a financial hardship arrangement, they must provide the reason why not in writing and explain the customer's right to complain to the Australian Financial Complaints Authority. For more information visit [www.afca.org.au](http://www.afca.org.au).

#### 3. WHAT HAPPENS TO MY CLIENT'S CREDIT REPORT WHEN THEY RECEIVE A FULL DEBT WAIVER?

Your client's credit report will show that the account has been closed if their bank has:

- forgiven the full amount of the remaining debt, or
- forgiven the part of the remaining debt after your client has made a partial payment in a full and final settlement agreement.

In addition, the last month of the account history will show:

- a 'V' that indicates a financial hardship arrangement was put in place
- repayment history information as up to date

If the waiver occurred because of a responsible lending breach or fraud, the account information may simply be erased with no evidence that it existed.



#### 4. WHAT IF MY CLIENT AND THEIR BANK MAKE A PROMISE TO PAY?

It may be that your client and their bank make a promise to pay instead of a financial hardship arrangement. In this case, there will be no financial hardship information recorded on your client's credit report, and their repayment history information will continue to reflect the payments due under the contract. This means the credit account will be reported as overdue.

#### 5. WHAT IF MY CLIENT HAS MISSED PAYMENTS OR NEEDS TO ENTER HARDSHIP BECAUSE OF DOMESTIC OR ECONOMIC ABUSE?

Encourage your client to explain their circumstances to their bank. In cases of domestic or economic abuse, there may be additional support the bank can take to help them. For example, depending on the circumstances, they may be able to assist in removing previous default information that occurred because of economic abuse or by providing a partial or full debt waiver.

After 1 July 2022, you may also be able to request that missed payments get changed on your client's credit report by backdating a hardship arrangement. The rules in the Credit Reporting Code allow backdating if your client "was not able to make a hardship request at an earlier time because of the unavoidable consequences of circumstances beyond the individual's control". You should talk to the bank about whether this option is available for your client.

#### 6. WHAT IF MY CLIENT ENTERS A FINANCIAL HARDSHIP ARRANGEMENT ON A JOINT DEBT?

Generally, a financial hardship arrangement that is agreed by one account holder will be shown on the credit report for all joint account holders. A credit provider will usually try to contact the other account holder/s to let them know that the agreement has been put in place.

The banking industry is working on a plan to allow victim survivors of economic, family and domestic abuse who are in a joint account with their perpetrator to have repayment and hardship information suppressed during the period of a hardship arrangement. This is out of concern that recording such information may result in risk of retaliation. You should ask the bank if this outcome is available if your client is a victim survivor and is concerned what impact the reporting will have on their safety or wellbeing.

#### 7. CAN BANKS CONTINUE TO MAKE HARDSHIP ARRANGEMENT OFFERS AFTER A NATURAL DISASTER?

Yes. However, from 1 July 2022, banks will need to make it clear what the customer needs to do to accept an offer of a financial hardship arrangement and explain how it will be recorded on their credit report.

If your client missed a payment or payments due to a natural disaster and was also unable to make a hardship request at an earlier time, they may be able to request that the hardship arrangement is backdated. You should talk to the bank about whether this option is available for your client.



#### 8. WHAT HAPPENS ON 1 JULY 2022 TO MY CLIENT'S CREDIT REPORT IF THEY ARE ALREADY IN A FINANCIAL HARDSHIP ARRANGEMENT?

The new financial hardship reporting regime will only apply to arrangements made from 1 July 2022. There should be no difference in how your client's hardship arrangement made before July are shown on their credit report. If you need to change or extend a hardship arrangement from 1 July 2022, ask the bank how this will be shown on your client's credit report.