# **Will My Credit Score Be Affected Due To COVID-19?**

**Will a mortgage deferral due to COVID-19 affect my credit score?**

The Australian Banking Association has assured that individuals who have deferred their loan payments due to COVID-19 will not face negative impacts on their credit scores. It is essential, however, that customers were current with their payments prior to seeking this relief.

CEO Anna Bligh clarified that if a customer is granted a deferral on their mortgage and other credit products due to COVID-19, banks will not report them as having missed a repayment, provided they were in good standing when the relief was granted.

For those who were already in arrears when granted a deferral, banks will not immediately report repayment history. However, once the hardship period concludes, banks will decide how to handle this information, as per the ABA.

If a customer hasn't arranged such relief with their bank or lender, any missed payments during COVID-19 will still be reported to credit agencies, potentially lowering their credit score.

If you've deferred your mortgage payments due to COVID-19, the banks will not disclose the repayment history. This section on your credit record will remain empty throughout the deferral period.

Hence, it's advisable to promptly contact your bank if you're facing financial difficulties due to COVID-19 and are unable to meet your home loan payments.

**What happens after the deferral period ends?**

Customers who are nearing the conclusion of their six-month repayment holiday in September have various choices available to them. These options encompass extending the deferral period, recommencing repayments, transitioning to interest-only payments, among others.

If you opt to recommence your mortgage repayments:

* The post-repayment holiday amount will be higher if the loan term remains unchanged, as the interest is added to the principal balance.
* Alternatively, the loan term can be prolonged to maintain repayment levels similar to what they were prior to the repayment holiday.

Upon the conclusion of the deferral period, the bank retains the discretion to determine how to document the repayment history details.

**What if I can’t make repayments on my home loan?**

Immediately reach out to your lender to discuss your available options. Prior to making contact, ensure you:

* Have a clear understanding of your current financial status and how it may impact your ability to repay your home loan on time.
* Familiarise yourself with the relief packages related to mortgages that your bank is offering.
* Be prepared to provide your bank with essential information to help them assess your financial situation, such as details regarding your new income, any government support you've applied for, and a breakdown of your expenses budget.

A payment deferment, particularly if you have funds in your redraw account, should be considered as a last resort for banks.

Aside from deferring payments, there are alternative mortgage relief measures available, including:

* Transitioning to interest-only payments.
* Accessing funds from your redraw account.
* Extending the term of your loan.
* Exploring the option to refinance at a lower interest rate.
* Consolidating your debt to facilitate manageable repayments.

It's important to note that drawing from your superannuation will not have an impact on your credit history. These alternatives will not negatively affect your credit score as long as you are able to make timely payments towards them.

**How will refinancing and debt consolidation help secure my credit score?**

If you find it challenging to meet your mortgage, car loans, personal loans, or credit card payments due to the impact of the coronavirus, consolidating these debts through refinancing can offer a structured approach to managing your finances.

This entails combining your debts into your mortgage, resulting in a single monthly payment. This can instill discipline in your repayment schedule and potentially lead to long-term credit improvement.

Opting for a refinance with a lower interest rate means that banks will treat your application as a new loan, necessitating a review of your financial details such as income, expenses, and liabilities.

It's important to note that due to COVID-19, banks have become more stringent in their lending criteria. If you've experienced missed payments or a job loss, you may not meet the eligibility requirements for a refinance.

In the event that your refinance application is declined, this inquiry will be recorded on your credit report.

**Should I increase my credit limit?**

Resist the temptation to raise your credit limit, as this action can ultimately harm your credit score. While it may initially seem like a helpful move, it could significantly influence your spending behaviour. There's a potential for you to overspend and find yourself unable to meet the repayments. Additionally, a high interest rate on your credit card could lead to financial challenges once the crisis subsides. Please be cautious about making this decision.

**How to protect my credit score during COVID-19?**

Here are rephrased steps to safeguard your credit score:

* Ensure you meet the minimum monthly repayments for all your credit obligations and promptly settle any other bills to prevent any negative impact on your credit score. Late payments can lead to a decrease in your credit rating.
* Reach out to your lender promptly and familiarize yourself with the available financial relief options during this period of difficulty.
* Regularly monitor your credit report for accuracy. You are entitled to receive a complimentary credit report once every 12 months.
* In case there are inaccuracies in your credit file, take immediate action to have them rectified or removed.

**Which lenders use credit scoring?**

While most Australian lenders employ credit scoring, there remain a few exceptions. Even if you possess a less-than-ideal credit history, we possess insights into which of these lenders are more inclined to greenlight your loan request.

Alternatively, it might be a question of seeking out a lender that views your circumstances in a more positive light. For instance, certain lenders prioritise stability and may be reluctant to consider applicants in new employment, while others might be open to those in a new job but have reservations about individuals with past defaults.

**FAQs About Getting A Home Loan With A Guarantor**

**Can I Borrow More Than 105%**

It is possible to secure a loan exceeding 105% of the purchase price. Some lenders within our network offer options allowing borrowers to go up to 110%

**Will Lenders Accept Guarantor Loans For Second Home Buyers?**

Some lenders do accommodate guarantor loans for individuals purchasing second homes. However, it's important to note that a majority of lenders typically expect second home buyers to have sufficient assets to make the purchase independently. This can be challenging for those who have faced significant life events like divorce or illness, which may have required them to sell their previous property. Home Loan Experts possess knowledge of lenders who are more flexible in their approach to assessing guarantor loans in such situations.

**Do I Need To Prove I Have Any Savings?**

While guarantor loans enable borrowing up to 100% of the purchase price, numerous lenders may still insist on proof of at least 5% of the price in genuine savings. This refers to funds that have been personally accumulated. In some cases, a bank might consider a history of consistent rent payments as an alternative to genuine savings.

Alternatively, certain lenders may not have a specific guideline in place. Instead, their credit assessment process could result in a loan denial if your asset-to-income ratio falls below their criteria.

Lenders tend to perceive individuals with a substantial income but limited assets as higher risk. Many young individuals allocate their finances towards education, vehicles, weddings, or travel experiences before embarking on house savings at a later stage. These borrowers aren't necessarily high-risk; they simply have distinct financial priorities!

**Can I Buy An Investment Property With A Guarantor Loan?**

It is possible to utilise a guarantor loan for purchasing an investment property in Australia. While some lenders do offer this option, it's important to note that securing a guarantor loan for multiple investment properties is typically less common. This is because it places a significant level of risk on the guarantor, without commensurate potential for profit.

In cases where the guarantor boasts a robust financial standing, lenders might be more inclined to consider loans for acquiring multiple investment properties.

**What If I Cannot Make Repayments?**

If you find yourself unable to meet your home loan obligations, the lender will typically focus on the property before seeking payment from the guarantor. The process of repossession would only initiate after the mortgage has been in default for a period ranging from 90 to 180 days.

**How Long Does A Guarantor Stay On A Mortgage?**

The guarantor's involvement in the mortgage is not meant to be indefinite, ideally. You should approach the bank to request the removal of the guarantee once the following conditions have been met:

* You're capable of comfortably managing the repayments on your own.
* The loan amount is less than 90% of the property value, with 80% being the preferred threshold.
* You have a clean record of on-time payments for the last six months.

Remember, the process of guarantee removal requires an application to the bank and is not automatic.

Typically, individuals can remove the guarantee within a span of 2 to 5 years after initiating the loan, though this duration may vary. Guarantees are often established when the borrower lacks a deposit. Thus, the timing of guarantee removal hinges on factors such as property appreciation and the borrower's capacity for additional repayments.

Even if you owe more than 80% of the property's value, it's still possible to remove the guarantee. However, you may need to pay Lenders Mortgage Insurance (LMI) to facilitate this process.

**Is it Advisable to Obtain Insurance?**

In order to provide an extra layer of security for both you and your guarantor in case of unforeseen circumstances, it may be wise to contemplate acquiring life, total and permanent disability, and/or income protection insurance.

While it's not mandatory for eligibility for a guarantor loan, it can offer a means to settle your mortgage if you encounter an unfortunate event that prevents you from working.

It is recommended to consult a financial advisor to guarantee that you select an insurance policy that aligns with your specific requirements and financial circumstances.

**What If My Guarantor Already Has A Home Loan?**

If your guarantor already has an existing home loan, it's still possible to use their property as collateral, provided they have enough equity. Certain lenders in our network can arrange for a second mortgage on their property to serve as a guarantee.

It's crucial for your guarantor to disclose all loans tied to their property, including any related to business or commercial purposes. Failure to do so may lead to approval being revoked prior to finalisation.

Before committing to any property, ensure the following steps are completed:

* Obtain consent for the second mortgage.
* Conduct a bank valuation of your guarantor's property.
* Receive formal approval from your lender.

It's important to note that the lender with an existing home loan on your guarantor's property must agree to the additional guarantee. There is a slight risk that they may choose to decline or delay consent, potentially leaving you without the necessary support.

**How Do Lenders Work Out If Your Guarantor Has Enough Equity In Their Property?**

Lenders determine if the guarantor possesses sufficient equity in their property by ensuring that the combined debt secured against their property (comprising their existing mortgage and the newly limited guarantee) is below 80% of the property's current value.

**What Happens If A Guarantor Sells Their House?**

If your parents, who acted as guarantors for your mortgage, decide to sell their house after several years, there are some important considerations to keep in mind. If you haven't paid down your mortgage to less than 90% of the property value, which is typically the minimum Loan-to-Value Ratio (LVR) required by most lenders to remove the guarantee, this could pose a challenge.

Before your parents commit to being guarantors, they should be aware that selling their property or borrowing against their mortgage might be restricted. However, there are options to explore:

* Paying Down the Loan: If you owe more than 90% of the loan amount, you could consider using your own funds to reduce the outstanding loan balance to meet this threshold.
* Securing the Guarantee with a Term Deposit: Alternatively, after your parents sell their property, they could discuss the possibility of providing the lender with a dollar-for-dollar term deposit as security for the guarantee. For instance, if the guarantee amount was $90,000, they would need to deposit $90,000 in a term deposit as collateral.

This way, your parents can pursue their financial goals or dreams, and you can navigate the situation with these options in mind.

**What If My Potential Guarantors Are Retired?**

If your potential guarantors are retired or elderly in Australia, many banks might not be willing to accept their guarantee as security. However, it's worth noting that not all lenders have the same strict criteria for assessing guarantors. Some lenders are open to accepting guarantees from individuals who are nearing retirement, pensioners, or self-funded retirees over the age of 65, as long as these guarantors seek legal advice before officially agreeing to support the loan.

**FAQs About Being A Guarantor On A Home Loan**

**Who Can Be A Guarantor?**

A typical practice among most banks is to accept only a borrower's parents as guarantors. However, certain lenders may be open to considering guarantees from close relatives like siblings, grandparents, spouses, common-law partners, or adult offspring.

**Should I Act As A Guarantor?**

Deciding to serve as a guarantor is a significant choice and should never be rushed. It's advisable to seek impartial financial guidance before making a decision. Consider the following:

* What is the extent of the limited guarantee? Can you comfortably cover any potential outstanding expenses if things don't go as planned?
* Under what circumstances would you become responsible for payment? Typically, banks will take action only if the mortgage is overdue for 90-180 days.
* What is the character and financial stability of the person you're guaranteeing? This may be a sensitive question, especially if it's a close family member, but it's important to be honest with yourself.

In order to safeguard guarantors, the Australian Banking Association has implemented a new Banking Code of Practice. This includes:

* Guarantors must be provided a minimum of three days to review the guarantee documents and consider their responsibilities before signing and returning them.
* Guarantors will have a specified period after signing to change their mind.
* Guarantors will be encouraged to seek independent legal advice before finalising the agreement.
* If the borrower under the guarantee encounters financial difficulties or experiences a change in circumstances, the bank will inform the guarantor.
* The bank will make efforts to recover assets from the borrower before taking action against the guarantor. If this raises concerns, it's advisable to consult with an independent legal advisor.

**What Are The Risks Of Being A Guarantor?**

Being a guarantor entails assuming ultimate responsibility for a home loan in case the borrower defaults. Although there is a concern that banks might swiftly resort to selling the guarantor's property to cover the remaining debt after a default, in reality, banks typically exhaust other options before taking such a drastic measure. This is primarily because the process of selling the guarantor's property involves significant effort and expense.

Banks are aware that they are likely to incur losses by pursuing this course of action, and would much prefer if the borrower continues making mortgage payments. They will strive to understand why the borrower is facing difficulties in managing repayments and explore potential solutions.

For parents who are assisting their child in acquiring a home loan and wish to mitigate some of the associated risks, considering a parent-assist home loan might be a more suitable option.

**Is it Possible to Utilise a Limited Guarantee?**

In cases where the proceeds from selling your child's property fall short of covering the home loan, having a limited guarantee in place can be beneficial. With this arrangement, your liability is confined to a predetermined sum.

Typically, this sum ranges from 20% to 35% of the purchase price, inclusive of expenses like stamp duty and conveyancing fees.

For instance, if the outstanding debt amounts to $700,000, but the limited guarantee is set at $210,000, the guarantors are only responsible for the outstanding mortgage up to $210,000.

In scenarios where the property fetches $700,000 or more upon sale, there would be no cause for concern.

However, if the property is sold for just $440,000, the guarantor will need to contribute up to $210,000 from their property's equity to bridge the shortfall. They won't, however, be held accountable for the remaining $50,000 [($700,000 – ($450,000 + $210,000)].

In the event of a $590,000 sale, the guarantor's liability would be $110,000.

Guarantors should have a clear understanding of the extent of their guarantee.

**What If I Change My Mind About Being A Guarantor?**

If you're reconsidering your role as a guarantor, it's crucial to make this choice prior to your borrower securing a home loan approval and finalising the Contract of Sale. Failing to do so may lead to the borrower defaulting on the contract, potentially resulting in legal action. It's important to address this matter promptly to avoid any complications down the line.

**Guarantor Home Loans FAQs**

**Why Is There No LMI Premium?**

When you borrow more than 80% of your property's value, banks worry about potential losses if you can't make repayments. To safeguard themselves, they charge a fee called Lenders Mortgage Insurance (LMI), which can be quite substantial, sometimes exceeding $10,000.

However, when you have a guarantee as extra security, the bank views your family pledge loan as being below 80% of the combined value of your property and the guarantee. This leads them to waive the need for LMI.

**Why can a second mortgage pose a significant concern?**

Well, if your parents already have an existing home loan tied to their property, any additional guarantee would have to be secured through a second mortgage.

Typically, this isn't a cause for worry. However, if the application process isn't handled accurately when submitted to the bank, complications can arise.

It's crucial not to commit to any property until several key steps have been taken:

* Consent for the second mortgage has been obtained.
* A formal bank valuation has been conducted on your guarantor's property.
* Your lender has issued an official approval.

Obtaining consent from the lender that already has a home loan secured on your parents' property is essential. There's a small chance they may refuse or delay providing this consent, potentially leaving you in a difficult situation.

**Why is it that my bank is hesitant to facilitate debt consolidation?**

Very few lenders are open to the idea of merging your credit card balances or personal loans when you're in the process of purchasing a home. We have insights into the lenders who are willing to help you streamline all your debts into a single, manageable monthly repayment.

Keep in mind that only minor debts can typically be consolidated, and if your debts exceed 5% of the purchase price, most lenders won't permit their inclusion in the mortgage. It's crucial to maintain a perfect track record of timely repayments before a lender considers allowing you to merge them into your new mortgage.

**What If I Get Divorced?**

If you find yourself in a situation where you're considering a guarantor loan arrangement, it's important to be aware of a less apparent risk - the possibility of separating from your partner, who may choose not to fulfil the mortgage repayments. This not only exposes you to the risk of default but also potentially puts your parents in a precarious position.

Manipulating the mortgage in this manner is a fairly common occurrence when couples go through a divorce. In fact, it's often advised by legal professionals.

If you manage to navigate through the legal proceedings, please don't hesitate to reach out to us. You can do so by completing our complimentary assessment form. We can then inform you about how we can assist. We specialise in buying out former partners, and we'll initiate discussions with your bank regarding how this would work, especially with your parents providing a guarantee.

**What Are The Names Used For Guarantor Loans?**

Various lenders have coined different names for guarantor loans. For instance:

* St George: Family Pledge
* Westpac: Family Security Guarantee
* CBA: Home Loan Guarantor Support
* AMP First Home Buyer Family Guarantee
* Bankwest: Family Guarantee
* Heritage Bank: Family Guarantee
* NPBS: Family Guarantee Home Loan

Despite the array of terms, they generally all serve the same purpose. Most of these designations refer to a security guarantee, as only a few select lenders accept alternative types of guarantees.

It's worth noting that there are notable distinctions between the credit criteria, types of loans, and benefits associated with family guarantee loans across different banks.

**Is it possible to obtain an 80/20 low-documentation guarantor loan?**

Typically, low documentation loans are not compatible with a guarantor's support due to lenders' cautious approach to assessing such loans without full financial documentation.

There might be a workaround available if the guarantor secures a loan against their own property and then lends this amount to you for use as your deposit. While not an ideal scenario, it could be a viable option for some borrowers.

This approach is commonly referred to as the 80/20 method, where you would borrow 80% of the property's value, while your family member borrows the remaining 20% against their own property. It's worth noting that not all lenders endorse this financing approach. Therefore, it's advisable to reach out online to connect with a mortgage broker who is well-versed in this particular loan structure.

**Why Expert Guidance is Essential for Guaranteeing Loans?**

When it comes to guaranteeing someone else's loan, it's a substantial commitment that warrants careful consideration. Seeking advice from professionals, particularly your solicitor, is crucial before making any decisions.

It is advisable to have an initial consultation with your solicitor before even applying for the loan. Additionally, it's prudent to bring the 'Guarantee & Indemnity' documents to your solicitor for legal counsel before affixing your signature.

Engaging a specialised mortgage broker like Home Loan Experts is highly recommended. This is due to the multifaceted nature of guarantor loans, and here's why:

* Facilitating Loan Approval: Lenders have become increasingly cautious, especially with guarantor loans. With our expertise, we can guide you towards lenders who accept specific types of guarantees, tailored to your unique situation.
* Understanding Terms and Conditions: While some banks offer straightforward terms and conditions, allowing you to limit the extent of the guarantee, others do not provide such flexibility. This means the guarantor could face a more challenging situation if you're unable to meet your repayments.
* Developing an Exit Strategy: Even if the loan's term spans 30 years, it doesn't mean you're obligated to maintain the guarantee for that duration. We can assist you in formulating a strategy, whether it involves making extra payments or refinancing, to expedite the removal of the guarantee within as little as 2 to 5 years.
* Safeguarding the Guarantor: If circumstances arise where you're unable to fulfill your loan obligations, it's imperative to have a plan in place to protect your guarantor from having to shoulder the burden and potentially lose their home. This can be achieved through obtaining suitable insurance.

If the mortgage isn't structured correctly, you might inadvertently heighten the risk for your parents, or find it challenging to remove the guarantee promptly. Therefore, seeking expert guidance is paramount for a smooth and secure process.