

Your Role as a Guarantor

Many of you will have obtained a loan from a commercial bank, Seychelles Credit Union, Development Bank of Seychelles or the Housing Finance Company. For some loans, the afore-mentioned institutions may request as a condition that you provide one guarantor or more before the loan is approved. A guarantor is required as a safeguard to ensure that money being loaned out is recovered in the instance that the borrower (the person taking the loan) does not repay the loan.

If you agree to be a guarantor you will have to sign a legally binding written agreement along with the borrower. Consequently should the borrower default on his or her debt, the guarantor would be legally responsible to pay the remainder of the loan.

Further to complaints received by the Central Bank, it appears that the implications of being a guarantor are not fully understood by the public. For those of you who have been asked to be a guarantor or is considering whether or not to guarantee a loan, it is important that you are aware of the implications and what you are committing yourself to.

In most instances the borrower will approach you to be a guarantor because you are a family member, a friend or a work colleague. Also in many cases a decision to accept to be a guarantor is based on the fact that you know the person and wish to help the person that is taking the loan. However, you are encouraged to consider other things or aspects before taking a decision to become a guarantor.

The following tips will help you identify whether the borrower is in a position to take on the responsibility of a loan.

- The borrower's profession; does he/she have a stable job, the salary amount and whether the salary amount is paid monthly.
- The borrower's financial position; does he/she have other debts, other expenses such as rent, child maintenance.
- Consider the social and family condition of the borrower: is he/she stable. If not, should the borrower have to move out of his/her home suddenly, this may lead to financial difficulty to repay the loan.
- Is the medical state of the borrower stable?

Furthermore, it is important to inform yourself on the loan to be guaranteed by considering the following:

- Make sure you know the loan amount that you are guaranteeing to ensure that if ever the borrower is unable to repay, you will be able to meet the repayment.
- Enquire about the monthly repayment amount and the repayment period, that is after how long the loan will be repaid.
- Ask the lending institution about its procedure if the borrower defaults on the loan. For example: does it renegotiate the loan repayment with the borrower first so that the borrower repays a lesser amount monthly or does the guarantor have to repay as soon as the borrower defaults.

In the event that a guarantor has been requested to repay the loan, then you legally have to take on the responsibility to repay the loan. As a guarantor you should ensure that you repay the loan when called upon to do so as failure to repay the loan may affect your future request for a loan. However you can meet with the borrower and/or the lender to discuss about the issue. You should also inform

the lending institution if you think that the borrower is in a position to repay the loan. For example, if you were repaying the loan because the borrower was out of a job and was not paying his/her loan, but then the borrower gets a new job meaning that he/she will be able to repay the loan.

Guaranteeing a loan is a practice which is done around the world. Nonetheless, knowing the implications of becoming a guarantor and informing yourself in this regard may lead to better decision-making which may prevent financial embarrassment.