



# FMA-Minimum Standards for the Risk Management and Granting of Foreign Currency Loans and Loans with Repayment Vehicles (FMA-FXTT-MS)

of  
02.01.2013

These FMA Minimum Standards constitute a new version of the

1. *FMA Minimum Standards for Granting and Managing Foreign Currency Loans of 16 October 2003 (FMA-FX-MS);*
2. *FMA Minimum Standards for Granting and Managing Loans with Repayment Vehicles of 16 October 2003 (FMA-TT-MS); and the*
3. *FMA Minimum Standards for Granting and Managing Foreign Currency Loans and Loans with Repayment Vehicles of 16 October 2003, Extension of 22 March 2010 (FMA-FXTT-EMS)*

and shall replace them upon publication.

These Minimum Standards do not constitute an FMA regulation, but present the Austrian Financial Market Authority's (FMA) legal view on foreign currency loans and loans with repayment vehicles on the basis of Article 39 para. 1 and 2 of the Austrian Banking Act (*Bankwesengesetz - BWG*). Rights and obligations beyond the legal provisions cannot be derived from the Minimum Standards. With reference to Article 39 para. 1 and 2 Banking Act, the FMA expects credit institutions to adhere to these Minimum Standards when granting and managing foreign currency loans and loans with repayment vehicles.

These FMA Minimum Standards shall not prevent credit institutions from setting higher standards. If specific points go beyond the due diligence obligations set forth in Article 39 Banking Act, such points are to be considered recommendations.

## Preamble

Since 2008, the specific risks associated with foreign currency loans and loans with repayment vehicles for credit institutions (especially credit and refinancing risk as well as concentration risk) and for borrowers (currency and interest rate risk as well as the performance risk arising from the repayment vehicle) have become increasingly visible. In addition, it has become clear that limiting such risks by contractual means (i.e. conversions, liquidity premiums) proves to be difficult in practice in the case of loans to consumers and also exposes credit institutions to high reputational risk.

With regard to loans with repayment vehicles, the FMA and the Oesterreichische Nationalbank (OeNB) have observed the following developments:

- In the last year, about two-thirds of the outstanding volume of repayment vehicles were exposed to direct market risks – most notably in the form of fund-linked life insurance plans, but also in the form of investment funds.
- At the aggregate level, the capital accumulated in the repayment vehicles fell short of the value it should have attained according to the repayment schedule.
- The funding gap varied substantially between individual products and product categories.

The outstanding volume of foreign currency loans and loans with repayment vehicles granted to households in Austria is very high by international standards and harbours a potential for systemic risk. This circumstance is also criticised heavily by international financial institutions (in particular the IMF, World Bank and EBRD) on a regular basis and may compromise the reputation of Austria's financial market.

As of 21 September 2011, pursuant to the EU regulation no. 1092/2010, the European Systemic Risk Board (ESRB) has published a set of recommendations concerning the granting of foreign currency loans (ESRB/2011/1) in which the systemic risks implied by an excessive granting of foreign currency loans are stressed (see also <http://www.esrb.europa.eu>).

Owing to the inherent risks to credit institutions and the systemic relevance regarding the topic of foreign currency loans and repayment vehicles, the FMA, developing further the above-mentioned FMA Minimum Standards and taking into account the ESRB recommendations for the fulfillment of the banking supervision objectives of Article 69 para. 1 BWG, considers a sustained reduction in banking risks in accordance with Article 39 para. 1 and 2 BWG with regard to the overall outstanding volume of foreign currency loans and loans with repayment vehicles to non-banks as necessary. The FMA expects credit institutions to adhere to the new FMA Minimum Standards of 2 January 2013 in the context of granting foreign currency loans and loans with repayment vehicles. On behalf of the FMA, the OeNB will review compliance with these Minimum Standards in the course of on-site inspections.

Moreover, the high exposure of private households necessitates special measures for this market segment. Owing to the risks mentioned above, foreign currency loans to private consumers are not suitable as a mass product, but constitute a special product for which it is necessary to take each individual case and the specific situation of each potential customer into closer consideration. On the basis of Article 39 BWG, foreign currency loans are generally unsuitable for consumers, particularly as a standard mortgage financing product. Credit institutions are to pay increased attention to providing the necessary information on the specific characteristics and risks associated with this product.

The FMA acts on the assumption that any credit institution, whenever granting foreign currency loans to borrowers domiciled outside of Austria, complies with the measures concerning foreign currency loans in force in the respective country. For this purpose, it is irrelevant whether the granting of loans is performed by cross-border services, by a branch or by a subsidiary credit institution. This means that the measures taken shall, where applicable, be applied on an individual, subconsolidated and consolidated level.

The measures with respect to foreign currency loans taken in the relevant host member states and/or third countries shall be published on the FMA website in German or English upon notification of the supervisors of the host member states and/or third countries.

## I. Scope of application and definitions

1. These Minimum Standards shall apply to all credit institutions entitled to carry out the credit business (Article 1 para. 1 no. 3 BWG) and to all credit institutions from member states acting in Austria within the scope of the right of establishment or on the basis of the free trade in services (Article 9 BWG). Section II and Section III, chapter 4 as well as Section IV shall, where applicable, be applied on an individual, subconsolidated and consolidated level. Chapter 5 exclusively refers to business activity in Austria.
2. Section II (risk management) and Section III, chapter 4 (information to borrowers) refers to loans to non-banks within the meaning of Article 2 no. 22 BWG<sup>1</sup>. The requirements put forth in chapter 4 may be waived in the case of companies, which possess sufficient experience, know-how and resources (e.g. a treasury department), and which can therefore draw on relevant information for their decisions with regard to foreign currency loans and loans with repayments vehicles.
3. Section III, chapter 5 (special provisions for consumers) exclusively refers to loans to consumers within the meaning of Article 1 para. 1 no. 2 of the Austrian Consumer Protection Act (*Konsumenschutzgesetz – KSchG*). Self-employed persons and freelancers<sup>2</sup> are included insofar as they act as consumers when taking out a loan.
4. Foreign currency loans are defined as loans that are at least partially receivable in other currencies than the legal tender of the country in which the borrower is domiciled.
5. Loans with a repayment vehicle for the purpose of accumulating capital (“loans with repayment vehicles”) are defined as loans for which the repayment of principal in the form of annuities or instalments is replaced by the accumulation of capital through a repayment vehicle used to cover a part of or the entire principal amount at the end of the loan’s maturity. During the term of the loan, the entire loan amount remains outstanding and only current interest is paid.

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<sup>1</sup>The term “borrower” as used in these Minimum Standards refers to all those who are included in the definition of a “non-bank” according to Article 2 no. 22 BWG. In particular, this includes consumers within the meaning of Article 1 para. 1 no. 2 KSchG.

<sup>2</sup> See reporting guidelines for the unconsolidated statement of assets (Part A1a) pursuant to Article 74 para. 1 BWG. Among the self-employed persons and freelancers are freelancers (e.g. physicians, lawyers, pharmacists) and other self-employed persons such as sole proprietors (registered and not registered) and farmers. Associations of self-employed persons for the operation of a working group in the form of a civil-law association (GesBR) or a general partnership (OG) also belong to this category (e.g. group practice of physicians, joint office of lawyers).

6. Capital accumulating repayment vehicles are defined as an individual or a set of financial or insurance products that serve the borrower to accumulate capital which is later used to at least partially repay a loan.
7. A loan does not qualify as a loan with a repayment vehicle according to these Minimum Standards if the principal of a bullet loan is repaid using assets which already exist and are not accumulated during the term. In this context, the following examples shall serve as references:
  - The borrower makes a one-time self-financed placement with an insurance product which matures at the latest when the loan falls due and which ensures coverage of the loan.
  - The borrower owns real estate assets which s/he intends to sell and which will ensure coverage of the loan.
  - The borrower has a future claim to assets which ensures coverage of the loan.
8. MN 13 second and third sentence, MN 14 third sentence, MN 24 to 27, MN 28 to 30 except with reference to loans to consumers in Austria and MN 42 of these Minimum Standards are applicable as of 1 July 2013. All other provisions (including MN 28 to 30 with reference to loans to consumers in Austria) shall enter into force with the publication of these Minimum Standards.

## **II. Risk management**

### ***Chapter 1: Foreign currency loans***

9. The credit institution shall prepare written guidelines on the granting and managing of foreign currency loans. Taking into consideration the risk-bearing capacity of the respective credit institution, such guidelines shall in particular provide for adequate requirements with regard to the granting of foreign currency loans, the limitation of the related risk, adequate administration, calculation and control mechanisms as well as risk management. They shall also include provisions for suitable risk pricing and internal capital allocation. The credit institution shall ensure that adherence to the guidelines is reviewed by its internal auditing unit at least once a year. Any observations related to risks shall be regularly reported to the management. The management shall report the risk situation derived from the foreign currency loan portfolio to the supervisory body under company law at least once a year.

10. Taking into consideration its risk-bearing capacity, the credit institution shall determine quantitative (relative and, where appropriate, also absolute) limits on the volumes of individual foreign currency loans as well as of the entire foreign currency loan portfolio.
11. Within the scope of credit assessments for lending purposes, it shall be ascertained whether the borrower has sufficient income and/or assets in order to be able to service and repay an increased loan repayment amount in local currency following changes in the exchange rates. The requirements for collateral shall be adapted on the basis of this increased amount.
  - a. Already when granting foreign currency loans, the credit institution makes sure that the customer's credit rating is sufficient for the borrower - taking into account the loan's repayment structure – to be able to service and repay an increased loan repayment amount and/or instalments as a consequence of exchange and interest rate changes.
  - b. An appropriate and practicable procedure shall be employed to calculate the above-mentioned higher repayment amount. Methods and assumptions used for the calculation shall be applied uniformly and continuously.
12. Depending on the borrower's credit rating, the credit institution shall determine appropriate threshold values for ongoing credit surveillance with regard to exchange rate risk. It shall have a procedure in place which indicates as early as possible that threshold values have been exceeded. The credit institution shall stipulate expedient measures in the event that the threshold values are exceeded.
  - a. The threshold value shall be defined as that precise value of the outstanding liability on a local currency basis, which, if exceeded, requires the credit institution to take expedient measures.
  - b. Acting as an early warning indicator, the threshold value shall be below that maximum outstanding liability whose servicing is just covered by the borrower's credit rating on the respective local currency basis.
  - c. In contrast to the limit mentioned in MN 11, which solely refers to the moment in time when the loan is granted and constitutes an initial value in the respective foreign currency, the threshold value represents an individual limit depending on the borrower's credit rating.

- d. The identification of any individual exceeding of the above-mentioned limits requires internal procedures, which shall be set up by the credit institution.
  - e. The loan observations with regard to the threshold value shall by no means replace ongoing credit surveillance with regard to other factors. Other procedures or systems, in particular those used for a continuous check of the borrower's credit rating and the value of collateral, shall not be affected by this procedure.
  - f. If a threshold value is exceeded, the credit institution shall take expedient measures. Drawing on the provisions for consumers contained in the MN 37 to 39 for guidance, these measures shall be unambiguously formulated and should serve to limit the customer's exchange rate risk. Care shall be taken that "expedient measures" correspond to the loan agreements, in accordance with the legislative framework and current court-decisions. The credit institution shall contact the borrower if the threshold value is exceeded.
13. The credit institution shall have a procedure in place which enables it to continually record all market developments, in particular with regard to exchange rates, interest rates and collateral, and to identify their effects on individual foreign currency loans as well as the total foreign currency loan portfolio as early as possible. In doing so, the credit institution shall examine the current rating of a foreign currency borrower for both loans in the portfolio and new business customers at least once a year and shall take into consideration any alterations in the credit conditions due to the above-mentioned market developments. Special attention shall also be paid to the compilation of aggregate exchange losses suffered by customers in default and immediate pre-default categories.
14. It shall be noted that "procedure" (MN12 point d and 13) usually means an IT system. Wherever this seems impracticable, a sufficiently standardised procedure fulfilling the objectives stipulated can be determined instead. In any case, it must be ensured that borrowers with a currency-congruent income and/or other expected earnings in the according foreign currency (customers with a "natural hedge") and borrowers, whose currency risks are secured by financial instruments, are systematically recorded.
15. The credit institution shall compute the effects of exchange rate fluctuations on the foreign currency loan portfolio employing a meaningful stress test at least once a year.



- a. Specifically, computations shall be carried out to quantify the effects on the borrower's solvency and, subsequently, on the credit institution's risk-bearing capacity.
  - b. If a comprehensive stress test seems impracticable, the credit institution shall estimate the quantitative effects of exchange rate fluctuations with sufficient accuracy once a year (e.g. by scenario analyses).
  - c. The outcomes of stress testing shall be adequately reflected in the business policy in particular.
16. The credit institution shall compute the contribution of the foreign currency loan portfolio to the credit institution's total revenue at least once a year; the contribution must be estimated with sufficient accuracy. Income from the mediation of repayment vehicles shall not be considered.
  17. The credit institution shall at all times observe the provisions of the FMA regulation on liquidity risk management (LRMV) with respect to foreign currency loans. In particular, before granting foreign currency loans, the credit institution shall have prepared guidelines on the limitation of the refinancing risk. The credit institution shall ensure the refinancing of foreign currency loans even in the case of adverse market conditions (e.g. by ensuring the access - directly or via a central or parent institution - to open-market transactions of the central bank in charge of the respective foreign currency). The credit institutions shall provide for a sufficient diversification of its refinancing structure.
  18. Loans, for which exchange rate risks are completely eliminated for the entire maturity period by means of hedging instruments or for which the credit rating of the borrower is to a significant extent supported by income and/or assets in the loan currency, shall be excluded from the applicability of Section I, MN 9 to 12 if evidence for a systematic recording procedure pursuant to MN 14 can be provided.

## ***Chapter 2: Loans with repayment vehicles***

19. The credit institution shall prepare written guidelines on the granting and management of loans with repayment vehicles.
  - a. Given the specific risk factors connected to repayment vehicles (e.g. risk of change in value, insufficient servicing of the repayment vehicle), these guidelines shall in particular provide for adequate requirements for repayment

vehicles, for a prudent yield forecast, for a continuous flow of information concerning the value and proper servicing of the repayment vehicle, for adequate administration, calculation and control mechanisms as well as for risk management. They shall also include provisions for suitable risk pricing and internal capital allocation.

- b. The credit institution shall ensure that adherence to the guidelines is reviewed by its internal auditing unit at least once a year.
  - c. Any observations related to risks shall be regularly reported to the managers. The managers shall report the risk situation concerning loans with repayment vehicles to the supervisory body under company law at least once a year.
  - d. Taking into consideration its risk-bearing capacity, the credit institution shall determine quantitative (relative and, where appropriate, also absolute) limits on the volumes of individual loans with repayment vehicles as well as the entire portfolio of loans with repayment vehicles.
20. The credit institution shall stipulate more detailed requirements for the parameters of repayment vehicles (risk and profitability parameters). With respect to their commercial usability for the credit institution, repayment vehicles shall meet the customary criteria concerning banking collateral. The expected profitability of repayment vehicles shall be estimated on a sufficiently prudent and realistic basis.
21. It must be possible for the credit institution to verify the value and proper servicing of the repayment vehicles. The credit institution shall gather sufficient information on the value and proper servicing of the repayment vehicle on a continuous basis. The granting of loans with repayment vehicles, for which such a continuous flow of information is not guaranteed, shall be inadmissible.
- a. The collection of “information on a continuous basis” is defined as the demonstrable effort on behalf of the credit institution to obtain such information at least once a year. However, in order to verify the proper servicing of repayment vehicles, the frequency of the inspections will normally have to be higher.
  - b. In the case of repayment vehicles which are connected to loans already contained in the credit institution’s portfolio, the credit institution concerned shall be requested to ensure by way of agreements that information is periodically submitted by the companies that manage the repayment vehicles.

- c. If the credit institution cannot maintain the necessary flow of information for existing repayment vehicles through no fault of its own, published statements of the companies regarding the development of the value of their products or other sources of information customary in banking shall be used to the extent they exist.
  - d. Financial products issued by companies that do not ensure the necessary flow of information shall, however, not be used as repayment vehicles when new loans are granted.
  
- 22. The credit institution shall have a procedure in place which enables it to continually record all market developments relevant to the value of the repayment vehicles and to identify the effects of these developments on individual loans as well as on the total loan portfolio as early as possible. It shall be noted that “procedure” usually means an IT system. Wherever this seems impracticable, a sufficiently standardised procedure can be determined instead.
  
- 23. The credit institution shall determine expedient measures in the event that, under realistic assumptions concerning the future profitability of the repayment vehicle, the amount to be repaid will not be matched by the value of the repayment vehicle when the loan reaches maturity.
  - a. Drawing on the provisions contained in MN 37 to 39 for guidance, these “expedient measures” shall be unambiguously formulated in the guidelines. Care shall be taken that “expedient measures” correspond to the loan agreements taking into account the legislative framework and current court-decisions.
  - b. Should the development of the repayment vehicles indicate that the amount to be repaid will presumably not be reached when the respective loan reaches maturity, the credit institution shall contact the borrower.

### ***Chapter 3: Pricing of risk premiums and internal capital allocation***

- 24. When determining the risk of foreign currency and repayment vehicle loans, the credit institution shall adequately take into consideration in the internal risk management system the additional risks that result in comparison with loans granted without a foreign currency and/or repayment vehicle component. Unless these risks are explicitly fully covered, the credit institution shall take them into suitable consideration when

determining its internal capital allocation within the framework of the ICAAP (Article 39a BWG) and when undertaking price calculations.

25. The credit institution must cover the expected loss from foreign currency loans and loans with repayment vehicles via its standard risk costs. In doing so, it shall implement procedures for the assessment of the credit rating of the borrower which factor in the potentially negative effect of future fluctuations in exchange rates and/or asset prices on the probability of default already at the time of the granting of foreign currency loans and loans with repayment vehicle. It must also be noted that, owing to changes in the exchange rate and unfavourable capital market and yield developments, the expected liability in the home currency at the time of a default can be higher than at the time of the granting of the respective loan and/or that the amount accumulated by the repayment vehicle may be lower than forecasted at the time of the granting of the respective loan.
26. The credit institution must have suitable methods for determining the amount of the unexpected loss from foreign currency loans and loans with repayment vehicles. The unexpected loss shall be taken into adequate consideration for the capital allocation within the framework of the ICAAP. In doing so, just as regarding the ascertainment of the standard risk costs, negative impacts of future exchange rate fluctuations and/or asset price developments of the repayment vehicle on the default probability, and the potential increases in the liability owing to unexpected exchange rate fluctuations and/or funding gaps due to unexpected asset price developments must be accounted for in due manner.
27. The credit institution must provide for suitable procedures in order to validate the above-mentioned methods.

### **III. Relationship between bank and borrower**

#### ***Chapter 4: Information for borrowers***

28. The credit institution shall verifiably provide the potential borrower with adequate written explanations concerning the main characteristics of the foreign currency loans and loans with repayment vehicles, including the specific effects of these products on the situation of the customer in case of payment delays and the occurrence of the events described under MN 12 and 23. The information provided to the potential borrower shall be presented transparently, intelligibly and comprehensibly and be characterized by high

quality standards. This should enable the borrower to assess whether the loan contract meets his requirements and his financial situation. In particular, the consequences of a sustained appreciation of the foreign currency and an increase in the interest rate of the respective foreign currency must be taken into account.

29. The credit institution explicitly informs the borrower before the conclusion of the loan contract with a repayment vehicle component that the payments due under the loan agreement will have to be made even if the repayment vehicle does not cover the outstanding amount as originally expected.
30. Before granting a foreign currency loan, the credit institution shall also always offer a loan in the domestic currency for the same purpose or adequate financial instruments designed to cover the exchange rate risks.

## ***Chapter 5: Special provisions for consumers***

### **Granting of new foreign currency loans**

31. In general, credit institutions may not grant any foreign currency loans to consumers. New foreign currency loans shall only be granted to the following group of persons:
  - a. Persons with sufficient income in the same currency. The currency in which principal and interest are paid should be the same as the currency of the income from which the loan is being serviced.
  - b. Consumers who expect other revenues in the currency in which the loan is being serviced and intend to repay the loan using those revenues; for example by using foreign currency bonds with a known time of redemption (where the bond must be already subscribed with an amount at least equal to the nominal amount of the loan at the time when it is taken out), by selling real estate in the foreign currency (where the actual intention to sell the real estate is present at the time when the loan is taken out and the proceeds from the sale, based on a realistic estimate of market value or a contractually agreed sale price, are at least equal to the nominal amount of the loan), or by selling company shares that are financed in advance in the same currency.

- c. High net worth individuals with the best possible credit rating: The consumer belongs to the group of those customers of the credit institution whom the internal rating system of the credit institution accords the highest rating that can be attained by customers on the internal rating scale of the credit institution.
32. Foreign currency loans given out to the groups of persons named under MN 31 points a, b and c shall, however, not be combined with a capital-accumulating repayment vehicle.
33. The granting of a new foreign currency loan under the conditions set forth in MN 31 is defined as the conclusion of a loan agreement with a consumer, where the loan is granted partly or entirely in a different currency than the legal tender of the country in which the borrower is domiciled.
34. Changes in existing loan agreements, which retroactively give the consumer the right to switch from a denomination in Euro to a foreign currency and/or expand his rights regarding a change in currency, shall be considered as the granting of a new foreign currency loan pursuant to MN 31. If, however, a foreign currency loan contract contains a multi-currency clause (i.e. a conversion possibility, which allows the consumer to claim the loan proceeds in two or more currencies, was provided for the consumer already when the loan was taken out), a change between the currencies specified in the agreement will not be considered as the granting of a new loan. The Euro can also be one of the currencies stipulated in the agreement. If, however, a switch between currencies requires the consent of the credit institution, any such switch constitutes a new granting within the meaning of MN 31.
35. The credit institution shall exercise particular care when proceeding to the prolongation of existing foreign currency bullet loans. Prolongations shall not be deemed a new granting within the meaning of MN 31 under the following conditions:
  - a. The credit institution decides on every concrete prolongation within the framework of its general due diligence obligations,
  - b. the prolongation represents an adequate means to reduce the banking risks within the meaning of Article 39 BWG,
  - c. the prolongation practice of the credit institution is not a systematic strategy to avoid losses and/or to refrain from forming provisions for risks and credit write-downs in an adequate manner,

- d. the prolongation practice of the credit institution has no significantly negative effects on the quality of the credit portfolio, and
- e. the prolongation practice in general does not lead to an inappropriate influence on the results of internal risk measurement procedures.

MN 35 point c may also be fulfilled in the case of a larger number of positive responses to prolongation applications by a credit institution, if the credit institution demonstrably takes its decision to prolong a loan on the basis of an individual credit check - observing the legislative framework and current court-decisions - and takes the measures pursuant to MN 37 to 39.

### **Strategies for the sustained reduction of the overall volume of foreign currency loans and loans with repayment vehicles**

- 36. The credit institution must have a written and documented strategy for the sustained reduction of the overall outstanding volume of foreign currency loans and loans with repayment vehicles given out to consumers.
- 37. Depending on the concrete risk situation that is different for every consumer and, if applicable, the preferences stated and the information given by the consumer, the credit institution shall inform the consumer comprehensively and objectively about the possibilities of altering the loan agreement as well as about the opportunities and risks this entails. The goal is to enable consumers to appropriately decide on possible changes by themselves. The information provided to the consumer shall be presented transparently, intelligibly and comprehensibly and be characterized by high quality standards.
- 38. Consumers, who seek changes in their loan agreement on their own initiative in order to reduce their risk arising from foreign currency or repayment vehicle loans, shall be actively assisted by the credit institution as far as this is possible under the given legal and economic conditions.
- 39. To facilitate decision-making, the credit institution offers consumers alternative products, in particular also denominated in Euro if these are expedient and suitable to reduce the risk (e.g.: partial bullet loans in order to forgo the need to make use of the repayment vehicle already accrued; or conversion of the bullet loan into an amortizing loan). In particular, the alternative products also include instruments for covering the exchange

rate risk. When offering alternative products, special attention shall be given to additional costs that may potentially have to be borne by the customer, to the specifics of existing products (e.g. redemption costs) and to the current situation of the capital market.

### **Euro loans with capital-accumulating repayment vehicles**

40. When granting new Euro denominated loans with capital-accumulating repayment vehicles, the credit institution exercises particular care and maintains a list of the products accepted as repayment vehicles. The underlying purpose of a repayment vehicle (coverage of the outstanding loan amount when the loan reaches maturity) shall be given special attention.

### **Bullet loans**

41. Bullet loans, i.e. non-revolving loans (with the exception of foreign currency loans with repayment vehicle components - see MN 31 to 32) should only be granted in justified cases which reflect common European banking practice and under the condition that the repayment of the loan can be ensured by predefined and secured funds.

The following cases can be named as examples:

- Funds obtained from investments in real estate property
- Lifetime loans / generation credits that are secured by real property and are deliberately not redeemed
- Life value loans: “reverse mortgage” products with a real estate property as collateral, for which redemption is not required during the consumer’s life time
- Lombard loans
- Pre-financing of insurance payouts (single payments)
- Loans against the pledging of other assets such as gold, jewellery, pieces of art
- Financing for equity participation models
- Advance financing for an inheritance
- Other loans to high net worth individuals (e.g. sale of high-priced real estate which can only be realised over an extended period of time).

42. For bullet loans with a time to maturity of more than five years (with the particular exception of usual current account advances), a written concept for the repayment of the loan at the end of the maturity period must be composed at the time of the granting of



the loan and shall be available to the consumer. Once the loan has been granted, the respective concept must be periodically reviewed by the back office at least once a year. The review must include an examination and a written transcription documenting whether compliance with the concept for the repayment of the loan is still plausible.

#### **IV. Review by internal auditing**

43. The credit institution shall ensure that compliance with the guidelines and strategies as required by these Minimum Standards will be reviewed during general internal auditing assessments, and that a diligent verification of these specific requirements is undertaken by internal auditing at least once per calendar year.

Austrian Financial Market Authority  
On behalf of the Management Board:

Michael Hysek  
Head of Division

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