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HUNGARIAN FINANCIAL
SUPERVISORY AUTHORITY

Recommendation No. 14/2012 (XII.13.) of the President of the Hungarian Financial Supervisory Authority on consumer protection principles for collection practices of debt collection organisations

I. Objective and scope of the recommendation

The **general objective of the recommendations** issued by the **Hungarian Financial Supervisory Authority** (hereinafter the Supervisory Authority, English acronym: HFSA) is to foster uniform application of legislation referred to the competence of the HFSA through improved predictability in terms of the application of law. Although the recommendations are not binding to financial organisations, the HFSA monitors compliance and alignment with the expectations laid down in the recommendations via its consumer protection supervision and consumer protection monitoring activities. On evaluating financial institutions and formulating findings, the HFSA considers not only behaviour that deviates from the recommendations, but also adequate practical application of, and compliance with, the expectations set forth in the recommendations.

The objective of this recommendation is for the HFSA to formulate recommendations with respect to fair and cooperative behaviour for organisations engaged in debt collection activities and for persons (including, for example, private entrepreneurs) acting on the basis of their assignment contract. This recommendation is also aimed to ensure that the practices which serve the protection of consumers' interests and which are set forth in the recommendation are efficiently integrated into the regulation of debt collectors' tasks related to collection and to ensure that such practices become an integral part of the attitudes of executives as well as administrators dealing with defaulted consumers. Furthermore, the purpose of this recommendation is that the practices set forth are integrated into the internal regulations and, accordingly, become an integral element of debt collectors' all – collection-related - activities which impact consumers. Compliance with the expectations laid down in the recommendation helps preserve trust in the functioning of the financial system.

A further objective of this recommendation is to strengthen, in the course of debt collection, cooperative and fair forms of conduct between customers in arrears and debt collectors, and to provide guidance as to the minimum content with regard to such conduct.

The basis for formulating the recommendation

When establishing the legality of the debt collection activity, *Act XLVII of 2008 on the Prohibition of Unfair Commercial Practices against Consumers (UCPA)* must be applied with general effect, the act which is designed to transpose Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005. According to the Supervisory Authority's standpoint – which corresponds to the Commission's guidance – commercial practices against

debtors regarded as consumers in *the collection of claims arising under a financial services contract* fall under the scope of this law.

Under the general rules of the UCPA, while institutions carry out their commercial practices they must meet the following expectations:

- conduct their activities with reasonably expected professional skill,
- act in compliance with the requirements of fairness and good faith,
- help consumers to take an informed decision and provide them with information of the necessary depth and quality,
- take into account that it is prohibited to pursue unfair, aggressive, misleading practices as well as practices listed and regarded unfair under the Annex to the UCPA, which distort consumer behaviour.

Based on the above, this document provides recommendations for debt collection practices that comply with the general principles and requirements of the UCPA with regard to how practices complying with the principles of good faith, fairness and professional diligence can be applied.

The provisions, which are specified in Subsections (15)-(16) of Section 210 of Act CXII of 1996 on Credit Institutions and Financial Enterprises (hereinafter referred to as CIFE Act) and which relate to the rules, effective as of 9 December 2012, concerning the delivery of a payment notice before termination, represent the legal regulation applicable to debt collection. This recommendation sets out additional best practices even for the application of the above-mentioned legal regulation.

The material scope of the recommendation covers debt collection activities pursued against debtors regarded as consumers. For the purpose of this recommendation, **debt collection activity** is an activity conducted in the interest of enforcing outstanding debts in default which arise from financial services and provided in a businesslike manner and which are owed to the debt collector itself or to a third party. The definition of debt collection activity does not extend to conducting legal proceedings which are initiated to enforce a claim and are governed by other laws (e.g. payment warrant proceedings, judicial foreclosure proceedings).

The scope of the recommendation covers organisations and persons engaged in debt collection activities (**debt collectors**) as specified in Section 4 of Act CLVIII of 2010 on the Hungarian Financial Supervisory Authority (hereinafter referred to as the HFSA Act). Such organisations and persons include, in particular, financial institutions handling their own claims, debt collectors acting on the basis of their assignment contract (special intermediary, tied agent), or financial enterprises purchasing claims arising from financial services.

In this recommendation a **debtor** means a debtor or co-debtor who has default in payment and is considered as a consumer under the CIFE Act, as well as a pledger or a surety who is a private person.

This recommendation – in line with the provisions of the UCPA – is to be interpreted in respect of debtors who are **reasonably informed**, and who act with prudence and diligence expected under the given situation. A reasonably informed debtor is expected to know the agreement(s) signed in relation to the basic legal relationship which is affected by the debt collection activity and is not contractually fulfilled by the debtor.

For the purpose of this recommendation, **default in payment** means the expiry, without result, of the due date for payment arising from a financial services contract - irrespective of the termination thereof - including in particular failure to meet a payment obligation became due.

For the purposes of this recommendation, **transitional scheme** is a scheme the debt collection organisation offers to restore the debtor's ability to pay and to prevent the termination of the credit agreement, or to settle the debt after the agreement is terminated.

In this recommendation it is considered to be **verifiable manner** if the debt collection organisation verifies to whom the mail has been sent, and verifies, beyond doubt, the fact and the date of sending the mail.

Expectations relating to the publication of this recommendation

With this recommendation the Supervisory Authority intends to contribute to making the customer contact practices uniform and clear in the debt collection market. The development of customer contacts, the increase in information available to customers and the improvement in cooperation between debtors and institutions are expected as indirect impacts.

The Supervisory Authority considers the debt collection practices conducted along the following principles as best practices and expects the debt collection organisations to act according to them in their procedures.

II. General debt collection principles

1. In pursuing their activities debt collection organisations often get into contact with debtors in a situation when debtors cannot meet their contractual obligations in time due to their weakened ability to pay, and as a result, they are to face adverse consequences. In this situation it is of utmost important that debtors suffer the negative consequences only in the most unavoidable cases and in the justified degree. This also supposes that debtors should cooperate with the debt collectors to a reasonable degree. Debt collection activities can only be successful if debtors and debt collectors mutually exhibit cooperative behaviour. It is only in this case that debts can be settled at the minimum possible costs to both parties and without lengthy legal proceedings. In order to achieve the above, the general debt collection principles set out general considerations that serve as a standard in pursuing the collection activity.

II.1 Principle of fair and cooperative behaviour

Debt collection organisations should carry out their activities based on the requirements of good faith and fairness; they should act in cooperation with the debtors, and avoid misleading and aggressive behaviours.

- 2 Debt collectors should avoid any forms of communication in their practice which – taking account of all factual circumstances – exert physical or psychological pressure on the debtor. When providing information, they should ensure that such information does not create a false, misleading impression about the possibilities, authorisations and obligations of debtors and collectors in respect of debt collection.
- 3 Debt collectors should take into consideration the debtor's reasonable requests as to the forms of communication (for example, avoid making telephone calls during working hours). Such requests are to be recorded in the debt collection register in a retrievable way.

II.2 Principle of professional diligence

Debt collection organisations should act in accordance with the requirement of professional diligence when they develop their debt collection practice, internal regulation of it, and in handling of debtors.

- 4 Persons acting on behalf of debt collectors should act with due diligence, in the knowledge of and in compliance with the applicable laws when they establish and maintain contact with customers. They should select and use their claim enforcement tools by carefully judging the circumstances. Debt collectors should provide adequate training to their administrators and document such. The training should also include the expectations for contacting customers set out in this recommendation.

II.3. The principle of providing the necessary information (see the details in point III and in the Annex)

In their procedures debt collectors are expected provide to debtors all information needed for debtors' cooperative behaviour. Debt collectors should send written information in a verifiable manner.

- 5 Debt collection organisations should act with care when supplying the information necessary for the fulfillment of the contract, and for learning the consequences of non-fulfillment.
- 6 After establishing contact, debt collectors must present, in due time, the possible transitional schemes they have developed as well as the detailed conditions thereof. In the course of this, they must inform the debtor that the amount claimed will be continuously growing as a consequence of non-payment and report its causes (interests, default interests, charges).
- 7 Debt collectors should inform the debtor, in a verifiable manner, about the actions that can be taken during collection. They should explain the legal actions which can be taken and their consequences, including the expected charges and the required time, in sufficient details to help the debtor's informed decision to cooperate.

II.4 The principle of considering the debtor's ability to pay

When taking legal steps or using out-of court means, debt collection organisations should consider the debtor's conditions relating to his ability to pay. In such cases, before taking legal steps to enforce a claim, if possible, debt collectors should assess, in cooperation with the debtor, the debtor's financial position, the possibility of his voluntary fulfillment of his obligations. The enforcement of the principle set out in point II.4 is ensured by the creditor.

- 8 It is necessary to take into consideration the debtor's financial position in order that debt collectors can decide whether it is possible to recover the debts through out-of-court processes (for example, through a transitional scheme or voluntary payment). To this end debt collectors should specify in their internal regulations what information they request from the debtor about his ability to pay, in what way and what form they want such information in respect of each type of contract.
- 9 They should call the debtor's attention to what will be consequences if the debtor fails to cooperate with the debt collector in providing information on his ability to pay (for instance, giving incomplete, inaccurate information).

II.5 Principle of graduality

Debt collection organisations should apply the available claim enforcement tools gradually, taking into account and weighing the amount of the debt, its coverage, the debtor's ability to pay, the degree of the debtor's cooperation and the proportionality of the consequences of applying the different tools. Debt collectors should act in line with the principle of graduality when providing information to debtors.

- 10 In the event the debtor cooperates with the debt collection organisation, the collection organisation should take into account the debtor's ability to pay and strive to apply the tools whose consequences are less disadvantageous to the debtor.
- 11 When a claim is secured by mortgage on real property, debt collectors should take into account the debtor's living conditions, his degree of cooperation, the nature of the property, and strive to apply the foreclosure proceedings aimed at selling the pledged property only a last resort after assessing (or attempting to assess) the debtor's living conditions, after attempting to use a transitional scheme, after using other legal instruments and after presenting the consequences of the foreclosure proceedings.
- 12 A limit to the graduality principle is if the assessment of the debtor's living conditions shows that his financial ability to pay is so weak continuously that it may lead to the claim growing rapidly. In such cases, debt collectors must take their decision on the collection tool to be applied by examining the amount of the debt, its coverage and the available alternative processes for enforcing collaterals.

II.6 The principle of prioritising debtor's repayment

Before initiating legal proceedings to enforce a claim, debt collection organisations should facilitate repayment by the debtor by taking also account of the debtor's degree of cooperation.

- 13 When contacting the debtor, debt collectors are to draw the debtor's attention, in a verifiable way, to the possibility and method of voluntary repayment and to its advantages.
- 14 When claims are secured by mortgage, the obligee of the claim should make it possible for cooperative debtors to sell the mortgage or the pledged property voluntarily or jointly with the debt collector, and demonstrate the advantages, disadvantages and conditions of this solution.

II.7 Principle of regulation

Debt collection organisations should develop their internal rules of procedure for debt collection and for the communication with debtors.

- 15 The rules of procedure contain detailed rules for the debt collection activity (see point 44).

III. Principles for information provision to debtors

- 16 Based on the fundamental principles, the recommendation in respect of information provision to debtors is that debtors should receive all information that facilitates fulfillment of the contract. Debtors can take an informed decision on repayment if they consider the possible alternative solutions for meeting claims (such as transitional schemes) as well as the consequences of the claim enforcement procedures by also taking account of the debtors' financial ability to pay.

III.1 Principles for the provision of general information

At the debtor's request, debt collection organisations must provide information about the process of the debt collection and about the amount and composition of the debtor's debts.

- 17 At the debtor's request, debt collectors must provide information at least once in every six months about the actual state of the debt collection process, including in particular the possible collection steps and their expected scheduling and the actual amount of the debt.
- 18 When providing information about the default in payment, debt collectors should give the information in an easily understandable manner. Therefore, they should use simple language – and where possible – avoid using legal terms or explain such terms. In line with the provisions of the UCPA, the debt collector's point of departure is a debtor whose behaviour reflects that he is reasonably informed and acts with the generally expected prudence and diligence.

III.2. Principles for information provision in writing

While outstanding debts exist, debt collection organisations should provide regular, written information to debtors. The information described under point III.2 is provided by the creditor (obligee of the claim), but it can also be supplied by the debt collector acting on the creditor's behalf based on an assignment contract.

- 19 The written information provided by the debt collector is to be suitable for facilitating the debtors' cooperative behaviour if it gives accurate details to a debtor about the actual amount of his debts (principal, interest, default interest, charges, the amount or level of fees), and if it draws the debtor's attention to the transitional schemes, to the possible debt collection steps, to their costs and to the fact that debts will be continuously growing in case of non-payment, furthermore, if it advises as to where and how the debts can be settled by the debtor.
- 20 Debt collection organisations should provide information to debtors step-by-step. However, in the individual stages of claim enforcement the necessary information provided should be full-scale, depending on what the actual stage of the debt collection process is.
- 21 The Annex, which presents the first information letter after falling behind with debts, as well as the letter before termination, contains the guides prepared by HFSA to debtors (see Annex II).

III.3 Providing information about transitional schemes

Debt collection organisations should inform debtors about the available transitional schemes and repayment schemes. The information described under point III.3 is provided by the creditor (obligee of the claim), but it can also be supplied by the debt collector acting on the creditor's behalf based on an assignment contract.

- 22 The information provided about the transitional and repayment schemes applied by debt the collectors is suitable for facilitating an informed decision on their utilisation if such information makes debtors fully knowledgeable on the conditions and the resulting obligations of the public and institutional schemes available to them, and if based on that, they can assess whether any of the schemes can suit their financial ability to pay.
- 23 Having examined the applicability of the transitional schemes, debt collectors should inform the debtor, in a verifiable manner, as to whether the debtor meets the conditions for utilising the available schemes.

IV. Principles for transitional schemes

IV.1 Debt collection organisations should develop transitional schemes for debtors. In the context of point IV, debt collection organisation shall mean a credit and financial leasing provider, or a purchaser of a debt arising from a financial services agreement.

- 24 Debt collection organisations should develop – in line with the principles of fair and cooperative behaviour - transitional or repayment schemes in respect of lending. These schemes are aimed at rescheduling claims arising from credits or financial leasing agreements, from cancelled financial services agreements or at extending the repayment period, or they help customers, in any other, way who found themselves in a tight financial position.
- 25 Debt collectors should strive to take a positive decision – in line with their business policy - on applying a transitional scheme or repayment option for cooperative debtors whose solvency, financial capability to pay can be established on the basis of the information and authorisation provided by the debtor. In the context of this point, those are deemed as cooperative debtors in particular who provide data and statements requested for the transitional schemes or repayments accurately and in due time.
- 26 In respect of claims from mortgage loans, debt collectors should examine in each and every case whether there is an opportunity for applying the transitional or repayment schemes offered by the institution.

IV.2 Debt collection organisations should take a decision on the application of a transitional scheme by examining the debtor's solvency, financial capability.

- 27 When debt collectors examine the applicability of a transitional scheme or repayment, they carry out the assessment of the debtor's financial position jointly with the debtor. The assessment is designed to ensure that an appropriate decision is taken on the solution to be applied in a given situation based on the knowledge of the debtor's financial capability.

- 28 Debt collectors should define in their internal rules the scope of data which they are authorised to request from the debtor in respect of the different types of claims arising from a credit agreement/financial leasing. Debt collectors should allow sufficient time for the debtor to supply the data requested, and they should take into account the time usually needed to obtain those data.
- 29 In accordance with the provisions of the data protection law, debt collection organisations should try to get the debtor's statements required for handling the financial data requested from debtor. Debt collection organisations should decide on the applicability of the transitional scheme or instalment payment based on the available data (from debtor).

V. Principles for making contact with debtors

- V.1. In the case of debt collection based on an assignment contract it is the debt collector and in the case of transfer of claims it is the debt purchaser who notifies the debtor, in writing, within 15 days about the agreement /claims purchase. If so agreed, the obligee of the claim or the assignor of the claim may also send the above notification.**
30. The debt collector acting on the basis of an assignment contract notifies the debtor within 15 days from signing the debt collection assignment contract or the debt purchaser notifies the same within 15 days from claims purchase, in writing, about his authorisation to recover the claim to the client or to himself by identifying the title of the claim, the amount and composition thereof as well as the manner of performance. The debt purchaser calls on the debtor to perform by stating that if the claim is in dispute, a complaint may be lodged with the debt collector within 10 days from receipt of the letter. The debt purchaser also warns the debtor that the supporting documents should be attached to the compliant.
31. Where the debtor lodged a complaint pursuant to point 30 hereabove, the debt purchaser will not pursue any collection activity (e.g. will not initiate legal proceedings) that directly affects the debtor until response to the complaint is received.

VI. Principles for maintaining contact with debtors

- VI.1 When maintaining contact with debtors, debt collection organisations should avoid aggressive, harassing and misleading behaviours. They should make every effort to ensure that their acting administrators do not exert psychological pressure and achieve the purpose of recovering the claim by the factual and balanced presentation of the options and the expected consequences.**
- 32 The detailed rules of contact-keeping are set out by the debt collectors in the Debt Collection Regulations (point 44).
- VI.2 Debt collection organisations should select the place, time and frequency of making contact in a manner to avoid the impressions of harassment and threat.**
- 33 Debt collection organisations may contact the debtors between 8.00 am and 8.00 pm on weekdays, whereas between 8.00-12.00 am on Saturdays. Deviation from this is allowed at the debtor's express request. The debtor's request must be appropriately documented (by

sound recording or in writing). The debtor's reasonable request relating to the place and time of contact should be taken into account by the debt collectors unless it significantly hinders the collection activity.

- 34 Debt collectors may not contact the debtor more than three times a week per contract. Contact shall mean the debt collection organisation's communication with the debtor via telephone (including SMS messages) and face-to-face contact in which the debt collector can identify himself. Deviation from the above-mentioned frequency is only allowed with the debtor's consent (e.g. in order to achieve a payment agreement with the cooperative debtor). Should the obligee of the claim give an instruction to more than one debt collector to collect the claim, then the obligee should also ensure that the present recommendations apply jointly to the debt collectors contracted.

VI.3 Debt collection organisations should identify themselves and the debtor every time they contact the debtor.

- 35 When making contact, the acting administrator should identify himself, the debt collection firm on whose behalf he acts, the client, the debtor, the claim and should briefly inform the debtor about the purpose of the contact. When making face-to-face contact, the acting administrator of the debt collector hands over his written instruction to the debtor. The instruction should contain the name, address of the debt collection firm and the client, the phone number of its customer service as well as the name of the acting administrator. During the identification, the acting administrator should also indicate to what procedural actions his authorisation / power of representation extend.
- 36 The method and detailed rules of identification are set out in the Debt Collection Regulations.

VI.4 Debt collection organisations should protect the debtor's right to bank secrets and his personal rights and develop the forms of communication accordingly.

- 37 Debt collection organisations may not provide information about debt collection to any unauthorised third person other than the debtor. They should develop the selected forms of communication in a way that when unauthorised third persons attempt to make contact, they may not even receive information about the fact of the debt collection.

VI.5 Debt collection organisations should ensure that there is a sufficient number of appointed administrators to deal with debtors in their premises open to customers.

- 38 Debt collection organisations which have branch offices should ensure that their administrators who work there provide information to defaulting debtors about the actual amount of the debt, about its breaking up in the information letters as specified as well as about the debt collection steps taken. As regards other questions they give the contact details of the administrator dealing with defaulting debtors. Debt collection organisations with branch offices should seek to provide an opportunity for the debtor for personal administration in a location reasonably near to the debtor's place of residence.

VII. Principles for settlement with debtors

VII.1 Debt collection organisations – excluding debt collection based on an assignment contract – should issue a verification to the debtor about the clearing of debts 30 days from clearing thereof.

- 39 The verification informs the debtor about the amount of his debt, about the settlement of the amounts received from his payments, and about the residual amount after clearing the debts (if there is such amount). The clearing of the debts is to be understood as the full payment of the outstanding debts. If there is a foreclosure proceeding, the due date should be calculated from the settlement by the foreclosure officer.
- 40 If a residual amount is due to the debtor after closing the debt collection, it must be repaid by the debt collector to the debtor within five days. If the debt collector handles other debts of the debtor, it should call on the debtor to make a statement that as opposed to his original instruction, the debtor will use the residual amount to repay other debts in full or in part.

VIII. Principles for record-keeping

VIII.1 Debt collection organisations should keep a records about the collection activity they conduct (see the Annex for minimum content requirements).

- 41 The register must be able to document the claim enforcement steps taken against the debtor, the contacts made with debtor as well as the accounts receivable from the debtors. The debt collection organisation must retain the data contained in the register - taking also account of the effective data protection rules in force and of the debtor's authorisation - for a period of five years from the time the data have arisen provided the collector has the necessary authorisation.

IX. Principles for the organisational rules relating to debt collection

IX.1 The management of the debt collection organisations should ensure that the departments or staff members engaged in control and support functions have appropriate knowledge and authorisation for efficiently supervising the communication with debtors. The training is to be documented in the training log.

- 42 The management of the debt collection organisations should ensure that compliance with the rules of communication with debtors is regularly checked by the control functions of the organisation. The management of the debt collection organisations should at least once a year discuss the report on the control. This report should also include a presentation about the lessons learnt about the communication with debtors concerning the debt collection activity carried out on the basis of the assignment contract.

IX.2 The Debt Collection Regulations are approved by the management of the debt collection organisations.

- 43 In line with its control function, the management should ensure that the internal regulations on the rules of debt collection (Debt Collection Regulations) are in compliance with the laws as well as with the principles set out in this recommendation.
- 44 The Debt Collection Regulations should contain at least the following elements:
- A. the rules of procedure for debt collection, including
 - the internal control developed on the basis of the rules which are outlined in this recommendation and which relate to making contact and maintaining contact with debtors and for the provision of information to debtors,
 - the process of releasing the sound recording of telephone conversations with debtors,
 - related data protection and confidentiality rules.
 - B. the rules on the instruction and control of the debt collection organisations acting under a debt collection assignment contract,
 - C. the rules on the internal control of the debt collection activity.

X. Closing provisions

- 45 The recommendation is a legal instrument published under paragraph c) of Section 21 of the HFSA Act. It outlines the basics of the application of law by the HFSA. The recommendation is non-binding for organisations and persons, but compliance with it is evaluated by the HFSA within the framework of checking compliance with the legal provisions. The HFSA points out that the institutions may integrate the content of the recommendation into their regulations. In this case, the institutions are entitled to indicate that those laid down in the regulations comply with the relevant recommendation issued by the President of the HFSA.
- 46 The Supervisory Authority proposes that the principles set forth in this recommendation should be applied as of 1 May 2013. Following that date, the HFSA proposes that the expectations laid down in the recommendation should be applied - after the commencement of compliance with the recommendation - even for contracts that are already in default. In respect of these contracts, the first information letter after the default is not to be served, the due dates must be calculated from the effective date of this recommendation, and the requirements for transitional and repayment schemes are proposed to be used in the case of contracts where the default occurred only after 1 May 2013 or in the case of assigned contracts (in addition to the requirements set by the Code of Conduct on Fair Lending).
- 47 In the Annex to this recommendation the Supervisory Authority publishes the best practices for debtor information and for communication with debtors, the list of certain typical conducts that are non-compliant with the fundamental principles of this recommendation, as well as the guides prepared by HFSA for debtors' guidance. The best practices, prohibited conducts and the guides prepared by HFSA presented in the Annex form an integral part of the recommendation. Accordingly, it is also an expected practice for the institutions to follow the provisions set out in the Annex.

Annex No. I: Best practice of debtor information and communication in the course of the collection activity

The Supervisory Authority presents a possible best practice of the collection activity to the debt collection organisations. This best practice complies with the principles set out in the recommendation. Typical conducts that are non-compliant with the basic principles are outlined at the end of the different sections.

Information to debtors
<ul style="list-style-type: none"> • The debt collection organisation must provide regular information to the debtor during the period of default through the following information letters: <ol style="list-style-type: none"> 1. the first information letter after default 2. information letters before and after termination (Subsections (15)-(16) of Section 210 of the CIFE Act) 3. regular information letters 4. information letters about the transfer of the debt, about debt collection pursued based on an assignment contract <p>All the above letters must be served in the case of mortgage loans. In respect of default arising from other claims letters according to points 1-3 are expected to be sent. The above letters must be sent by the obligee of the claim pursuant to point III.2 of this recommendation, however, it may also be sent by the debt collection organisation acting on behalf of the obligee based on an assignment contract.</p> • At the debtor's request, the collection organisation is obliged to provide information within 15 days from the debtor's request about the state of the debt collection, about the expected steps and about the outstanding debt and its composition. • If in respect of a claim secured by mortgage, the collateral for the claim has been enforced and it has failed to cover the debtor's liabilities, then the client must be informed about the amount of the remaining debt within 30 days from settlement by the foreclosure officer. The debt collection organisation should continuously make the following information accessible to clients in the premises open to clients as well as on its website: <ol style="list-style-type: none"> 1. the full name of the debt collection organisation, the number and date of its activity license 2. the costs and fees charged to clients by the debt collection organisation in connection with claim enforcement 3. the method of calculating interests and fees 4. the rules on the form and frequency of making and maintaining contacts with debtors 5. the rules on the provision of information to clients • The debt collection organisation must make accessible the following information on its website: <ol style="list-style-type: none"> 1. Transitional and repayment schemes offered by the debt collection organisation. 2. The consequences of non-payment. 3. The debt collection organisation's information about the collection process according to the type of the claims by describing the typical timetable of the different stages from the time of falling behind with debts; and drawing the client's attention to the fact that the process presented assumed a cooperative debtor, but the debt collector may depart from it based on the nature of the debt and on the circumstances of the procedure. 4. The presentation of the rules on the order of settling overdue accounts that have been paid by giving numerical examples 5. Information about the costs of the foreclosure proceedings, about the minimum purchase prices in foreclosure proceedings defined in laws. 6. Information about complaints management. • Information should be provided in a simple, clear and easily understandable manner. • Fees or costs charged for sending information letters should be established in accordance with the postal charges. • At the debtor's express request, letters should also be sent by electronic mail to which the debtor's prior written consent must be obtained. • It is advisable to send the information letter together with the payment notice in one single letter in order to minimise costs.

Conducts non-compliant with the fundamental principles

1. Using complicated language, frequently using and inadequately explaining legal terms that are difficult to understand for debtors in the course of providing information to debtors.
2. Using documents (agreements, guides, legal instruments) in a way that deceives or is suitable for deceiving a debtor about his legal position.
3. Communicating misleading information to a debtor which may induce him to make contact on the basis of a false premise about his position (e.g. implying the seizure of movables without clarifying that it can only be done in a court proceeding).
4. Falsely stating or implying that the debt collection organisation is entitled to take a step to collect the debt which step has basically no legal grounds in the given situation (e.g. implying that a judicial foreclosure proceeding will be taken before termination).
5. Falsely stating that a step for debt recovery has been taken when it has actually not happened.

First information letter

In the event a debtor is falling behind, the first information letter must be sent to him, in a verifiable way, **within 30 days from the commencement of the default**. In respect of a default arising from an activity other than lending, the 30 days should be calculated from the day when the amount of the outstanding debt exceeds ten thousand Hungarian forints.

The minimum content requirement of the first information letter:

1. the title of the debt, the name and address of the obligee of the debt, and the contact address where the debtor may contact the institution, as well as the client service hours
2. the breakdown of the overdue debt prepared to the given value date:
 - a. the amount of the overdue principal
 - b. the amount of the overdue interest
 - c. the amount of the default interest
 - d. the amount of the fees and costs
3. the amount of the total overdue debt (broken down according to overdue and not overdue accounts) to the value date
4. the date of falling behind
5. the numerical value of the default interest, and information as to where one can inquire about its actual amount
6. attention should be drawn to the following:
 - a. in case of a debtor's continued non-payment, the interest will continuously rise
 - b. settling the arrears does not mean that the instalment due is not to be paid
 - c. the link to the website concerning the available the transitional schemes
 - d. the legal consequences of non-payment in respect of combined credits (including information about the consequences of delay in payment of the savings element, and in what way such the delay is advised)
 - e. the HFSA's guide on financial difficulties
7. the link to the website concerning the rules on presenting the order of settlement for the payment of outstanding debts
8. a detailed list of all fees and costs an institution may charge to a client in connection with the default
9. the link to the website concerning the debt collection process according to the credit type

The HFSA's guide on financial difficulties constitutes an annex to the information letter. There is no need to resend the guide to the clients who settle their arrears, but are in default again within one year. It is recommended that a two-page guide is printed in order to minimise the postal charges.

There is no need to send the first information letter to the pledger and the surety.

2 Letter before termination

Minimum content requirement of the letter before termination:

1. The provisions set out in Subsection (15) of Section 210 of the CIFE Act.
2. Exact designation of the date until which the debtor may perform without the legal consequences of termination.
3. Drawing the attention to the fact that at the debtor's request detailed information may be received about payments made during the period of default about the fees and costs charged, as well as about the instalments overdue based on which information the debt can be monitored.
4. In the case of mortgage loan agreements, the following information should be provided:
 - a. In the event the amount received from the sale of the pledged property does not cover the total debt, the consumer is subject to further payment liabilities,
 - b. the costs for the different types of foreclosure proceedings, the link to the website concerning the minimum property sales prices defined in the different types.
5. Attention should be drawn to the following:
 - a. the link to the website concerning the consequences of non-payment,
 - b. the possibility of incurring additional costs in connection with debt collection,
 - c. the HFSA's guide on termination.

In respect of credit agreements, the HFSA's guide on termination constitutes an annex to the information letter. It is recommended that a two-page guide is printed in order to minimise the postal charges.

From the date of sending the information letter before termination, the debt collection organisation should allow at least a period of 15 days to the debtor to perform the claim without legal consequences.

3. Regular information letter

In respect of claims arising from mortgage-backed loans /financial leasing agreements, a regular information letter must be served to the consumer in **every two months**, calculated from the commencement of the default, until termination of the agreement. Following the termination of the agreement, the regular information letter must be served in every six months for a period of five years, and once a year after five years. As regards other claims, the regular information letter must be sent once a year from the commencement of the default. The debt collection organisation is obliged to provide the above information to the client at least once a year, from the initiation of judicial foreclosure proceedings / joining such proceedings until conclusion thereof. The information sent during the foreclosure proceedings should contain attention-drawing to the following: the information sent does not include the costs incurred during the foreclosure proceedings; the foreclosure officer can provide information about such data. In the case of the transfer of the debt, the due dates should be calculated from the date of the transfer. In the event the debt collection organisation does not pursue active collection activities (in particular, it does not perform an act that interrupts the limitation period of the claim), then no regular information letters are to be sent during such period and this fact should be entered into the register at the date when the passive status commences.

Minimum content requirements of the letter:

1. Points 1-5 of the first information letter
2. Warning in respect of mortgage loan agreements that the pledged property may be lost in case of non-payment
3. the link to the website relating to the debt collection process according to the debt type.

4 Information letter after the transfer of the debt and the instruction for debt collection

In the case of debt collection based on an assignment contract it is the collector, or in the case of debt transfer it is the debt purchaser who should send the information letter to the debtor **within 15 days from** the signing of the assignment contract or from the purchase of the debt **by meeting the following minimum content requirements:**

1. Points 1-5 of the first information letter
2. the link to the website concerning the debt collection process according to the debt type
3. the way in which the debtor may fulfill his obligation

4. information that at the debtor's request the debt purchaser should provide information about the state of the debt collection and about the actual outstanding debt within the shortest time possible
5. presenting the costs and fees applied

Transitional schemes

Based on point IV of the recommendation, for the purposes of this section, debt collection organisation shall mean the creditor and the provider of financial leasing, or the purchaser of a claim arising from a financial services agreement.

- In respect of credit agreements secured by mortgage on real property, debt collection organisations take into account their own business policy and the debtor's conditions relating to his ability to pay when they investigate the option before termination whether there is an opportunity for applying the following transitional schemes or their combination in the case of the debtor's default :
 1. repayment scheme: for example, term extension, payment of moderate instalments for a transitional period, grace period for principal payment (capital moratorium)
 2. capitalisation of the outstanding debts
 3. conversion of foreign exchange loans into Hungarian forint
 4. participation in public transitional schemes
- Before initiating court proceedings and out-of-court, non-litigious proceedings for the enforcement of claims arising from terminated, mortgage-backed credit agreements, the purchaser of the claim should examine the option of instalment payment or the option of signing a new credit agreement (if he may perform lending activity, including the use of the transitional schemes).
- The debt collection organisation should inform the client about the outcome of the investigation as to the applicability of the transitional scheme, in writing, in a verifiable way, within eight days of closing the investigation.
- The debt collection organisation is obliged to inform the client about all public transitional schemes available to him no later than at the time when the application of the transitional scheme is refused, or before signing the agreement.
- When information is provided in connection with the transitional schemes, the following data must be made available to the debtor prior to the agreement:
 1. the amount of the outstanding debt according to the agreement
 2. the presentation of the transitional scheme contained in the agreement in accordance with the repayment table specified in Section 17 of Act CLXII of 2009 on Consumer Credit (ACC)
 3. fees and costs related to the conclusion of the agreement
 4. the consequences if the debtor fails to carry out the agreement
- The debt collection organisation may not take a decision on the transitional scheme without examining solvency
- The debt collection organisation should specify in its **internal regulations** which items of income can be taken into account for the different credit types when assessing solvency and how they can be verified. Furthermore, the internal regulations must specify the verifications to be submitted and the content of the statements. In the event a consumer fails to submit the above verifications in due time, then the debt collection organisation will take a decision on the basis of the information available.
- If a credit agreement secured by mortgage on real property cannot be restructured, then the debt collector should inform the client about his option to sell the real property independently or jointly with the financial institution. It must be made in writing, in a verifiable way, not later than the commencement of the judicial foreclosure proceedings for the sale of the real property.
- The advantages, disadvantages as well as the conditions must be outlined in the information about the independent or joint sale of real property.

Conducts non-compliant with the fundamental principles

- The debtor's financial position and solvency are assessed inappropriately, and therefore a transitional scheme is proposed that clearly cannot be carried out by the debtor.
- Where a debtor has several loans, the debt collector does not allow for the debtor to decide in the collection process which credit he wants to repay.

Making and maintaining contact with debtors

- The debt collection organisation should disclose on its website to all interested parties the rules, set out in the recommendation, relating to the form and frequency of making and maintaining contact with debtors.

Conducts non-compliant with the fundamental principles

- A form of contact in which it is not clearly made known on whose behalf the administrator acts and what is the purpose of the contact.
- The debt collection organisation ignores the debtor's reasonable request for communication (e.g. contact at the workplace at certain times).
- Conducts applied to distress and demoralise the debtor.
- Using verbal (e.g. obscenity) or physical threat which may lead the debtor to believe that he may be at a disadvantage.
- Exerting pressure in order that the debtor sells his real property, movables or perhaps borrows further money to repay the debt.
- Ignoring the debtor's statement that he has settled his debt.
- Threatening with criminal prosecution when there are no grounds for such.
- Creating an impression that may lead the debtor to believe that the debt collection organisation will take coercive measures against him or will act as a representative of public authority against him.
- Demand for payment and for contact using a postcard.

Minimum components of the institution's register about the debt collection activity

The purpose of the register is for the debt collection organisation to document, in a retrievable way, its collection practice and its compliance with this recommendation by satisfying the relevant data protection rules. To this end the Supervisory Authority considers it a good practice for the institution to use a software for record-keeping. The software should record, in a retrievable way, the institutional practice that is in line with this recommendation. However, the HFSA deems it sufficient if customer files are kept which meet the record-keeping requirements.

Minimum components of the register:

- The debt collection organisation should keep records about customers in default or having outstanding debts, about the claim enforcement actions against them as well as about the claims against customers and about the sum of the claims.
- The manner and date of all contacts the institution initiated with the debtor must be documented.
- The register must be able to ensure that telephone conversations with debtors can be listened to again and letters and text messages sent to him can be retrieved, and the time of contact can be established (the date of sending letters).
- The register must contain the documentation relating to the investigation whether the transitional and repayment schemes can be applied in respect of mortgage loans. Its minimum content elements are the following:
 - the transitional scheme offered and agreed,
 - the documentation about investigating the applicability of the transitional scheme, including the data of the debtor's financial position provided by him, if he gave the necessary consent to data management.
- It is recommended that the debt collection organisation preserve the data in the register for a period of

five years from the date of their emergence, taking account of the relevant data protection rules and the debtor's statement.

In respect of debt collection based on an assignment contract, the debt collector must have a register which meets the above requirements and is in conformity with the scope of the agreement. The commencement date and the duration of the debt collection agreement as well as the debts assigned must also be documented. Where, for instance, based on the debt collection agreement, the debt collector contacts the debtor by phone, the record-keeping requirements for telephone conversations must be met by the debt collector acting as agent.

Minimum content of the training for the debt collection organisation's administrators

- Legal environment of debt collection
- The debt collection process, tools and related decision-making competences of the debt collectors
- Legal proceedings applicable in debt collection, conditions of applying them
- Rules relating to making and maintaining contacts
- Rules relating to debtor information, applied by the institution
- Fundamental principles for debt collection, conducts non-compliant with the fundamental principles
- Transitional schemes, products

The content of the training should be developed in line with the role the debt collector plays in the collection activity (what parts of the collection process are pursued by the institution (e.g. soft or hard collection). Following the training, administrators must be regularly informed about the potential changes. The debt collector should keep a training log about the training in which minimum the date of the training, the name of the administrators taking part in the training must be recorded.

Guide for financial difficulties



**PÉNZÜGYI SZERVEZETEK
ÁLLAMI FELÜGYELETE
HUNGARIAN FINANCIAL
SUPERVISORY AUTHORITY**

2013

About the Guide

This Guide contains useful information for customers with financial difficulties.

If you read it you will be aware of

- what to do in such a situation,

- what you should be attentive of when taking a decision,
- what options you have when experiencing financial difficulties.

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1 What to do when I have financial difficulties?

You may also get into a situation when are unable to pay your debts temporarily or permanently for reasons beyond your control. In such a case, it is important that **should not sweep** the problem **under the carpet** and **should take immediate action**. The sooner you act the better your chance is to find the solution.

1. Let you creditor know about your financial trouble

It is very important that you contact your creditor and tell him frankly that you are having financial difficulties. **The key to the solution is that you cooperate** and provide full and accurate information about your financial position. If you indicate your problem in time, there is a chance to find – at least a transitional – solution even in great financial hardship. What you need to do is: act quickly.

It is good for you to know:

- Creditors usually request you to report your financial trouble in writing and verify it. Indicate the cause of your financial trouble (e.g. loss of job, illness, etc.).

- In the procedure creditors will take into account your readiness to cooperate (or the lack of it). You can substantiate your readiness to cooperate by indicating your problem in time, even before it surfaces.

2. Assess precisely your financial position

In order to manage your financial difficulties in the best possible way, it is necessary to assess how your financial position has recently changed. To this end you need to **summarise all your revenues and expenses**.

Based on the above,

- you can calculate **the amount missing from your monthly budget**,
- your can set up a **priority list** of your expenses,

- you can learn **where you can save**,
- it will make your finances easier to plan,
- **it may facilitate and accelerate the agreement** with the creditor: you will have a clear picture about the financial burdens you can accept.

It is good for you to know:

- Your calculation is assisted by the HFSA's household budget calculator programme
<http://www.pszaf.hu/fogyasztoknak/alkalmazasok/hksz>

- It may sound surprising but you can save a large amount of money with proper awareness

Think on the members of your family and relatives whose help you may rely on. Based on your budget, **inform your creditor how much you can pay.**

It is important to make an effort to reach a settlement with your creditor even if you are able to repay only a portion of your original instalment.

Creditors will terminate your contract and enforce the collaterals only as a last resort. If you cooperate, you have a good chance to jointly reach a solution (see the details in chapter 3).

3. Pay as much as you can

If you cannot repay the total amount of the instalments even after a review of your household budget, it is important for you to pay as much as you can. By doing so, you can prove that you are ready to cooperate even under your difficult conditions. This is an important factor in the course of agreeing on a transitional solution. Your indebtedness will grow at a slower pace, a factor also facilitating the possibility of a transitional solution. If you have no chance to reach such an agreement, it is important that your assets (home, movables) be collateralised only to a minimum possible extent. **If you cooperate you, can also expect a similar behaviour from your creditor, and you may find the most suitable solution together.**

4. Examine your collateral protection insurance

If you have taken out collateral protection insurance, ask yourself whether based on it you are entitled to protection. In order to answer this question, you need to study its terms and conditions. The service provider may also assist you in answering this question.

5. Know your option

Ask your creditor about transitional schemes, their terms and conditions and about the available social programmes. See details under chapter 3.

6. Keep the copies of letters and documents on your default and give your consent to recording telephone conversations conducted with your debt collector

It is important to have these documents and recordings available in case of a legal dispute.

A check list for your most important tasks:

- ☐ Have you contacted your creditor? The sooner you do it, the bigger your chance is for reaching a solution.
- ☐ Have you prepared your household budget? Are you aware how much you are able to realistically pay after cutting your expenses?
- ☐ Do you make regular payments according to your possibilities?
- ☐ Have you checked your collateral protection insurance?
- ☐ Have you checked your available options?

It is good for you to know: If you mismanage your financial difficulties, you may end up losing your home.

2. What not to do if you have financial difficulties?

It is important that you should always take careful steps even if you have financial difficulties. When you seek a possible way out, you may encounter attractive solutions which may further aggravate your position.

1. The aspects of using debt settlement schemes

You may encounter advertisements which offer you attractive debt settlement schemes. **Make sure that you avoid small-print advertisements which target customers listed in the Interbank Debtor and Credit Information System (Hungarian acronym: BAR) (or the Central Credit Information System – CCIS, Hungarian acronym: KHR).** Be also careful with possible schemes offered by institutions which are not supervised. In each and every case, **ask the question whether the institution concerned has supervisory license.** You can check it with the HFSA's customer service, or on its website (see Useful Addresses at the end of the Guide). **Check the terms and conditions of the proposed credit** (instalments, costs, collaterals, etc.) before you sign an agreement. You can find the above information in the written documents provided by the creditor or credit broker soliciting the offer. Compare the

documents with the burdens of your current credits which are available free of charge in the form of a repayment schedule at your creditor.

2. Saving certain expenses

When you prepare a list of priorities for expenses, **take into account that failure to pay certain liabilities may create a similar situation** to the default in payment in the case of a credit, i.e. judicial foreclosure proceedings may be initiated. See the details in the HFSA's household budget calculator programme on the HFSA's website (<http://www.pszaf.hu/fogyasztoknak/alkalmazasok/hksz>).

3. It is risky to rely on selling the real property serving as collateral for the loan

You receive regular information from your creditor during your default in payment about the size of the debts. If your debts approach the value of the real property which serves as collateral and you are still unable to make payments, you may end up having debts even after selling the collateral.

It is important for you to know that if your creditor still has claims against you after the sale of your real property, you have an obligation to pay your debts.

You should be also aware that if you have unsecured credit (e.g. commercial credit), the claim may also be enforced by judicial foreclosure, so other assets you own, even your home may serve as collateral.

In summary: your homeownership may be jeopardised not only by failure to pay your residential mortgage loan, but also by non-payment of other loans or public utility bills.

4. Do not sweep your problem under the carpet. Do not expect others to solve your problem.

The late payment of instalments and other fees and costs due may in summary result in your debts gradually growing and accumulating. **This is the reason why it is very important for you to always pay at least as much as you can and to settle your debts as soon as you have a chance to do so.**

In case of default, the longer you delay payment, the larger the claim of your creditor will be, so as a result you will have to suffer increasing financial burdens even if you can avoid the foreclosure proceedings.

3. Information about transitional schemes

If you are in default and you cooperate with your creditor, you may jointly find a transitional scheme. Each and every creditor offers special schemes for debtors in trouble, and they also assist you in utilising public schemes. Contact your credit institution concerning public schemes.

Before you take a final decision about choosing a transitional scheme, you should take a careful account of your own and your potential helpers' capacity to pay and ability to generate revenues.

It is also good for you to know that your readiness to cooperate will encourage your creditor to examine the applicability of transitional schemes for you, however, your creditor is not obliged to secure a transitional scheme for you in every case.

If you are faced with short-term, temporary financial difficulties, make sure to start the repayment of your outstanding debts as soon as possible because delays incur costs (see the details in chapter 4).

1. Repayment schemes offered by creditors

If you have repayment difficulties, your **creditors will assess your financial position and take a decision about the option of modifying your contract**. It is important for you to provide your creditors with the requested information and statements in a comprehensive and precise manner.

Creditors can offer you a list of transitional schemes or a mixture of them. The list below is not exhaustive:

Term extension

The extension of the loan term enables you to have reduced instalments with all other conditions unchanged. However, it also means that you will have repayment obligations for a period longer than originally planned and you will have to pay more in total.

You have a chance to extend the term of your residential mortgage loan free of charge (by maximum five years), which your creditor may reject only on the grounds of a substantiated reason.

Capitalisation of outstanding debts

If you are solvent, the creditor may decide to increase your debts not yet due by the amount overdue. As a result of such an agreement, the amount of your monthly instalments will be higher, however, there will be no need for you to immediately pay the amount outstanding.

Temporary payment of moderate instalments

If you have a temporary financial trouble, there is a chance for you **to pay less for a certain**

period of time. In such a case, subject to the agreement, the difference between the original instalment and the moderate amount, or the interest portion of the repayment, which is temporarily not paid, will be added later to the outstanding debts.

Grace period for principal repayment (capital moratorium)

It is similar to the previous arrangement, but in this case **temporarily only the interests and costs must be paid out of the instalment, and no principal repayment is to be effected.** In such a case, the amount of the debts is usually unchanged, but it is not reduced either. When the grace period is over, the outstanding principal will be added to your debts.

Conversion of the loan into Hungarian forint

Subject to an agreement, creditors allow you to convert your foreign exchange loan into one denominated in Hungarian forint. If you chose conversion, **you must consider the extent of the possible exchange loss**, while there will be no uncertainty due to exchange rate changes, but the rate of interest may still change.

Creditors may offer **other schemes** on top of the above, so ask your creditor about the options in each and every case.

2. Public schemes

If the conditions set forth in legal provisions are met, **you have a chance for utilising the public schemes at the creditor.** Your creditor will inform you about the public schemes available to you. You find detailed information about them at the HFSA's website (http://www.pszaf.hu/fogyasztoknak/hitelek/fizetesi_nehezsegek/allami_programok_devizaad-osoknak.html).

3. Social help

If you lose your job, or you have long-term health problems and financial difficulties, ask about the available social programs run by the government and the local governments. You can get detailed information at the local government and at the Labour Centre of county Government Offices (see the Useful addresses at the end of the publication).

4. Useful information

The following information can help you to more accurately assess the consequences of default. If you have further questions, contact your creditor.

1. Costs, fees

The default has a price: **you must pay all costs arising in connection with the default.** The primary cost after default is the **default interest charged on the overdue debt until the termination of the loan.** You may **learn about its extent** in the information letter served together with this Guide. The rate of the default interest applied is generally adjusted to the central bank base rate. The rate of the default interest may vary, its actual rate is disclosed in the announcement of the bank.

An additional cost after default is the fees charged for certain lending activities. Such fees include typically the fee of the payment notice and the fees charged for the assessment of the debtor's solvency. Ask your creditor about the actual extent of such fees.

If there is a need for contract amendment due to the transitional schemes, the fee for the contract amendment or the notary's fee connected with mortgage loans may represent a significant charge.

2. Rules of settlement in case of default

It is important for you to know that if you are in default and subsequently you make payments to the creditor, then the settlement will contain the following elements unless otherwise stipulated in the agreement signed between you and your creditor:

- your payments will firstly be used to cover the above-specified costs,
- then to cover interests and the default interest, and
- the remaining portion will cover your outstanding debts.

If your defaults on instalments continue to accumulate, then the fees and costs payable on them together with the rules of settlement concerning them may result in the overall effect of your debts also accumulating rapidly. Consequently, it is very important for you to pay as much as you can and to do your best to gain entitlement for a transitional scheme.

3. Central Credit Information System (CCIS)

One of the consequences of your default in payment is that **in the case of a continuous default which exceeds the amount of the monthly minimum wage and which reaches a delay of more than 90 days, your data concerning your default will be forwarded by your creditor to the Central Credit Information System.** For a period of ten years starting with the date of making this report this information can be transferred also to other creditors if you turn to them for a credit. If you have settled your debts in default, the data on your default will be automatically deleted from the CCIS within a year from your debt settlement.

As a consequence, as long as your debt in default is recorded in the CCIS you may not be able to receive a new credit or the conditions of your new credit may become more stringent.

4. About the consequences of terminating the credit agreement

The Supervisory Authority has published a guide about the consequences of the termination of the credit agreement, a guide which all debtors receive annexed to the last letter sent before termination. The guide is also accessible on the HFSA's website.

5. Useful addresses

You may receive information about job search assistance and social benefits available in the case of **unemployment** at the Labour Centres of county Government Offices. Contact the National Labour Office for information about the accessibility of a Labour Centre operating in your residential location:

National Labour Office

Address: 1089 Budapest, Kálvária tér 7. **website:** www.afsz.hu, www.munka.hu,

Telephone: (+36-1) 303-9300

In the case of a default, you may get further information about the available public schemes and schemes offered by institutions in the financial consumer protection advisory offices. The offices operate in several cities and towns throughout the country. You may receive information about the contact details of the offices at the HFSA customer service (tel.: 06-40-203-776) or on the website of the advisory network:

<http://www.penzugyifogvaszto.hu/>

If you have a legal dispute ***in connection with your creditor arising from the conclusion or performance of a contract,*** you may turn to the Financial Arbitration Board, which is a forum of alternative dispute resolution in the interest of reaching out-of-court settlement of

disputes arising between consumers and financial service providers in connection with an existing contract.

Financial Arbitration Board

Address: 1013 Budapest, Krisztina krt. 39., website: www.pszaf.hu/pbt,

Telephone: (+36 1) 489-9100

You may file a *consumer petition* with the Hungarian Financial Supervisory Authority if you believe that your creditor has not acted in accordance with the applicable legal provisions on default. You may file a petition to the Supervisory Authority if you have already lodged a complaint with your creditor.

Hungarian Financial Supervisory Authority

Address: 1013 Budapest, Krisztina krt. 39., website: www.pszaf.hu,

Telephone: (+36 40) 203-776

You may ask your creditor or the financial enterprise managing the CCIS about the *data recorded in the CCIS*:

Central Credit Information PLC (BISZ Zrt)

Address: 1205 Budapest, Mártonffy utca 25-27., website: www.bisz.hu,

telephone: (+36 1) 421-2505

Guide

before the termination of the credit agreement



PÉNZÜGYI SZERVEZETEK
ÁLLAMI FELÜGYELETE
HUNGARIAN FINANCIAL
SUPERVISORY AUTHORITY

2013

About the Guide

You receive this Guide because your creditor has already sent you the last payment notice before your credit agreement is terminated. In your own interest you are advised to take very seriously the warning in the payment notice and in this Guide.

The Guide contains useful information for customers before the termination of the credit agreement about

- what you should do in this situation and what your options are, and
- what factors you should take into account before you take a decision.

1. What to do if you received the last payment notice before the termination of the credit agreement?

First of all you should read the payment notice very carefully. This letter provides clear information about what to do and also what will happen if you fail to respond to its content.

In this case the most important thing for you is **„not to sweep the problem under the carpet”** and **to act without delay**. Your decisions in this situation may have far-reaching consequences.

Contact your creditor without delay and inquire about your options in order to avoid the termination of the credit agreement or the negative consequences of it, or at least to mitigate its negative consequences. If there is something you do not understand or something is not quite clear for you, ask your administrator.

- If the credit agreement is also signed by a co-debtor, a surety or other pledger, contact them without delay in order to find a solution jointly together.
- If you have not yet tried to find with your creditor a transitional public scheme or a scheme offered by the credit institution, inquire about these options. You may find further information about the transitional schemes on the HFSA's website¹.
- If you are no longer able to use a transitional scheme in order to maintain your credit agreement, ask your creditor without delay about the possible **legal options** for claim enforcement (e.g. foreclosure proceeding, payment warrant proceeding).

¹ The guides are published on the consumer subpages (<http://www.pszaf.hu/fogyasztoknak>), in the section dealing with credits, under the point titled financial difficulties.

- In case of a credit secured by mortgage, it is indispensable for you to clarify whether your credit institution will give consent (and under what conditions) to **the selling** of the property by the owner **independently**. If this is not possible, you should know about the conditions of the **joint sale** of the property and about the drawbacks and advantages of these options.
- In case of a credit secured by mortgage, ask if you can make use of the home building assistance. Interest subsidy can be granted to purchase a smaller home or to pay the interests on the Hungarian forint denominated credit to refinance the foreign currency denominated credit in default.
- Ask if you may be entitled, on social grounds, to the home protection programs offered by the government (Hungarian National Asset Management Inc) or local governments. You may find information about the Hungarian National Asset Management Inc. on the HFSA's website (see footnote 1). You may receive information about the social subsidies at the customer service of the Ministry of Human Resources (see „Useful addresses” at the end of the Guide).

Unless you act swiftly, your creditor may terminate your credit agreement and may initiate a legal proceeding against you. As a result, if you have a mortgage loan, **you may lose** the property which serves as a collateral for the credit. In the case of other (unsecured) credits, **you may lose your assets and properties**.

It is your creditor's fundamental interest to continue relations with you even after the termination of the credit agreement. It is, however, the creditor's right and obligation to recover the claim.

2. Additional important information

1. Requesting information

If you have any question, do not hesitate to contact your creditor. Your creditor is obliged to provide information to you based on the „principle of fair and cooperative conduct” set out in the Code of Conduct.

2. Debt accumulation

The late payment of instalments and other fees and costs due (see the points below) may in summary result in your debts gradually growing and accumulating. **This is the reason why it is very important for you to always pay as much as you can and to settle your debts as soon as you have a chance to do so.**

Following termination your total debts will become due in one sum, which means that default interest will be charged not only on the overdue instalments but also on your total debts. If you have a home loan agreement, the default interest may not be higher in the 90 days following termination than the rate of interests and handling charges applied at the time of termination. Irrespective of this limitation, you may expect that your debts will be accumulating at an accelerating pace after termination if you are not able to repay your debts as they fall due, in one sum or in instalments, based on an agreement with your creditor.

3. Costs of the termination

If your creditor notarises the termination, then it will be subject to charges according to the list of notary public fees; its amount varies usually between 18- 25 thousand forints.

4. Foreclosure and debt collection charges

In debt collection the collector may charge fees for correspondence, for the initiation of certain legal proceedings, for valuation and for the services of a lawyer.

It is important for you to be aware that the charges of the judicial foreclosure proceeding are determined precisely by the applicable legal provisions, and such charges – irrespective of the course which the proceeding is to follow – **may even be up to 10-20% of the amount of the claim.** The foreclosure charges are the first to be deduced of the amounts received from the debtor in the judicial foreclosure proceeding.

5. Collateralised loans

In the event you have a credit secured by mortgage, take into account that the accumulation of debts and the charges of debt collection and foreclosure are going to reduce the residual value you would be entitled to after deduction of the claims. If your **debts exceed the level of the collateral** at the time when the collateral is sold, you will **continue to have debts** which your creditor may continue to demand from you.

6. Central Credit Information System (CCIS)

Your data will be recorded in the CCIS if you fail to meet your obligations undertaken in the credit agreement or similar schemes in an extent exceeding the amount of the monthly minimum wage and for a continuous period of more than 90 days. Then the CCIS will register the outstanding and closed credit defaults. The CCIS register will also contain how your outstanding credit defaults were closed. Defaults closed by settlement will remain visible in the system for one year from settlement, whereas defaults closed without settlement by the debtor with a loss to the creditor will remain visible for a period of five years from closure (for 10 years from the original data submission) without the customer's specific consent, and will then be removed automatically.

Contact your creditor and ask about the options in order that the **least disadvantageous** solution could be applied in the knowledge of your exact conditions and possibilities.

3. Useful addresses

In the case of a default, you can get further information about the available public schemes and schemes offered by the institutions **in the financial consumer protection advisory offices**. The offices operate in several cities and towns throughout the country. You may receive information about the address, the opening hours and the telephone number of the offices at the HFSA's customer service (tel.: 06-40-203-776) or on the website of the advisory network:

<http://www.penzugyifogyaszto.hu/>

If you have a legal dispute in connection with your creditor **arising from the conclusion or performance of a contract**, you may turn to the Financial Arbitration Board, which is a forum of alternative dispute resolution in the interest for reaching out-of-court settlement of disputes arising between consumers and financial service providers in connection with an existing contract. Contact details:

Financial Arbitration Board

Address: 1013 Budapest, Krisztina krt. 39., website: www.pszaf.hu/pbt,

Telephone: (+36 1) 489-9100

You may file a consumer petition with the Hungarian Financial Supervisory Authority if you believe that your creditor has not acted in accordance with the applicable legal provisions. You may file a petition to the Supervisory Authority if you have already lodged a complaint with your creditor.

Hungarian Financial Supervisory Authority

Address: 1013 Budapest, Krisztina krt. 39., website: www.pszaf.hu,

Telephone: (+36 40) 203-776

You may ask your creditor or the financial enterprise managing the CCIS about the data recorded in the CCIS:

Central Credit Information PLC (BISZ Zrt.)

Address: 1205 Budapest, Mártonffy utca 25-27., website: www.bisz.hu,

telephone: (+36 1) 421-2505

Contact the Ministry of Human Resources in connection with the available social subsidies:

Ministry of Human Resources

**Department for Information on Social Affairs
Customer service**

Budapest, V. Akadémia u. 3., telephone: (+36 1) 795-3168