

Are Deferred Loan payments as good as what the media is saying?

We would advise all our clients and others about the recent media messages of being able to defer your loan repayments to think carefully before you do it.

What you are seeing is banks willing to grant an extension of up to 6 months should you encounter financial hardship. Such financial hardship may arise due to the current Covid-19 pandemic.

As always, it is not what it seems.

Please do not think that a bank will offer you repayment free period, **without any cost to you.**

If you are in genuine hardship please call your lender and they will discuss your position with you. If you then negotiate a repayment holiday, **be aware** the bank will continue to charge you interest for that period.

Depending upon the type of loan, at the end of the repayment free period, the bank will then ask you to return to the scheduled contracted repayment, plus will negotiate with you on how you propose to repay the months that you did not pay. This will more than likely result in years of increased payments.

Here is an example:

Assume you have a home loan for \$375,000 over a 30 year term, with current interest rate of 3% and monthly repayments \$1,581. You have had your loan for 24 months and encounter financial hardship. You request and are granted a 6 month loan repayment holiday.

This is what will happen:

Assuming you are repaying the minimum repayment, at the end of first 24 months, your balance owing will be \$359,103. Over the next 6 months, an average interest cost of \$890 per month will be added to your loan. Total interest cost over 6 months would be \$5,360. At end of 30 months (24 + 6) you will owe \$364,463.

In order to bring your loan back to within the contracted terms, the bank will be asking how you would be repaying back the 6 months of deferred repayments of \$1,581. Here are some simple examples:

Over next 24 months – extra \$395 + \$1,581 = \$1,976

Over next 36 months – extra \$263 + \$1,581 = \$1,844

Over next 48 months – extra \$198 + \$1,581 = \$1,779

An alternative may be that your lender will extend your current loan term in order that you do not have to increase the monthly payment. You will need to ascertain if your lender will do this or not. This option may prove more beneficial to your cashflow.

Each lender will have its own outcome regarding the repayment of the deferred repayments, so please if you are considering deferring your loan repayments, make sure you fully understand the impact.

We ask that you stay safe, follow medical advices and trust you come out the other side safely, both financially and health wise.

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