PAYPLAN FACTSHEET

A guide to guarantor loans: things you need to know

What is a guarantor loan?

A guarantor loan is a type of loan where a friend or family member (known as the guarantor) agrees to pay if you're unable to make the repayments.

This type of loan is an option for those who find it difficult to get any form of credit, with the guarantor acting as a safety net for the lender.

Are guarantors legally responsible for the loan?

As both you and your guarantor are legally liable for the loan, if you default on a payment, the guarantor becomes responsible for making the repayments.

Once a guarantor has signed the agreement, they are legally bound to stick to the requirements for them laid out in the contract. This will typically include stepping in and making repayments on the loan if the main borrower fails to.

If the guarantor then refuses to pay, the lender may take legal action.

Extra charges

Depending on your lender, you could also incur a default fee of up to £30 for every missed repayment and have daily interest added onto your account. Guarantor loans are usually based on a daily interest rate, so the longer you have your loan open for, the more the daily interest rate accumulates.

For example, if you're five days overdue on your repayment, you could be charged five days' worth of interest on top of a default fee.

It's important to be aware of the extra costs that could be added to your account, as failing to repay on time and delaying repayment may significantly increase the cost of your loan.

What happens if I don't repay a guarantor loan?

If payments aren't made, it will default, and the lender can then ask the guarantor to make the repayments or take the money from the guarantor's bank account under a CPA.

The impact of having someone close to you pay the debt could cause relationship problems, and if they've secured the loan against their home, they could be at risk of repossession, so it's important that you make sure it's the right solution for you.

What if my guarantor can't pay?

This is usually a rare occurrence since most reputable lenders will run an affordability assessment to ensure that whoever agrees to be your guarantor can take on the financial commitment; however, it can happen.

When the guarantor is unable to pay the amount owed, the debt will be dealt with using the normal debt collection process which could involve it being passed to a collection agency or court action being taken.

It'll also be recorded on the credit files for both the borrower and the loan guarantor.

If your guarantor finds that they can't pay, the lender will investigate what has caused this to happen and will work alongside the guarantor to understand their situation.

What if a guarantor refuses to pay?

If a guarantor can pay but actively decides not to, they're breaking the contract that they signed and it's their legal obligation to pay for the loan.

The guarantor would be contacted by the lender to pay what is owed, and if there's any additional security, such as the guarantor's property, the lender may have a claim in their estate.

Many lenders insist that any guarantor is a homeowner, which provides extra security should any repayment problems arise.

Before it gets to that stage though, the guarantor will be contacted with a pre-court action warning letter, stating that the court proceedings will start in a certain number of days if the debt hasn't been cleared in that time.

If the time limit passes with no payment, the lender would be within their rights to start a court order to recover their debts.

Remember, if you're unable to keep up with repayments, our team are here and ready to help.