fact sheet

phone: 1800 007 007
www.debtselfhelp.org.au

This document is for general information and is not legal advice.

# Hardship request—credit

## Overview

If you are experiencing financial difficulty you can ask your lender for a hardship variation. Consumer credit legislation in Australia allows for variations to the terms and conditions for loan contracts taken out for personal, household, or domestic purposes.

## What type of hardship variation can you ask for?

You can ask for any type of variation that will help you get back on track. For example:

- postponing or deferring payments;
- extending the term of the loan and reducing the repayments;
- adding any arrears to the loan balance;
- interest only payments for a period;
- a loan restructure;
- some other variation (perhaps a combination of things).

The particular variation you ask for will depend on which is the most affordable for you.

But remember, the lender does not have to agree to your request.

## How do you request a credit hardship variation?

You can ask for a variation in writing or by phone. However, it is usually better to put your request in writing as this means you can keep a copy of the request as a record. It is more difficult to prove the details of a request made by phone.

Some lenders have online application forms which can make it easy. Every bank has a link to information about what to do if you're in financial difficulty on the home page of their websites.

You can also use the sample letter on the Letter Templates page of this website.

The banks have also set up a website that includes bank contact numbers and information about hardship - www.doingittough.info

## What happens after you make the request?

Your lender must respond to you within 21 days of your application. The lender may also request further information from you before they make a decision. For example, they might ask you for a statement of financial position or payslip. You have 21 days to respond to the lender's request.

A lender cannot take any action to enforce the debt while they are considering your application for a hardship variation.

The lender will base their decision on whether the variation will mean that you can eventually get back on track.




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## What if the lender won't agree?

If your lender either refuses your request or fails to respond to you within 21 days, you can lodge a complaint with your credit provider's External Dispute Resolution Scheme. (See "Disputes" on the Legal Action page.)

## How much can you afford to pay?

Before asking for a hardship variation work out how much you can afford to pay in your current circumstances. Don't offer more than you can afford.

If you offer to pay more than you can afford, you will not be able to stick to the agreement. Then you will have to ask for a new payment plan. Your creditor will be less likely to agree if you have not been able to keep up on one payment plan already.

It is a good idea to prioritise your debts according to their importance. You will then be able to draw up a debt management plan and know how much you can realistically afford to pay off each of your debts. Remember to retain some money for emergencies.

A financial counsellor can help work out with you how much you can afford to pay and which debts are priorities.

## Benefits of a credit hardship variation

If your lender or debt collector agrees to a variation, you will obtain the following benefits:

- Your payments will become more affordable in the short-term
- Letters of demand and phone calls from your creditor or their debt collector requesting payment will stop for as long as you keep to the arrangement
- Your lender will not usually notify any default on your credit report if you have contacted them early and set up a payment plan. This will mean the debt will not be reflected in your credit rating and you will not be disadvantaged when you apply for credit in the future.

## Disadvantages of a credit hardship variation

If your lender agrees to a variation, you will have to consider the following disadvantages:

- Unless you have negotiated a stop on interest, a changed payment plan may turn out to be very expensive in the long-term and may mean you go further into debt;
- Where the arrangement consists of reduced monthly payments and a longer loan term, you will be effectively paying interest for longer for the same loan amount. The overall cost of the loan will therefore be higher.