

Updated Code of Conduct on the fair conduct by financial organisations engaged in lending to the households

PREAMBLE

The Code of Conduct on the fair conduct to be exhibited towards the customers by the financial organisations engaged in lending to the households entered into force on 1 January 2010 with the aim to strengthen the trust indispensable in the relation between the household borrowers and the lenders.

As a result of the legislative activity of the Parliament and the Government a number of provisions of the Code of Conduct were codified in 2014, which necessitated the revision of the Code of Conduct. As a result of the revision the Updated Code of Conduct (Code) contains those provisions of the Code of Conduct that were not codified during the legislative activity in 2014.

By fully complying with the rules stipulated in this Code the lenders undertake to adopt a transparent and responsible attitude towards the household customers during the period preceding the disbursement of the loans and the entire term of the disbursed loans, as well as during their procedures to be followed upon the occurrence of financial difficulties.

The lenders signing the Code undertake the obligation to enforce the provisions of the Code voluntarily in their conduct vis-à-vis their customers, as well as in their internal business procedures, in line with the Code and the effective statutory regulations, with a view to the following principles:

- **principle of transparency**, based on which they apply an enhanced standard of clarity and transparency in household lending, as well as of the accessibility to the required information,
- **principle of compliance**, based on which the signatory lenders stipulate their procedures with a content that complies with the legislation and facilitates the adoption of best practices,
- **principle of symmetry**, based on which when a lender, citing adverse changes in the circumstances, unilaterally increases the interest, fee or cost payable by the customer, it will also enforce the changes to the benefit of the customer upon favourable changes in the circumstances.

In order to strengthen the application of the rules of conduct set forth in the Code the signatory lenders acknowledge and support that the Magyar Nemzeti Bank (hereinafter: MNB or Supervisory Authority)

- publish the list of institutions not adopting the Code, and

- regularly verify compliance with the provisions of the Code among the institutions adopting the Code and publish its observations and assessment determined on the basis thereof – both in respect of the institutions and the agents – on its website on a continuous basis.

The lenders signing the Code declare that in the course of determining and implementing the rules undertaken in the Code they took into account the already established best practices of the market, and they have no intention to restrict fair market competition among the institutions; instead their sole objective is to promote the development of their household clientele, and through this, the Hungarian economy by fostering fair competition and business practices. They are convinced that this self-regulation – not substituting the provisions of the prevailing Hungarian statutory regulations, but rather supplementing them with ethical norms – further strengthens the market competition for satisfied consumers, and enhance the quality and effectiveness of the lending services to the households.

In accordance with Act XLVII of 2008 on the Prohibition of Unfair Commercial Practices against Consumers the lenders signing the Code undertake to make consumers aware – as part of their commercial practice influencing the consumer's decision on the transaction – that they subjected themselves to the Code. Furthermore the signatories of the Code also undertake to publish in their operating rules containing their general terms of contract that they accepted this Updated Code of Conduct as binding upon themselves.

Scope of the Code

The scope of the Code applies to all signatory financial institutions engaged in lending to the households, thus to commercial banks, mortgage credit institutions, building societies, savings- and credit cooperatives, branches offices and financial enterprises, including also the leasing and factoring companies, as well as the insurance companies and pension funds offering credit products. Hereinafter the terms “lender” and “lenders' practice” shall mean the entire range of the of institutions listed above and their practices.

The signatories of the Code undertake to enforce the provisions of the Code also in respect of the local subsidiaries controlled by them and engaged in lending to the households.

The financial institution signing this Code shall apply these rules during all lending activities performed for persons classified as consumers in the Act CXII of 1996 on Credit Institutions and Financial Enterprises (Credit Institution Act) and Act CCXXXVII of 2013 (new Credit Institution Act), and also prescribe the adherence to the Code in the contracts concluded with their agents and representatives participating in such services.

In relation to the lending to households the Code regulates

1. The standards of responsible lending
2. The general principles of the lenders' behaviour prior to concluding the contract
3. The procedures to be applied for the management of the customers' financial difficulties
4. The principles of responsible lending behaviour to be applied before and during the foreclosure proceedings.

I. The standards of responsible lending

The lenders shall fully comply with the principles of responsible lending, with special regard to the fact that the deposits placed by their depositors serve as one of the sources for their lending transactions. They shall bear in mind that responsible lending requires mutually responsible and prudent actions on the part of both the lender and the customer. In the course of providing information to and liaising with the customer, the lenders shall use their available resources to assist their customers in making a responsible decision. During their procedures the lenders shall not solely strive to place the loans, but also set to goal to retain the customers in the long run and ensure the successful repayment of the loan.

The lenders shall treat their customer in a cooperative, flexible and helpful manner.

II. General principles of lenders' behaviour prior to concluding the contract

Lenders undertake

- a) to draw customers' attention to the **consumer protection website of the MNB** and the **product descriptions and applications facilitating the comparison** of the products (loan calculator, household budget calculator program) and provide the **relevant link** to those sites.
- b) to refrain from providing non-exhaustive, difficult to understand information referring merely to legal regulations. In the case of personal contact with the customer, the employee of the lender shall supplement the written information with **verbal explanation**.
- c) to define the **terms used** during the sales of financial services and products clearly.
- d) to indicate in their commercial communications the **promotional initial instalment and the instalment payable after the promotional period** by identical font size and in identical presentation or ensure that it is clearly communicated.

- e) to ensure that their agents have **sufficient number of copies** of all necessary customer information documents and to make regular random checks to verify whether the agents provide the customers with information in compliance with the provisions of the law and the internal regulations.

- f) to train their **administrators** / customer service staff / call centre staff in due course within the appropriate framework on the range of products and services to ensure that they can provide the interested customers with truly useful, accurate and valid information.

- g) not to regard the **age of the customers** as an automatic reason for rejecting the loan application and to consider the ways of granting loans to senior customers and the means of managing the credit risks inherent in old age (e.g. by prescribing additional collaterals)

- h) to verify during or before the submission of the loan application – provided that being listed in the **Central Credit Information System (KHR)** is a probable cause for rejection – that the applicant is not recorded in the KHR, thereby saving the customers the unjustified costs to be paid to the lender. For this purpose to warn the customers that their listing in the KHR would possibly result in the rejection of their loan application and advise them that they may launch an inquiry into KHR once a year free of charge. They shall inform the customer as soon as possible if the loan application is likely to be rejected, thereby preventing vain hopes in a positive decision.

- i) to warn the customer during the **sale of loans combined with savings products** (e.g. unit-linked insurance) about the risks inherent in the product (by giving an example), thus especially about the fact that if the yield on the savings is lower than expected, the payments of the customer may not (fully) cover the required repayments.

- j) If the loan is granted subject to **taking out a life insurance to secure the loan** (except when the customer takes out a life insurance prior to the loan application for the purpose of borrowing), this may only take place after a positive loan assessment, as a condition for disbursement. It should be avoided that the customer takes out a life insurance, even when the loan application is rejected, unnecessarily.

- k) to allow the **customers to freely choose**, whenever it is possible, (e.g. in the case of group insurances not integrated in the product) from among the life insurance products of several insurers.

- l) When an **appraisal** is prepared in relation to the lending, and the customer pays the fee thereof, to allow the customer to learn that part of the completed appraisal that is not constituting a business secret. Further, to allow the customer to keep a copy of the completed **appraisal** or the excerpt thereof.

- m) If the loan is **supplemented by state interest subsidy or state guarantee** to inform the customer of the availability of the subsidy or guarantee, the extent and the conditions thereof, as well of the consequences of the non-contractual behaviour during the repayment of the subsidised loan and the non-compliance with the undertaken contractual conditions.
- n) to make sure that the intention of the customer can be clearly identified when recording the contracting customers' declarations on having received the necessary information and having given their approval, and give a signed copy of the declaration to the customer. The various declarations (e.g. consent to managing personal data, providing information to KHR, consent to direct marketing contacts, and the risk assessment declaration) may be made on a single form if the customer has the opportunity to indicate the items he/she consents to and the issues in respect of which he/she makes the declaration.
- o) to inform the customers upon concluding the contract, at the latest, whether the customer has the option – whether based on the statutory provisions or business considerations – to **terminate the contract free of charge**.
- p) upon concluding the contract to provide the customer with the opportunity to repay the foreign currency-denominated loan **in foreign currency in lump sum**.
- q) to warn the **persons contributing** to the conclusion of the contract that they must not participate as a buyer in the purchase of receivables or in the foreclosure that the lender might initiate in the future.

III. Procedures to be applied for the management of the customers' financial difficulties

Lenders undertake

- a) to develop, in relation to lending, products, **compromises** or packages of measures related to the restructuring of the loans or the extension of the repayment period, or try to assist the customers facing financial difficulties in other ways.
- b) to inform the respective clientele properly – notice, information leaflet, etc. – about the **available compromises related to the loans**.

- c) to warn their customers that upon the **prolongation of the maturity** the instalment will not decrease proportionately, as due to the longer maturity the payable lending fee will increase. They shall present the instalments applicable to the individual conciliatory solutions.
- d) to ensure that during the modification of the contract their administrators **outline** for the customers struggling with financial difficulties as many **alternative solutions** as possible within reason and as permitted by the lender's business policy, instead of automatic rejection.
- e) to permit, in addition to converting the **foreign currency-denominated loans** into forint, the **repayment** of these loans **in lump sum in foreign currency or the refinancing** of the loans, should the customers so require.

IV. Principles of responsible lenders' behaviour before and during the foreclosure procedure

It is in the interest of both contracting parties to recognise promptly when a customer falls into arrears with payments and to respond to that appropriately. It is crucial for the customer because the accumulated arrears could affect his creditworthiness, moreover, the arrears could lead to the termination of the contract, and even to the loss of his home (as real estate collateral). It is also crucial for the lender because the belated reaction to the customer's default may make debt recovery more difficult. In the course of workout the lenders act in compliance with the principles of proportionality, gradualism, transparency and calculability, with due regard to equity.

1. Accordingly, in order to prevent the foreclosure as far as possible, the lenders undertake to:

- a) **contact the customer** (by phone, in writing) when the customer falls into arrears with payments, within the deadline specified in their internal regulations, in order to find a way for the customer to settle his overdue debt.
- b) If the first attempt to contact the customer failed to make all reasonable efforts to get into touch with the customer and get an effective response from him.
- c) In the event of a successful contact and the customer's willingness to cooperate they shall **elaborate** the out-of-foreclosure method of settling the arrears in a way that permits the customer to make a voluntary settlement. During their proceedings the lenders shall take the customer's current liquidity and former payment discipline into account.

2. If despite completing the above proceeding the satisfaction of the claim from the collateral cannot be avoided, in the course of the foreclosure the lenders shall act in compliance with the following rules:

- a) during the foreclosure they shall **cooperate** with the debtor in the interest of settling his situation in some way; within the framework of this they will also cooperate with the local governments if possible.
- b) When the debt is transferred to a workout company or to the court for foreclosure, in addition to specifying the claimed amount the **principal, interest, default interest and other fees shall be also listed item by item.**

- c) They shall prohibit that the employee of the given lender and their close relatives living in the same household participate as buyer in the purchase of the claim or foreclosure initiated by the given lender.
- d) In the contract containing the **purchase right** for the property they shall allow at least 90 days for the customer to sell the property on his own before the lender exercises the purchase right.

V. Final provisions

Responsible lending calls for fair conduct both by the lenders and their customers; the lenders adopting this Code wish to take the lead in this cooperation.

Besides the lender's responsible and fair conduct responsible borrowing is also an essential element of responsible lending, inasmuch as in the course of their operations lenders depend on the correctness and completeness of the information provided by prospective customers. The ultimate decision whether to accept the offered loan and which product is best suited for them is made by the prospective borrowers. Lenders are convinced that for the purpose of responsible lending, the conduct of a consumer who is reasonably well-informed and acts with due diligence and prudence should be taken as a basis; therefore the institutions should make all efforts within their means to facilitate the adoption of a responsible consumer decision.

The conduct of borrowers plays a key role even after the disbursement of the loan, therefore regular communication and cooperation between the lender and its customer should not be discontinued during the entire term of the credit.

The Code replaces the Code of Conduct; accordingly the institutions that already adopted it are not required to make a new declaration on the accession.

The Code enters into force on 1 February 2015 and will be effective until 31 December 2015.

Budapest, 19 January 2015