FINANCIAL SERVICES FEDERATION

Repayment deferrals and "holidays" explained

1 April 2020

"Repayment deferrals", sometimes referred to as "repayment suspensions", and "repayment holidays", are one of several tools that lenders may use to help customers who find themselves in financial hardship.

These terms have been heard more often recently in light of the COVID-19 lockdown and its financial impacts for many people. They apply, for example, where banks are offering a six-month mortgage repayment deferral to those affected financially.

If a lender is offering such assistance, it is important to know what this means.

A repayment deferral is when a borrower's principal and interest payments on their loan are stopped for a specified time, and it generally gives people some relief from their payments until they are able to get back on their feet.

It is important to note however that the principal and interest during this time is not "waived".

Interest will continue to accrue during the time in which payments are not being made, which will increase the amount of principal owed. Depending on the arrangement, it may also extend the time it takes to repay the loan, or if the term remains the same then payments might be higher.

Therefore, deferment on repayments needs to be considered carefully.

Each person's situation will be different, and people should speak to their lender to discuss whether it is an available option, and indeed the best option for them.

Lenders will have different approaches to how they are helping customers affected financially by COVID-19, and there are other measures lenders may feel are more suitable to help customers get through this uncertain time.

What's important is that anyone concerned about the financial effects of COVID-19 contacts their lender as soon as possible.

Lenders are dedicated to helping customers get through this, and the sooner they know a person's situation, the better placed they are to help them through it.

The Financial Services Federation (FSF) represents responsible finance and leasing companies operating in New Zealand. For more information see [www.FSF.org.nz.](http://www.FSF.org.nz)