

# Guarantors

Prepared by Jenny Lawton, Financial Counsellor

Car,  
Jewellery  
Stereo  
I think that's  
everything  
Thanks miss...



When you said  
you'd take me for  
a ride if I went  
guarantor on your  
car, I never  
suspected you  
meant to the  
cleaners!

## Borrowing money can be a risky business – and not just for you...

The bank, credit union or finance company may want guarantor or co-borrower as a condition of the loan.

In some cases this means that your financial problems could cause your friend or relative to be sued – they may even lose their house!

But if you can afford to repay the loan, you should not need a co-borrower or guarantor. Don't pass the buck – your loan is your responsibility not your parent's or friend's

Tell the bank, credit union or finance company that **you** want the loan, and that **you alone** will be responsible for payment – no guarantor, no co-borrower or no deal.

If you really want to be independent, you won't risk your parent's house or your friend's property to get a loan

A guarantor is someone who promises to pay the debt of a person who borrows money if that borrower can't or won't pay.

The promise is made in writing on a contract called a guarantee.

Guarantees are very expensive promises because the guarantor is not only promising to pay the amount actually borrowed. Guarantors are also held responsible for any accrued interest (or default interest) on the outstanding loan balance

plus the lender's costs in trying to recover the money from the borrower and the guarantor

Lenders try to get a guarantee over loans if they think the borrower is a "bad credit risk". Bad credit risks include people who haven't been in their job for very long, who are young, who are borrowing to buy something that will reduce in value over time (like a car) or who have stuffed up with credit in the past. If the lender thinks the borrower is a bad credit risk, the lender will try to increase their chance of getting their money back by dragging someone into the loan as a guarantor.

If you are asked to be a guarantor, suggest the borrower try other lenders so that they get the loan on their own two feet. Point out that it's not fair to drag anyone else into their finances. Be firm – you don't need the 24/7 worry of whether the borrower can keep up to date on their loan payments. Nor do you need the hassle of having to find big bucks if something goes wrong.

If a lender asks you to get a guarantor for your loan – just walk away. You don't want to saddle your friends or family with your money issues. Find another lender who'll treat you as an individual or wait until you can save a bigger deposit and get the loan independently.

**Credit unions & building societies** – There are a number of complaint resolution schemes for credit unions and building societies, but some of these lenders do not participate in any scheme. Ask whether they participate in complaint scheme and if they do so, the lenders will give you the contact details.

## Where to get help and advice...

### *For referral to a financial counsellor:*

Financial and Consumer Rights Council (03) 96145433

Credit Helpline (03) 9602 3800

### *For assistance with a complaint about a lender:*

**Banks** – Australian Banking Industry Ombudsman (03) 96137333

**Finance companies** – Australian Finance Conference 1800231587

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