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Revised Code of Conduct for the management of non-performing loans aiming to a settlement as the best possible solution for both borrower and the banks

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Bank of Greece has published the revised Code of Conduct for the management of non-performing loans held by individuals and very small businesses (businesses with turnover less than 1 million euros), outlining general principles of behavior and adopting best practices for banks and borrowers, with the aim of finding settlement solutions that take into account the capabilities and particularities of each borrower.

Revised Code of Conduct aims to tackle issues that arose from the implementation of previous Code and establish an efficient framework for the banks and borrowers to cooperate and reach a settlement.

Main improvements in the relevant framework introduced by Revised Code of Conduct

- The revised Code is more favorable to the borrower in the sense that if a loan is not serviced for at least 60 days (instead of 30 days according to the previous code), the credit institution notifies, in writing with confirmation of receipt, the borrower of the loan within a 30 day period, urging him to fill in the Standardized Statement of Financial Data and informing him that any communication regarding the ARP may take place via e-mail. It is noted at this

point that any data or documents, other than the Standardized Statement of Financial Data, required by the credit institution, are published on its webpage regarding the implementation of the Code of Conduct. If the borrower does not respond within the deadline set (currently 15 working days), then the credit institution should notify the borrower within a 30 day period that he is at risk of being qualified as a non-cooperative borrower, which also means that his property would not be protected from foreclosure.

- The revised Code indicatively outlines a number of short and long term settlements as well as permanent resolutions. The latter are proposed in case no short or long term settlement solution is agreed. Any proposals made by the credit institution should take into account the minimum cost of living of the borrower and any health problems which might affect the repayment capacity of the borrower. Potential short-term settlements (up to two years) include arrears capitalization, arrears repayment plan, reduced payment above interest only, interest only, reduced payment below interest only and

grace period. Longer term settlements (over 2 years), taking into account conservative assumptions on the estimated future borrower ability to repay the loan, include interest rate reduction, loan term extension, split the balance in two tranches (one that would be serviced and the other that would be settled at a later stage) and partial debt forgiveness/write-down. Especially for businesses, two additional long-term settlements involve operational restructuring and debt/equity swap. On the other hand, permanent resolutions that actually terminate the contractual agreement between the credit institution and the borrower include other out of court settlements, voluntary surrender, mortgage to rent/lease, voluntary sale of property, (out of court) settlements of loans, auction-collateral repossession and full debt write-off. It is worth noting that the non-consensual solutions (e.g. enforcement of securities) have been omitted from the list of indicative solutions.

- Within a deadline currently set to fifteen working days but considered to be extended, borrower may: 1) agree to the proposed solution, 2) make a counter proposal in writing and ask for the resolution via a third body of his choice or 3) declare in writing that he rejects all proposals. In case a counter proposal is submitted, the revised Code introduces an obligation for the credit institution, within 2 months from its receipt, to: 1) agree to the counter proposal, 2) reject it in writing by stating all the relative arguments or 3) make a new final proposal. By virtue of revised Code the credit institution could propose a permanent solution from the very beginning, whilst by virtue of the revised Code the credit institution should first propose a mild settlement solution and if there is no agreement with the borrower, then proceed to proposing a permanent solution. In addition, the counter proposal of the borrower becomes very important because, if the credit institution does not accept, it should justify its decision or

take this counterproposal into account, when making the final proposal to the borrower.

- The competencies and the transparency of the Objections Committee to which the borrower can refer any objections regarding the procedure of his/her qualification as non-cooperative have been reinforced through the revised Code.
- Special Centers of Information and Support of borrowers will be established.
- The revised Code obliges credit institutions to prove actual delivery to the Borrower of relevant correspondence.
- In case of multiple creditors, the revised Code notes that they should be willing to cooperate for a standstill period to evaluate the borrower's financial condition. It suggests the credit institutions to seek a commonly acceptable solution adopting best practices. During the standstill period, the involved creditors agree to refrain from any measure that could reduce the borrower's liability, while the borrower pledges to refrain from any action that could negatively impact the creditors' claims. Moreover, any additional financing provided during the standstill period should be repaid before other creditors' claims.

To conclude the Revised Code of Conduct for the management of non-performing loans issued by the Bank of Greece reinforces the rights of the borrowers and on the other hand enhances transparency and efficiency of the procedure ensuring settlement solutions that are aligned with the particularities of each borrower.

