

*As amended on 30 June 2020*

Riga 29 April 2020

## **On temporary non-legislative loan payment moratorium for private obligors**

### **I. Context of the preparation of the moratorium**

European Banking Authority has published guidelines EBA/GL/2020/02 “Guidelines on legislative and non-legislative moratoria on loan payments applied in the light of the COVID-19 crisis” (hereinafter – **the EBA Guidelines**) and on 18 June 2020 has extended the deadline for the application of the EBA Guidelines.

The Financial and Capital Market Commission has informed the Finance Latvia Association that at this juncture there is no such industry wide non-legislative loan payment moratorium (hereinafter – the Moratorium) in place which meets the criteria set out in the EBA Guidelines.

The establishment of a comprehensive moratorium would set common, clear and publicly available criteria for loan principal repayment postponement (hereinafter – **the Grace period**).

Referring to the invitation from the European Banking Authority and the Financial and Capital Market Commission to evaluate the possibility to establish an industry wide non-legislative loan payment moratorium, and the offer to verify the compliance of such moratorium with the EBA Guidelines, Finance Latvia Association proposes to its members and other financial institutions operating in Latvia to follow the principles laid out below.

This Moratorium applies to credit institutions, their subsidiaries and branches (hereinafter – **the financial institution**), which provide loans related to real estate, consumer loans, and leasing services (both provided by a credit institution or a company owned by a credit institution) to natural persons. Other participants of the Latvian lending market individually may follow the Moratorium.

By following this Moratorium financial institutions shall not exchange information, which could be classified as banking secrets or commercial secrets or which could be considered as sensitive and privileged information.

However, financial institutions are encouraged to be transparent and to inform the public about the total number of clients and total amount of loans which are granted the Grace period according to the Moratorium.

A financial institution that joins the Moratorium undertakes to provide the Financial and Capital Market Commission with the information requested in Paragraph 17 of the EBA Guidelines.

## **II. The financial institutions announcing the Moratorium**

A financial institution accepts the terms of the Moratorium by informing the Finance Latvia Association, the Financial and Capital Market Commission and Competition Council. Financial institution to which special permit to grant credits is issued by the Consumer Rights Protection Centre also informs the Consumer Rights Protection Centre. In addition, the financial institution publishes relevant information about the Moratorium and the fact that it has selected to apply the Moratorium.

A financial institution is entitled to join the Moratorium partially by product type, indicating whether it will apply the moratorium to mortgage loans, consumer loans and/or leasing (different approach in regard to several types of leasing is allowed). In this case other terms of the Moratorium shall be followed without any derogation.

## **III. The temporal applicability of the Moratorium**

This Moratorium is issued for a limited period of time. The Moratorium shall enter into force on the day of its publication on the website of the Finance Latvia Association.

The Moratorium shall remain in force until the Association announces the end of the Moratorium or the financial institution publicly announces and informs the Association, the Financial and Capital Market Commission and Competition Council that it withdraws from the Moratorium.

Without prejudice to the above, obligors must apply and the decision on the application of the Moratorium must be taken before 30 September 2020.

However, it is understood that the European Banking Authority may extend the period of application of the EBA Guidelines depending on the evolution of the current situation associated to the COVID-19 pandemic; in such case the duration of the Moratorium would be reconsidered.

#### IV. General principles

1. The Moratorium is announced in connection with the COVID-19 pandemic and is intended to address the resulting deterioration in client's financial condition.
2. A financial institution which joins this Moratorium undertakes to change the schedules of payments of real estate related loans, consumer loans and leasing (hereinafter collectively – **the loans**) granted to those clients which are natural persons, in accordance with the terms of this Moratorium, by postponing the repayment of the principal of the loan.
3. The Moratorium does not affect other conditions of the loan agreement. When postponing the repayment of the principal of the loan under the terms of this Moratorium, any other conditions of the loan agreement shall not be amended with the exception of the following:
  - a. interest rate adjustment in accordance with Paragraph 24 of the Preamble of the EBA Guidelines;
  - b. parties to the loan agreement agree to extend the loan repayment term in order to reduce the monthly payment, however such extension by number of months should not be longer than the granted Grace period;
  - c. clauses related to critical benchmarks in accordance with relevant EU Regulation and recommendations of ECB.
4. This Moratorium postpones the repayments of the principal of the loan for a specific period of time. During this time the client continues to pay the interest and/or other fees.
5. The Moratorium shall not apply if a financial institution concludes that the application of the Moratorium is not economically justified, i.e., if the client's financial difficulties existed before 12 March 2020 and/or are insurmountable (the likelihood that the client will be able to meet its financial obligations is low).
6. The Moratorium shall not in any way be considered as an obstacle to:
  - a. commence any legal procedure prescribed by the law or the loan agreement;
  - b. at any time to provide better terms to clients or an individual approach outside the scope of the EBA Guidelines (the loan classification should be considered on case-by-case basis).
7. This Moratorium shall also apply to loan repayment provisions applied by the financial institution to its clients from 12 March 2020 until the entry into force of this Moratorium, if the provisions applied to the case of the particular client comply with the terms of this Moratorium.

8. If the grace period to a client has been granted from 12 March until the approval of Moratorium the financial institution, upon client's request, is entitled to amend already granted grace period according to this Moratorium.
9. Without prejudice to the Paragraph 8 the Grace period can be granted only once, and next grace period may be granted according to the policy of the financial institution and is outside of the scope of the EBA Guidelines (the loan classification should be considered on case-by-case basis).
10. The financial institution shall charge no fees for processing client's application to acquire the grace period.

## **V. Eligibility criteria**

In addition to the General principles laid out above, the obligor becomes a subject to the Grace period under this Moratorium if the following criteria are met. The obligor:

- a. the loan is issued prior to the Moratorium;
- b. shall not have had significant (more than 30 days) delay in the fulfilment of obligations to the financial institution granting the Grace period for the past 12 months prior to 12 March 2020;
- c. has not informed the financial institution that he or she has no intention to fulfil the loan agreement;
- d. has not been declared insolvent/bankrupt prior to 12 March 2020 or prior to the granted Grace period;
- e. shall indicate the COVID-19 pandemic related cause for the deterioration of the financial situation (loss of a job, loss of income, or other);
- f. shall, during the grace period, pay the interest and/or other fees set in the loan agreement;
- g. shall act in good faith, which includes full and frank cooperation with the financial institution, and provision of accurate information to it.

## **VI. Grace period**

1. The Grace period for mortgage loan is up to 12 months, upon the client's choosing.
2. The Grace period for consumer loans is up to 6 months, upon the client's choosing.
3. The Grace period for leasing is up to 6 months, upon the client's choosing.