

# **Guide for financial difficulties**



**PÉNZÜGYI SZERVEZETEK  
ÁLLAMI FELÜGYELETE  
HUNGARIAN FINANCIAL  
SUPERVISORY AUTHORITY**

**2013**

## About the Guide

This Guide contains useful information for customers with financial difficulties.

If you read it you will be aware of

- what to do in such a situation,

- what you should be attentive of when taking a decision,
- what options you have when experiencing financial difficulties.

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# 1 What to do when I have financial difficulties?

You may also get into a situation when are unable to pay your debts temporarily or permanently for reasons beyond your control. In such a case, it is important that **should not sweep** the problem **under the carpet** and **should take immediate action**. The sooner you act the better your chance is to find the solution.

## 1. Let you creditor know about your financial trouble

It is very important that you contact your creditor and tell him frankly that you are having financial difficulties. **The key to the solution is that you cooperate** and provide full and accurate information about your financial position. If you indicate your problem in time, there is a chance to find – at least a transitional – solution even in great financial hardship. What you need to do is: act quickly.

### It is good for you to know:

- Creditors usually request you to report your financial trouble in writing and verify it. Indicate the cause of your financial trouble (e.g. loss of job, illness, etc.).

- In the procedure creditors will take into account your readiness to cooperate (or the lack of it). You can substantiate your readiness to cooperate by indicating your problem in time, even before it surfaces.

## 2. Assess precisely your financial position

In order to manage your financial difficulties in the best possible way, it is necessary to assess how your financial position has recently changed. To this end you need to **summarise all your revenues and expenses**.

### Based on the above,

- you can calculate **the amount missing from your monthly budget**,
- your can set up a **priority list** of your expenses,

- you can learn **where you can save**,
- it will make your finances easier to plan,
- **it may facilitate and accelerate the agreement** with the creditor: you will have a clear picture about the financial burdens you can accept.

**It is good for you to know:**

- Your calculation is assisted by the HFSA's household budget calculator programme  
<http://www.pszaf.hu/fogyasztoknak/alkalmazasok/hksz>

- It may sound surprising but you can save a large amount of money with proper awareness

Think on the members of your family and relatives whose help you may rely on. Based on your budget, **inform your creditor how much you can pay.**

It is important to make an effort to reach a settlement with you creditor even if you are able to repay only a portion of your original instalment.

Creditors will terminate your contract and enforce the collaterals only as a last resort. If you cooperate, you have a good chance to jointly reach a solution (see the details in chapter 3).

### **3. Pay as much as you can**

If you cannot repay the total amount of the instalments even after a review of your household budget, it is important for you to pay as much as you can. By doing so, you can prove that you are ready to cooperate even under your difficult conditions. This is an important factor in the course of agreeing on a transitional solution. Your indebtedness will grow at a slower pace, a factor also facilitating the possibility of a transitional solution. If you have no chance to reach such an agreement, it is important that your assets (home, movables) be collateralised only to a minimum possible extent. **If you cooperate you, can also expect a similar behaviour from your creditor, and you may find the most suitable solution together.**

### **4. Examine your collateral protection insurance**

If you have taken out collateral protection insurance, ask yourself whether based on it you are entitled to protection. In order to answer this question, you need to study its terms and conditions. The service provider may also assist you in answering this question.

### **5. Know your option**

Ask your creditor about transitional schemes, their terms and conditions and about the available social programmes. See details under chapter 3.

## 6. Keep the copies of letters and documents on your default and give your consent to recording telephone conversations conducted with your debt collector

It is important to have these documents and recordings available in case of a legal dispute.

### A check list for your most important tasks:

- Have you contacted your creditor? The sooner you do it, the bigger your chance is for reaching a solution.
- Have you prepared your household budget? Are you aware how much you are able to realistically pay after cutting your expenses?
- Do you make regular payments according to your possibilities?
- Have you checked your collateral protection insurance?
- Have you checked your available options?

**It is good for you to know: If you mismanage your financial difficulties, you may end up losing your home.**

## 2. What not to do if you have financial difficulties?

It is important that you should always take careful steps even if you have financial difficulties. When you seek a possible way out, you may encounter attractive solutions which may further aggravate your position.

### 1. The aspects of using debt settlement schemes

You may encounter advertisements which offer you attractive debt settlement schemes. **Make sure that you avoid small-print advertisements which target customers listed in the Interbank Debtor and Credit Information System (Hungarian acronym: BAR) (or the Central Credit Information System – CCIS, Hungarian acronym: KHR).** Be also careful with possible schemes offered by institutions which are not supervised. In each and every case, **ask the question whether the institution concerned has supervisory license.** You can check it with the HFSA's customer service, or on its website (see Useful Addresses at the end of the Guide). **Check the terms and conditions of the proposed credit** (instalments, costs, collaterals, etc.) before you sign an agreement. You can find the above information in the written documents provided by the creditor or credit broker soliciting the offer. Compare the

documents with the burdens of your current credits which are available free of charge in the form of a repayment schedule at your creditor.

## **2. Saving certain expenses**

When you prepare a list of priorities for expenses, **take into account that failure to pay certain liabilities may create a similar situation** to the default in payment in the case of a credit, i.e. judicial foreclosure proceedings may be initiated. See the details in the HFSA's household budget calculator programme on the HFSA's website (<http://www.pszaf.hu/fogyasztoknak/alkalmazasok/hksz>).

## **3. It is risky to rely on selling the real property serving as collateral for the loan**

You receive regular information from your creditor during your default in payment about the size of the debts. If your debts approach the value of the real property which serves as collateral and you are still unable to make payments, you may end up having debts even after selling the collateral.

It is important for you to know that if your creditor still has claims against you after the sale of your real property, you have an obligation to pay your debts.

You should be also aware that if you have unsecured credit (e.g. commercial credit), the claim may also be enforced by judicial foreclosure, so other assets you own, even your home may serve as collateral.

In summary: your homeownership may be jeopardised not only by failure to pay your residential mortgage loan, but also by non-payment of other loans or public utility bills.

## **4. Do not sweep your problem under the carpet. Do not expect others to solve your problem.**

The late payment of instalments and other fees and costs due may in summary result in your debts gradually growing and accumulating. **This is the reason why it is very important for you to always pay at least as much as you can and to settle your debts as soon as you have a chance to do so.**

**In case of default, the longer you delay payment, the larger the claim of your creditor will be, so as a result you will have to suffer increasing financial burdens even if you can avoid the foreclosure proceedings.**

### 3. Information about transitional schemes

If you are in default and you cooperate with your creditor, you may jointly find a transitional scheme. Each and every creditor offers special schemes for debtors in trouble, and they also assist you in utilising public schemes. Contact your credit institution concerning public schemes.

Before you take a final decision about choosing a transitional scheme, you should take a careful account of your own and your potential helpers' capacity to pay and ability to generate revenues.

It is also good for you to know that your readiness to cooperate will encourage your creditor to examine the applicability of transitional schemes for you, however, your creditor is not obliged to secure a transitional scheme for you in every case.

If you are faced with short-term, temporary financial difficulties, make sure to start the repayment of your outstanding debts as soon as possible because delays incur costs (see the details in chapter 4).

#### 1. Repayment schemes offered by creditors

If you have repayment difficulties, your **creditors will assess your financial position and take a decision about the option of modifying your contract.** It is important for you to provide your creditors with the requested information and statements in a comprehensive and precise manner.

Creditors can offer you a list of transitional schemes or a mixture of them. The list below is not exhaustive:

##### **Term extension**

The extension of the loan term enables you to have reduced instalments with all other conditions unchanged. However, it also means that you will have repayment obligations for a period longer than originally planned and you will have to pay more in total.

**You have a chance to extend the term of your residential mortgage loan free of charge (by maximum five years), which your creditor may reject only on the grounds of a substantiated reason.**

##### **Capitalisation of outstanding debts**

If you are solvent, the creditor may decide to increase your debts not yet due by the amount overdue. As a result of such an agreement, the amount of your monthly instalments will be higher, however, there will be no need for you to immediately pay the amount outstanding.

##### **Temporary payment of moderate instalments**

If you have a temporary financial trouble, there is a chance for you **to pay less for a certain**



**period of time.** In such a case, subject to the agreement, the difference between the original instalment and the moderate amount, or the interest portion of the repayment, which is temporarily not paid, will be added later to the outstanding debts.

### **Grace period for principal repayment (capital moratorium)**

It is similar to the previous arrangement, but in this case **temporarily only the interests and costs must be paid out of the instalment, and no principal repayment is to be effected.** In such a case, the amount of the debts is usually unchanged, but it is not reduced either. When the grace period is over, the outstanding principal will be added to your debts.

### **Conversion of the loan into Hungarian forint**

Subject to an agreement, creditors allow you to convert your foreign exchange loan into one denominated in Hungarian forint. If you chose conversion, **you must consider the extent of the possible exchange loss**, while there will be no uncertainty due to exchange rate changes, but the rate of interest may still change.

Creditors may offer **other schemes** on top of the above, so ask your creditor about the options in each and every case.

## **2. Public schemes**

If the conditions set forth in legal provisions are met, **you have a chance for utilising the public schemes at the creditor.** Your creditor will inform you about the public schemes available to you. You find detailed information about them at the HFSA's website ([http://www.pszaf.hu/fogyasztoknak/hitelek/fizetesi\\_nehezsegek/allami\\_programok\\_devizaad-osoknak.html](http://www.pszaf.hu/fogyasztoknak/hitelek/fizetesi_nehezsegek/allami_programok_devizaad-osoknak.html)).

## **3. Social help**

**If you lose your job, or you have long-term health problems and financial difficulties, ask about the available social programs run by the government and the local governments.** You can get detailed information at the local government and at the Labour Centre of county Government Offices (see the Useful addresses at the end of the publication).

## 4. Useful information

The following information can help you to more accurately assess the consequences of default. If you have further questions, contact your creditor.

### 1. Costs, fees

The default has a price: **you must pay all costs arising in connection with the default.** The primary cost after default is the **default interest charged on the overdue debt until the termination of the loan.** You may **learn about its extent** in the information letter served together with this Guide. The rate of the default interest applied is generally adjusted to the central bank base rate. The rate of the default interest may vary, its actual rate is disclosed in the announcement of the bank.

An additional cost after default is the fees charged for certain lending activities. Such fees include typically the fee of the payment notice and the fees charged for the assessment of the debtor's solvency. Ask your creditor about the actual extent of such fees.

If there is a need for contract amendment due to the transitional schemes, the fee for the contract amendment or the notary's fee connected with mortgage loans may represent a significant charge.

### 2. Rules of settlement in case of default

It is important for you to know that if you are in default and subsequently you make payments to the creditor, then the settlement will contain the following elements unless otherwise stipulated in the agreement signed between you and your creditor:

- your payments will firstly be used to cover the above-specified costs,
- then to cover interests and the default interest, and
- the remaining portion will cover your outstanding debts.

If your defaults on instalments continue to accumulate, then the fees and costs payable on them together with the rules of settlement concerning them may result in the overall effect of your debts also accumulating rapidly. Consequently, it is very important for you to pay as much as you can and to do your best to gain entitlement for a transitional scheme.

### 3. Central Credit Information System (CCIS)

One of the consequences of your default in payment is that **in the case of a continuous default which exceeds the amount of the monthly minimum wage and which reaches a delay of more than 90 days, your data concerning your default will be forwarded by your creditor to the Central Credit Information System.** For a period of ten years starting with the date of making this report this information can be transferred also to other creditors if you turn to them for a credit. If you have settled your debts in default, the data on your default will be automatically deleted from the CCIS within a year from your debt settlement.

As a consequence, as long as your debt in default is recorded in the CCIS you may not be able to receive a new credit or the conditions of your new credit may become more stringent.

### 4. About the consequences of terminating the credit agreement

The Supervisory Authority has published a guide about the consequences of the termination of the credit agreement, a guide which all debtors receive annexed to the last letter sent before termination. The guide is also accessible on the HFSA's website.

## 5. Useful addresses

You may receive information about job search assistance and social benefits available in the case of *unemployment* at the Labour Centres of county Government Offices. Contact the National Labour Office for information about the accessibility of a Labour Centre operating in your residential location:

#### National Labour Office

**Address:** 1089 Budapest, Kálvária tér 7. **website:** [www.afsz.hu](http://www.afsz.hu), [www.munka.hu](http://www.munka.hu),

**Telephone:** (+36-1) 303-9300

*In the case of a default*, you may get further information about the available public schemes and schemes offered by institutions in the financial consumer protection advisory offices. The offices operate in several cities and towns throughout the country. You may receive information about the contact details of the offices at the HFSA customer service (tel.: 06-40-203-776) or on the website of the advisory network:

<http://www.penzugyifogyaszto.hu/>

If you have a legal dispute *in connection with your creditor arising from the conclusion or performance of a contract*, you may turn to the Financial Arbitration Board, which is a forum of alternative dispute resolution in the interest of reaching out-of-court settlement of

disputes arising between consumers and financial service providers in connection with an existing contract.

**Financial Arbitration Board**

**Address: 1013 Budapest, Krisztina krt. 39., website: [www.pszaf.hu/pbt](http://www.pszaf.hu/pbt),**

**Telephone: (+36 1) 489-9100**

You may file a *consumer petition* with the Hungarian Financial Supervisory Authority if you believe that your creditor has not acted in accordance with the applicable legal provisions on default. You may file a petition to the Supervisory Authority if you have already lodged a complaint with your creditor.

**Hungarian Financial Supervisory Authority**

**Address: 1013 Budapest, Krisztina krt. 39., website: [www.pszaf.hu](http://www.pszaf.hu),**

**Telephone: (+36 40) 203-776**

You may ask your creditor or the financial enterprise managing the CCIS about the *data recorded in the CCIS*:

**Central Credit Information PLC (BISZ Zrt)**

**Address: 1205 Budapest, Mártonffy utca 25-27., website: [www.bisz.hu](http://www.bisz.hu),**

**telephone: (+36 1) 421-2505**

# Guide

# before the termination of the credit agreement



**PÉNZÜGYI SZERVEZETEK  
ÁLLAMI FELÜGYELETE  
HUNGARIAN FINANCIAL  
SUPERVISORY AUTHORITY**

**2013**

## About the Guide

You receive this Guide because your creditor has already sent you the last payment notice before your credit agreement is terminated. In your own interest you are advised to take very seriously the warning in the payment notice and in this Guide.

The Guide contains useful information for customers before the termination of the credit agreement about

- what you should do in this situation and what your options are, and
- what factors you should take into account before you take a decision.

### 1. What to do if you received the last payment notice before the termination of the credit agreement?

First of all you should read the payment notice very carefully. This letter provides clear information about what to do and also what will happen if you fail to respond to its content.

In this case the most important thing for you is **„not to sweep the problem under the carpet”** and **to act without delay**. Your decisions in this situation may have far-reaching consequences.

Contact your creditor without delay and inquire about your options in order to avoid the termination of the credit agreement or the negative consequences of it, or at least to mitigate its negative consequences. If there is something you do not understand or something is not quite clear for you, ask your administrator.

- If the credit agreement is also signed by a co-debtor, a surety or other pledger, contact them without delay in order to find a solution jointly together.
- If you have not yet tried to find with your creditor a transitional public scheme or a scheme offered by the credit institution, inquire about these options. You may find further information about the transitional schemes on the HFSA's website<sup>1</sup>.
- If you are no longer able to use a transitional scheme in order to maintain your credit agreement, ask your creditor without delay about the possible **legal options** for claim enforcement (e.g. foreclosure proceeding, payment warrant proceeding).

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<sup>1</sup> The guides are published on the consumer subpages (<http://www.pszaf.hu/fogyasztoknak>), in the section dealing with credits, under the point titled financial difficulties.



- In case of a credit secured by mortgage, it is indispensable for you to clarify whether your credit institution will give consent (and under what conditions) to **the selling** of the property by the owner **independently**. If this is not possible, you should know about the conditions of the **joint sale** of the property and about the drawbacks and advantages of these options.
- In case of a credit secured by mortgage, ask if you can make use of the home building assistance. Interest subsidy can be granted to purchase a smaller home or to pay the interests on the Hungarian forint denominated credit to refinance the foreign currency denominated credit in default.
- Ask if you may be entitled, on social grounds, to the home protection programs offered by the government (Hungarian National Asset Management Inc) or local governments. You may find information about the Hungarian National Asset Management Inc. on the HFSA's website (see footnote 1). You may receive information about the social subsidies at the customer service of the Ministry of Human Resources (see „Useful addresses” at the end of the Guide).

**Unless you act swiftly**, your creditor may terminate your credit agreement and may initiate a legal proceeding against you. As a result, if you have a mortgage loan, **you may lose** the property which serves as a collateral for the credit. In the case of other (unsecured) credits, **you may lose your assets and properties**.

It is your creditor's fundamental interest to continue relations with you even after the termination of the credit agreement. It is, however, the creditor's right and obligation to recover the claim.

## 2. Additional important information

### 1. Requesting information

If you have any question, do not hesitate to contact your creditor. Your creditor is obliged to provide information to you based on the „principle of fair and cooperative conduct” set out in the Code of Conduct.

### 2. Debt accumulation

The late payment of instalments and other fees and costs due (see the points below) may in summary result in your debts gradually growing and accumulating. **This is the reason why it is very important for you to always pay as much as you can and to settle your debts as soon as you have a chance to do so.**

**Following termination your total debts will become due in one sum, which means that default interest will be charged not only on the overdue instalments but also on your total debts.** If you have a home loan agreement, the default interest may not be higher in the 90 days following termination than the rate of interests and handling charges applied at the time of termination. Irrespective of this limitation, you may expect that your debts will be accumulating at an accelerating pace after termination if you are not able to repay your debts as they fall due, in one sum or in instalments, based on an agreement with your creditor.

### **3. Costs of the termination**

If your creditor notarises the termination, then it will be subject to charges according to the list of notary public fees; its amount varies usually between 18- 25 thousand forints.

### **4. Foreclosure and debt collection charges**

In debt collection the collector may charge fees for correspondence, for the initiation of certain legal proceedings, for valuation and for the services of a lawyer.

It is important for you to be aware that the charges of the judicial foreclosure proceeding are determined precisely by the applicable legal provisions, and such charges – irrespective of the course which the proceeding is to follow – **may even be up to 10-20% of the amount of the claim.** The foreclosure charges are the first to be deducted of the amounts received from the debtor in the judicial foreclosure proceeding.

### **5. Collateralised loans**

In the event you have a credit secured by mortgage, take into account that the accumulation of debts and the charges of debt collection and foreclosure are going to reduce the residual value you would be entitled to after deduction of the claims. If your **debts exceed the level of the collateral** at the time when the collateral is sold, you will **continue to have debts** which your creditor may continue to demand from you.

### **6. Central Credit Information System (CCIS)**

Your data will be recorded in the CCIS if you fail to meet your obligations undertaken in the credit agreement or similar schemes in an extent exceeding the amount of the monthly minimum wage and for a continuous period of more than 90 days. Then the CCIS will register the outstanding and closed credit defaults. The CCIS register will also contain how your outstanding credit defaults were closed. Defaults closed by settlement will remain visible in the system for one year from settlement, whereas defaults closed without settlement by the debtor with a loss to the creditor will remain visible for a period of five years from closure (for 10 years from the original data submission) without the customer's specific consent, and will then be removed automatically.

Contact your creditor and ask about the options in order that the **least disadvantageous** solution could be applied in the knowledge of your exact conditions and possibilities.

### 3. Useful addresses

*In the case of a default*, you can get further information about the available public schemes and schemes offered by the institutions in the financial consumer protection advisory offices. The offices operate in several cities and towns throughout the country. You may receive information about the address, the opening hours and the telephone number of the offices at the HFSA's customer service (tel.: 06-40-203-776) or on the website of the advisory network:

<http://www.penzugyifogyaszto.hu/>

If you have a legal dispute in connection with your creditor arising from the conclusion or performance of a contract, you may turn to the Financial Arbitration Board, which is a forum of alternative dispute resolution in the interest for reaching out-of-court settlement of disputes arising between consumers and financial service providers in connection with an existing contract. Contact details:

#### **Financial Arbitration Board**

**Address:** 1013 Budapest, Krisztina krt. 39., website: [www.pszaf.hu/pbt](http://www.pszaf.hu/pbt),

**Telephone:** (+36 1) 489-9100

You may file a consumer petition with the Hungarian Financial Supervisory Authority if you believe that your creditor has not acted in accordance with the applicable legal provisions. You may file a petition to the Supervisory Authority if you have already lodged a complaint with your creditor.

#### **Hungarian Financial Supervisory Authority**

**Address:** 1013 Budapest, Krisztina krt. 39., website: [www.pszaf.hu](http://www.pszaf.hu),

**Telephone:** (+36 40) 203-776

You may ask your creditor or the financial enterprise managing the CCIS about the data recorded in the CCIS:

#### **Central Credit Information PLC (BISZ Zrt.)**

**Address:** 1205 Budapest, Mártonffy utca 25-27., website: [www.bisz.hu](http://www.bisz.hu),

**telephone:** (+36 1) 421-2505

Contact the Ministry of Human Resources in connection with the available social subsidies:

#### **Ministry of Human Resources**

**Department for Information on Social Affairs  
Customer service**

**Budapest, V. Akadémia u. 3., telephone: (+36 1) 795-3168**