

## **KRS: procedures to be applied by banks for calculating Forex-based loans (Part 2.)**

**The President of the National Bank of Hungary has issued its first decree on the general rules governing the calculation methods concerning retail loan agreements – informed the legal column of Origo Kovács Réti Szegheő Attorneys at Law. Dr Mónika Kapetz attorney-at-law in her second article of this three-part series, looks into the three applicable methods based on which financial institutions are bound to recalculate forex-based loans.**

As for the first method, it consists in recalculating the amount of the borrower's initial outstanding debt expressed in the foreign currency on which the loan is based, as well as the amount of the first monthly repayment.

The financial institution will subsequently calculate the extent of the overpayment that occurred in Hungarian Forints during the first repayment period, then convert this, at the official exchange rate published by MNB (the National Bank of Hungary) applicable on the quotation date applied by the financial institution, into the currency in which the loan is granted; and with the resulting sum they will lower the debt outstanding on the last day of the given repayment period and expressed in the currency in which the loan is granted.

Financial institutions will repeat the above steps to determine, in respect of every subsequent repayment period, the instalment and overpayment amount until the pay-off date or, in case the loan agreement proves to be terminated, until the date of termination.

The overpayment relevant to the maturity will be the difference resulting between the principal outstanding on this date and the principal outstanding resulting from the conversion – pointed out the legal expert at Kovács Réti Szegheő Attorneys at Law.

### **The second method**

If financial institutions apply the method comprised in Annex 2, the borrowers' overpayment will be considered as an accumulated amount and collected on a separate technical or collection account in the currency in which the loan was granted.

The outstanding overpayment resulting from the exchange rate spread and unilateral contract modification according to these two calculation methods will result from the difference between the principal outstanding and the principal outstanding re-calculated in line with the Presidential Decree.

There are a few cases in which financial institutions do not calculate exchange rate spread, for instance where the loan was granted in the same currency in which the borrower is redeeming it, and the same applies for retail loan agreements in Forints – pointed out Dr Mónika Kapetz.



### **The third method**

If financial institutions opt for the calculation as laid down in the third method, overpayments resulting from the exchange rate spread and unilateral contract modification will be calculated for every single repayment period consecutively.

Financial institutions that have not initiated legal action to seek establishment of the fairness of their General Conditions of Contract will have to deliver the effectuated pay-off calculations to their customers between 15 and 29 January 2015.

The banks which did initiate legal action will have to deliver the pay-off calculations to borrowers between 1 and 28 February 2015. However, for legal actions terminating after 31 December 2014, the timeframe allowed for delivery will be 60 days from the termination date of the lawsuit.

The expert of Kovács Réti Szegheő Attorneys at Law reminds borrowers that they must not forget to communicate their current residence to the financial institution, whenever the postal address to which they expect the notice to arrive differs from the one indicated in the retail loan agreement or their last registered address, in order to make sure that they do receive it.

At the moment we cannot see whether the formulation will be clear and intelligible enough for borrowers to comprehend, since the form and content of the calculation will be determined by an MNB Presidential Decree to be issued at a later stage. Since the pay-off methods annexed to the decree may prove to be difficult for the general public to understand, it is a reasonable demand on the borrowers' side to turn to their banks whenever they need assistance with its interpretation.