



## Dear CEO letter No. 8/2009

### **on the information to be provided to the clients in the case of changes in the repayment of foreign currency loans**

The Hungarian Financial Supervisory Authority (hereinafter referred to as: the Supervisory Authority), in accordance with the goals determined in the Status Act of CXXXV of 2007, performs its tasks in order to ensure the smooth and effective operation of the financial markets, the transparency of market conditions, the maintenance of fair market competition, as well as to strengthen confidence in the financial markets.

In its recently published *Dear CEO letter No. 7/2009*, the Supervisory Authority has already defined some requirements with regard to the behavior expected from the credit institutions towards the debtors in trouble, in which letter the Supervisory Authority has put special emphasis on the importance of informing the clients.

In this Dear CEO letter, the Supervisory Authority wishes to provide some guidelines for providing accurate, clear and appropriate information to the consumers and highlights those information the sharing of which is regarded as essential.

Accordingly, the Supervisory Authority calls the financial institutions to touch upon the following points in their information activity:

- Those economic and market factors which have contributed to the increase in the interest rates and the amount of the repayment installments should be made transparent and explained in detail (in a press release, on their homepage, or in the form of verbal information);
- Besides describing the calculation method of the interest rate and the repayment installments, the types of costs of funds that they use in their calculations should also be made transparent (in a press release, on their homepage, or in the form of verbal information);
- The components and breakdown of the repayment installments should be clearly described;
- The factors which have contributed to the increase in the interest rates and the amount of the repayment installments should be illustrated by applying a calculator or a repayment table, by using an example, or in any other transparent way;
- The clients should be given personalized information on the opportunities to ease their repayment installments;
- The clients' attention should be called to that, in the case of the prolongation of the term, the repayment installment will not decrease automatically, with regard to the fact that the payable credit fee will also increase as a result of the longer term. This information is especially important in relation to the prolongation of the terms of annuity loans, as in the case of the annuity calculation method, the repayment

installment initially contains a higher proportion of credit fees than the outstanding principal itself;

- It is recommended that the evolution of the repayment installments be illustrated by examples in these cases.

In Sections 16-18 of recommendation No. 9/2006 (XI.7.) on the principles of retail crediting provision of preliminary information to clients and consumer protection, the Supervisory Board of PSZÁF has already defined some requirements as to the reasons, conditions and circumstances that result in the unilateral modification of the various fees and costs, which requirements are still maintained and whose application by the financial institutions is still expected by the Supervisory Authority.

Similarly to the contents of Dear CEO letter No. 7/2009, the Supervisory Authority expects the supervised institutions to act in a basically flexible and emphatic manner in the course of realizing the above expectations.

In the current difficult economic situation, it is important for both the creditor and the debtor, and also, for the entire financial system that the level of bad debts does not increase any further. In this, the proactive and efficient problem-solving skills of the credit institutions play a critical role, by which they can also make it clear to the clients that they are not only obligors but also the recipients of a service through their credit agreements.

This behavior is critical in strengthening trust in financial markets again, and the Supervisory Authority expects all the financial institutions to take serious efforts and to cooperate efficiently in this endeavor.

I would like to inform you that the contents of this letter have no binding force on the organizations that fall under the scope of the laws indicated in Section 4 of Act CXXXV of 2007 on the Hungarian Financial Supervisory Authority, the letter is aimed at facilitating prudent operations, but in the course of its audits, the Supervisory Authority will take the fulfillment of these requirements into account.

This Dear CEO letter will be disclosed by the Supervisory Authority on its homepage, under the title of [Regulation/CEO letters](#), and it will also be sent directly to the managers of the affected financial institutions.

Dated at: Budapest, 9th June 2009

Csaba Varga  
Director General