

# Code of Conduct

## Principles of fair conduct by financial organizations engaged in retail lending

### PREAMBLE

The purpose of this Code of Conduct is to strengthen the confidence indispensable in the relationship between retail borrowers and creditors. By fully obeying the principles set forth in this Code creditor institutions commit themselves to responsible and transparent lending to their retail customers, in their proceedings during the period preceding the lending transaction and the entire term of the credit granted alike, as well as upon the occurrence of payment difficulties.

The creditors signing this Code voluntarily undertake the obligation to adhere to the stipulations herein in respect of their conduct vis-à-vis their customers, as well as of their internal business procedures, in line with the Code and the effective legal regulations, with a view to the following principles:

- **principle of transparency** – applying an enhanced standard of transparency and clarity in retail lending as well as of the accessibility to the required information
- **principle of compliance** – the signatory creditors record their procedures in by-laws formulated in line with the legal regulations and requirements promoting best practices
- **principle of symmetry** – if a creditor, referring to adverse changes in the circumstances, unilaterally increases the interest, fee or cost payable by the customer, it will also effect changes to the benefit of the customer upon favourable changes in the circumstances.

To promote the application of the rules of conduct set forth herein the signatory creditors acknowledge and support that the Hungarian Financial Supervisory Authority (hereinafter: “HFSA”):

- publish the list of creditors not signing the Code, and
- regularly oversee compliance with the provisions herein among institutions signing this Code, and permanently publish the observations and the rating established in the course of such inspections – both in respect of the institutions and the agents – on its website.

The signatory creditors declare that in the course of formulating and applying the standards undertaken in this Code they took into account the already established best market practices, and have no intention to restrict fair market competition among the institutions, instead, their only objective is to promote the development of their retail clientele, and through this, the entire Hungarian economy by fostering fair competition and business practices. They are convinced that this self-regulatory Code – not substituting the provisions in the prevailing Hungarian legal regulations, but rather, supplementing them with ethical norms – can further strengthen market competition for satisfied consumers, and enhance the quality and effectiveness of lending services to the general public.

The creditors signing the Code in line with “the Act XLVII of 2008 on the prohibition of unfair business-to-consumer commercial practices” undertake to make consumers aware – as part of their commercial practice influencing the consumer’s business decisions – that they

have accepted the provisions of this Code as binding upon themselves. They also undertake to publish it in their General Terms and Conditions that they accepted this Code as binding upon themselves.

### **Scope of the Code**

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

The creditors signing the Code also undertake to adhere to the stipulations of the Code in respect of the local subsidiaries controlled by them and engaged in retail lending.

The signatory institutions undertake to 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, and also oblige their agents and representatives participating in such services to adhere to the Code by including its provisions in their contracts concluded with their agents and representatives.

In connection with retail lending, the Code regulates the following:

1. The general standards of responsible lending
2. The general principles of creditors’ pre-contractual conduct
3. The rules on the unilateral modification of the terms and conditions of the contract
4. Procedures related to the treatment of payment difficulties encountered by customers
5. Principles of the responsible creditors’ conduct prior to and during execution procedures

## **1. The general standards of responsible lending**

- 1. The creditors undertake to fully comply with the principles of responsible lending, with special regard to the fact that the deposits placed by their depositors constitute one of the sources for their lending transactions. They recognize that responsible lending requires mutually responsible and prudent actions on the part of both the creditor and the customer. In the course of providing information to and communications with the customer, the creditors use their available resources to assist their customers to make a responsible decision. In the course of their procedure, it is not the sole objective of the creditors to place a credit, but also to retain the customer in the long run, as well as to ensure the successful repayment of the credit.**

Thus, the creditors are committed

- a) to authorize in the course of their credit evaluation, the lending transaction after full assessment of the load-bearing capacity of the customers. During this procedure, they examine the likelihood of due repayment by the customer. They approve a lending transaction on asset coverage basis only, without examining the income status only after due consideration of the risks involved and only in respect of a limited scope of products developed for this purpose.
- b) to develop transparent products, services, conditions and contractual terms tailored to the needs of the customers. In compliance with the provisions of the Act on unfair business-to-consumers commercial practices, they shall determine customer needs based on the conduct of a consumer who is reasonably well-informed and acts with due diligence and prudence.
- c) to provide correct and full information on the service they are offering to their customers. In their personal communications with the customers they will make efforts to make the customers understand the conditions of the product offered/sold to them and able to weigh the risks inherent therein.
- d) to assist the customers to make their decisions based on longer term consideration. The creditors also undertake to lay special emphasis on the presentation of risks – after the selection of the concrete credit product suitable for the consumer, but prior to signing the credit contract – that may result in increased instalment payment burdens and warn their customer that the instalment may increase in the future, and thus they should exercise due care when selecting a credit product.
- e) to treat the customers in a co-operative, flexible and helpful way.

## 2. The general principles of creditors' pre-contractual conduct

The creditors undertake to:

- a) join the Recommendation titled „**European Agreement on a Voluntary Code of Conduct for Pre-contractual Information on Home Loans**” (2001/139/EC) within 6 months after the entry into effect of this Code in case of the provision of retail housing loans and apply, as far as possible immediately after joining, the information supply principles and concrete practices contained therein.
- b) to make it possible for their customers to **compare the different conditions of the various products provided by their institution.**
- c) to recommend to their customers and future contracting parties to make a responsible credit decision only after carefully considering the entire load-bearing capacity of their household, keeping in view the income status of the persons living in the particular household, their indebtedness and their capacity to add more liabilities to the current ones, and upon the customer's request assist the customer and future contracting party in assessing their load –bearing capacity.
- d) to draw customers' attention to the **consumer protection website of the Hungarian Financial Supervisory Authority** and the **product descriptions and applications allowing for the products' comparison** (loan calculator, household budget calculator program) and **provide the relevant link allowing customers to easily access the site.**
- e) to refrain from difficult to understand information referring merely to legal regulations. In the course of personal communications with the customer, the employee of the creditor will supplement written information with **verbal explanation.**
- f) to develop uniform **definitions** for terms used in the course of selling financial services and products.
- g) to ensure in their commercial communications, that the **instalments payable during and after the promotional period** are indicated by the same letter size and edited in the same way, or that they are well articulated.
- h) to ensure that their agents have a **sufficient number** of copies of all documents necessary provide information to the customers and shall make regular random checks to verify if the agents provide information to the customers in compliance with the legal regulations and their by-laws.
- i) to properly educate in due time their **clerks** customer service- and call centre employees on the scope of products and services so that they can reply to customer enquiries with useful, accurate and effective information.
- j) not to regard the **age of the customers** an automatic reason for rejecting the credit application and to consider ways to grant credit to older customers and manage the credit risks inherent in such transactions (e.g., by requiring additional collateral).
- k) to verify during or before the submission of a credit 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, so that the customers can avoid unnecessary payments to the creditor. In this regard, they shall warn the

customers that their listing in the KHR would possibly result in the rejection of their credit application and advise them that they may launch an inquiry into the KHR once a year free of charge. If the credit application is likely to be rejected, the customer shall be made aware of the fact as soon as possible, to prevent vain hopes in a positive decision.

- l) 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 instalment payment.
- m) that if the credit is granted subject to a **credit-linked life insurance** (except when the customer takes out a life insurance prior to the credit application, with a view to borrowing), this may only take place after a positive credit evaluation, as a condition for disbursement. Customers should be spared from taking out a life insurance unnecessarily, even when their credit application is rejected.
- n) that if possible, (e.g., group insurances not included in the product), they allow **customers to freely choose** from among the life insurance products of several insurers.
- o) to allow the customer to learn the part of the completed value appraisal not constituting a business secret if a **value appraisal** is prepared in connection with the credit transaction, and the fee thereof is paid by the customer,. Further, they allow the customer to keep a copy of the completed **value appraisal** or the excerpt thereof.
- p) to inform the customer of its existence, conditions and amount as well as of the consequences of defaulting the contractual conditions undertaken in connection with the subsidised credit if **the credit is associated with** state support – whether **interest subsidy or state guarantee**.
- q) to make sure that the intention of the customer can be clearly identified when recording the contracting customers' statements on having received the necessary information and having given their approval, and give a signed copy of the statement to the customer. The various declarations – e.g., authorization to handle personal data, information on KHR, consent to direct business acquisition, and the risk awareness statement) may be made on the same sheet of paper, only if the customer can mark the subject of his or her consent and declaration.
- r) to inform their customers in writing at the time of the contract conclusion at the latest whether the customer has the option – whether based on a legal regulation or a business consideration – to **terminate the contract free of charge**.
- s) to undertake when the contract is concluded to make it possible for the customer to repay the foreign exchange loan **in one amount in foreign currency**.
- t) to draw the attention of **all parties participating** in the contract conclusion that they may not participate as a buyer in any purchase of the receivables initiated by the creditor or in a potential liquidation proceeding at a later stage.

### **3. Rules on the unilateral modification of the conditions of the contract during the loan tenor**

The financial organizations undertake the following:

- a) They shall set forth the principles on unilateral modifications of interests, fees and costs applied in retail credit and loan contracts in their Pricing Principles, which will not be made public as they may include a business secret, but shall be made available to the HFSA upon request.
- b) Based on the reasons specified in this Code, the Pricing Principles will contain – in line with the special features of the given creditor – the key foreseeable pricing aspects that may induce the modification of the contracted interests, fees and costs.
- c) They shall publish the list of reasons applied by the creditor and specified in this Code that may affect the interests, fees and costs applied in their contracts.
- d) They shall not unilaterally modify, to the detriment of the customer the contractual conditions of credits having a contractual term not exceeding one year, unless they are automatically renewable.
- e) In line with the principle of symmetry, advantageous changes in the conditions influencing the given interest, fee or cost elements will also be applied.
- f) To ensure transparency, the effective exchange rates applied for the disbursement and repayment of foreign-currency based credits and the differences from the central parity rate of the National Bank of Hungary (MNB) are to be made public.

Accordingly – unless it is provided otherwise by law – **financial organizations shall be entitled to unilaterally modify the interest, fee and cost in the loan contract or financial leasing agreement concluded with the consumer, in case the conditions affecting the particular service have changed.** A change in a single cause from among those listed below will not necessarily induce the modification of the amount of interests, fee and cost in the consumer's credit contract. The financial organization shall make a decision on the unilateral modification of the amount of interests, fee and cost in the consumer's credit contract based on the in-depth analysis of the overall impact of the changes in the conditions specified below, together with the impact of these changes on the elements of interest, fee and costs.

#### **List of reasons:**

1. Creditors undertake to modify the **interest** unilaterally only upon the occurrence of the following scenarios:
  - 1.1. Change of the legal, regulatory environment
    - a) Changes in the laws, by-laws, regulations or in the decrees of the MNB, or in other rules compulsory for the creditors related to their activities or operating conditions closely and directly associated with the legal terms stipulated in the loan contract or financial leasing agreement;

- b) Changes in the public dues (e.g., tax) related to the creditor's activities closely and directly associated with the legal terms stipulated in the loan contract or financial leasing agreement, and changes in the minimum reserve requirements;
- c) Change in the amount or fee of the obligatory deposit insurance.

## 1.2. Change in the money market conditions and the macro-economic environment

- a) Change in the cost of funds available for the creditor / changes in the opportunities to raise funds on the money market, thus especially, but not limited to, changes in the following factors:
  - the credit rating of Hungary,
  - the sovereign risk premium (credit default swap),
  - the base interest rate, the repurchase and deposit interest rates of the MNB,
  - the inter-bank money market interest rates / loan rate,
  - shift of the yield curve of the bonds issued by the Hungarian State or the creditor and the swap yield curve relative to each other,
  - the yield of publicly issued securities ensuring refinancing or the risk rating of the issuer of the securities by a recognized independent credit rating agency, or the costs related to such rating,
  - the interests on the customer time deposits with the creditor.

## 1.3. Changes in the customer's risk rating

- a) Reclassification of the customer or the credit transaction to another risk category based on the creditor's asset rating policy in compliance with applicable statutory regulations, or the creditor's internal debtor rating policy – especially if the customer's financial position, solvency and stability changed – if the reclassification into a new risk category justifies the modification of the rate of impairment and the risk premium applied.
- b) Changes of risks associated with loan facilities and/or customers of identical risk category based on the creditor's asset rating regulations in compliance with applicable statutory regulations, or the creditor's internal debtor rating regulations if the change of risk in the given category justifies the change of the rate of impairment, and therefore also the risk premium applied.
- c) Creditors undertake not to increase interest based on the change of risk rating in the case of customers who have always fulfilled their contractual obligations and have never made late payments during the tenor of the loan.
- d) At least 10% change in the value of the real estate collateral provided to secure the loan or credit granted.

2. Creditors undertake to increase loan related **costs, fees and charges** other than interest not exceeding the annual average inflation rate published by the Central Statistical Office.

3. Creditors undertake, besides sections 1 and 2, to unilaterally modify interest, fees and costs only for a temporary period, in case of any force majeure event – sudden large disturbances of the money and capital markets - until disturbances are over. Creditors undertake furthermore to publish such measures and simultaneously inform the Hungarian Financial Supervisory Authority.

#### 4. Procedures related to the management of customers' payment difficulties

The creditors undertake:

- a) to elaborate products, **bridging methods** and action packages in relation with lending to facilitate the re-scheduling of credits, or the extension of the repayment period, or otherwise assist customers experiencing financial difficulties.
- b) to inform their affected clientele in an adequate way – through letter, information booklet, etc. – on the **available bridging methods** related to **credits**.
- c) to draw the attention of their customers to the fact that upon the **extension of the term** of the loan, the instalment will not be reduced proportionately, as a longer tenor also entails increased payable credit costs; to demonstrate the amounts of the instalments payable in connection with the various bridging facilities.
- d) to offer by the officers as many **alternative solutions** for the customers in financial difficulties as possible, in the course of contract modifications as reasonable, and within the means of the business policy of the creditor– instead of automatically rejecting them –.
- e) to allow the loan refinancing and the lump sum redemption of foreign currency based loans in foreign currency in addition to the possibility of their conversion to HUF upon request of customers.



## 5. Principles of the responsible lending applicable prior to and during foreclosure

It is in the interest of both contracting parties to promptly recognize when a customer falls into arrears with payments and to react on such an event appropriately. It is crucial for the customer because the accumulated arrears could affect his creditworthiness, moreover, the defaulted debt could lead to the termination of the contract, and even to the loss of his home (as real estate collateral). As to the creditors, it is also crucial for them, because the belated reaction to the customer's default may make debt recovery more difficult. In the course of debt management the creditors act in compliance with the principles of proportionality, gradation, transparency and calculability, with due regard to the requirement of fair treatment.

### 5.1. Accordingly, in order to prevent the foreclosure as far as possible, the creditor institutions undertake the following:

- a) As soon as the customer falls into arrears with payments, they **will contact him** (by phone, in writing) within the deadline specified in their by-laws, in order to arrange a solution for settling the defaulted payment obligation.
- b) If the first attempt to make contact was unsuccessful, they will make all reasonable efforts to enter into contact with the customer and obtain an effective response from the customer.
- c) If the customer could be contacted and is willing to cooperate, they will **agree on a non-foreclosure** method to settle the debt in arrears, allowing the customer to pay the debt voluntarily. In the course of their procedure, the creditor institutions shall take into account the actual payment capability of the customer as well as his former payment discipline.
- d) **In dunning letter, they will draw the attention of the customer** to the following:
  - the total amount of the outstanding debt,
  - the interest and late payment interest payable and the fact that the interest burden is constantly increasing upon default,
  - the legal procedures applicable in the case of default in the settlement of the debt (foreclosure, factoring, etc.), as well as the eventual loss of the real property. The customer should be made aware of the possible legal consequences of the defaulter conduct.

### 5.2. If despite the above actions to satisfy the claims from the collateral cannot be avoided, in the course of the foreclosure the creditor institutions will act in compliance with the following rules:

- a) during the execution they will **cooperate with the debtor** to find a way to solve his situation, and, in the framework of this they will also cooperate to the extent possible with the local governments.
- b) If the debt is handed over to a factoring or workout company, or to a receiver, they will indicate— besides the claimed amount — the **principal, interest, penalty interest and other fees and charges** in an itemized breakdown.
- c) They will prohibit their own employees and their close relatives living in the same household, from acting as a buyer in the sale of receivables or foreclosure initiated by the creditor institution.

- d) In contracts allowing a **pre-emption right** for a real property, a period of at least 90 days will be provided to the debtor to sell the real property by himself before the creditor institution would exercise its pre-emption right.
- e) They will publicly sell the real properties serving as collateral, regardless of whether the sale is conducted by them or other contracted undertakings participating in the receivables management.
- f) After the sale of the collateral, they will settle accounts with the debtor regarding the proceeds generated on the sale, within a reasonable time.

## **6. Closing provisions**

Responsible lending requires fair conduct on the part of both the creditor institutions and the customers, and the signatory institutions wish to have a leading role in this cooperation.

Besides the responsible and fair conduct exercised by the creditor, responsible borrowing is also a key element in responsible lending, inasmuch as in the course of their operations creditors depend on the correctness and completeness of the information provided by prospective customers. The ultimate decision whether to accept the credit offer and which product is best suited for them is made by the prospective borrowers. The creditor institutions 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 communications and cooperation between the creditor and its customer should not be discontinued during the entire term of the credit.

The Code is going to be reviewed within two years after the signing thereof, or in case of any material change in the legal, economic or market environments or at the initiative of the HFSA or the Hungarian Banking Association.

The Code of Conduct shall enter into effect simultaneously with the amendment of Article 210 of the Act on Credit Institutions and Financial Enterprises (Hpt.). Creditors undertake to adhere to the modification moratorium undertaken at the meeting held on July 17, 2009 with the participation of the Hungarian Government, representatives of the Hungarian Banking Association, the President of the Hungarian Competition Authority and the Chairman of the Board of the Hungarian Financial Supervisory Authority up to the coming into force of this Code of Conduct, but no later than 1 December 2009.

Budapest, 16 September 2009

The official text of this Code of Conduct is its original Hungarian version. Should differences of interpretation occur, the Hungarian original applies.