



CENTRAL BANK OF CYPRUS

EUROSYSTEM

Guide on the Central Bank of Cyprus' Code of Conduct on the Handling of Borrowers in Financial Difficulties

June 2015

This is a short guide on the Central Bank of Cyprus' Code of Conduct on the Handling of Borrowers in Financial Difficulties (April 2015). The Guide summarises the key requirements of the Code for each of the six stages of the restructuring process in order to assist borrowers understand their rights and duties when dealing with their credit institution for the restructuring of their loans.

Introduction

Credit institutions (banks and cooperative societies) incorporated and operating in the Republic of Cyprus which deal with borrowers (individuals, companies and sole traders) in financial difficulties are bound by the Central Bank of Cyprus' *Code of Conduct on the Handling of Borrowers in Financial Difficulties* ("Code").

The first version of the Code issued in September 2013 has been revised and the new version came into effect on 3 April 2015. The revised Code is incorporated in Appendix 2 of the Central Bank of Cyprus' *Directive on Arrears Management of 2015* ("Directive"). The Directive may be downloaded from the website of the Central Bank of Cyprus on the following link:

http://www.centralbank.gov.cy/nqcontent.cfm?a_id=12953&lang=en

The Code must be applied by credit institutions for (a) **individuals** and (b) **micro businesses** (i.e. up to 9 employees and annual turnover *or* balance sheet total up to 2 million euro) and **small businesses** (i.e. up to 49 employees and annual turnover *or* balance sheet total up to 10 million euro) that were granted loans by a credit institution with total balances **up to one million euro** (including loans granted to their connected persons, if any) ("*eligible borrowers*").

If you or your company are an *eligible borrower* and have trouble paying your loans or think you may have trouble paying your loans in the near future, you should communicate with your credit institution as soon as possible. In line with the Code, the credit institution must take certain steps to deal with your situation and, effectively, determine, if feasible, a *restructuring plan* suitable for your situation.

Stages of the loan restructuring process under the Code

The Code sets out the framework that **credit institutions** must apply when dealing with *eligible borrowers* whose loans are in arrears. It requires credit institutions to handle all such borrowers in a fair manner, with the objective of enabling the borrower to service the loans.

In turn, the **borrower must cooperate sufficiently** with his/her credit institution (e.g. provide all requested financial and other information) during the whole of the restructuring process to enable the credit institution to assess his/her own or his/her company's financial situation and come up with a suitable restructuring plan.

The Code sets out below the **six stages** that must be followed during the restructuring process:

Stage 1: How your credit institution must communicate with you and how you must act

➤ Early arrears communication

If any of your loans go into arrears, your credit institution must telephone you within the **first 20 days** from the date that your loan has been in arrears. The telephone communication must be of advisory nature so that the credit institution understand your situation and assist you if you consider it necessary.

If the arrears of your loan remain outstanding for **31 days**, **your credit institution** must write to you and your guarantors, if any, in the form of a letter and inform you of the status of your account. The letter must, among other things, include:

- the date of start of arrears and amount of arrears;
- details of charges and interest related to arrears;
- highlight the importance of cooperating with your credit institution;
- invitation to a meeting for reassessment of your financial circumstances and potential restructuring of your loans.

At this stage, it is very important that **you communicate** and **fully cooperate** with your credit institution so that a mutually agreed restructuring plan that will enable you to repay your loan is determined.

➤ Mid arrears communication

When arrears of any of your loans have reached **60 days** and no arrangement has been made or is in progress, **your credit institution** must write to you and your guarantors, if any, in the form of a letter, setting out, among other things, the following:

- updated information on arrears;
- details of charges and interest related to arrears;
- your legal obligations;
- your credit institution's right to initiate legal proceedings in case of further non-compliance;
- a request by your credit institution to **communicate with it** within 30 days from the letter date for either the settlement of arrears or submission of financial information within a reasonable time period for reassessment of your financial situation in order to develop, if feasible, a restructuring plan tailored to your circumstances.

➤ Serious arrears communication

When arrears of any of your loans have reached or have exceeded **90 days** and no arrangement has been made or is in progress, your credit institution must write to you and your guarantors, if any, again, in the form of a warning letter setting out, among other things, the following:

- all the information and actions included in the letter of mid arrears (60 days in arrears);
- inform you that **if you do not act** in accordance with this letter within 30 days from the letter date, you will be classified as **"non-cooperative"**;

- the possibility for **initiation of legal proceedings** and for **not being covered any more by the Code**.

Classification of a borrower as "non-cooperative"



If you do **not** engage with your credit institution in a way that allows it to carry out an assessment of your circumstances, your credit institution may classify you as **NON-COOPERATIVE**.

Specifically, you will be classified as **non-cooperative** if:

- you do **not fully and honestly disclose relevant and material information** to your credit institution for restructuring purposes or **you delay in doing so**; **or**
- you do **not communicate with your credit institution** within 14 days after they proposed their restructuring plan to you; **or**
- **90 days elapse and you fail to meet your loan instalments and you do not communicate nor respond to notifications by the credit institution or you do not take collaborative steps with your credit institution to develop a restructuring plan**;

and

the warning letter of serious arrears (90 days in arrears) has been sent to you and you did **not** carry out the actions specified in that letter.

The consequences of non-cooperation with your credit institution is that you will **not** be able to influence the outcome of the restructuring process, may be subject to additional charges and, subsequently, your credit institution may commence legal proceedings against you.



AS YOU ARE NOW CLASSIFIED AS "NON-COOPERATIVE" BORROWER, YOUR CREDIT INSTITUTION MAY COMMENCE LEGAL PROCEEDINGS AGAINST YOU AND YOU FACE THE RISK OF SALE OF YOUR PLEDGED ASSETS

➤ Communication with non-cooperative borrowers

In case you are classified as **non-cooperative**, your credit institution will notify you and your guarantors, if any, in writing, among other things, on the following:

- that you are classified as **non-cooperative**;
- **the timeframe within which your credit institution will begin legal proceedings against you and the related costs**;
- **the risk of repossession and disposal by your credit institution of your pledged assets**;
- that you and your guarantors, if any, remain liable of any amount of the debt remaining after the repossession and disposal of your pledged assets, including any interest, charges and related selling costs;
- that your credit institution offers you a **final opportunity** to be reclassified as **cooperative** should you properly act, within **14 days** from the date of this letter.

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Stage 2: Provision of information

Credit institutions have the **right and obligation** to request from **you** and from any of **your guarantors** (if and only if the credit institution relies upon them for the repayment of your loan) **adequate, complete and accurate information regarding your financial situation and, if applicable, your guarantors' financial situation**, which are necessary in order for them to assess your financial situation. Specifically, if you are:

AN INDIVIDUAL	You must provide within 14 days (extendable by up to 7 days): (a) the form " PERSONAL FINANCIAL STATEMENT " duly completed; (b) relevant supporting documentation ; and (c) additional information that may be requested by your credit institution.
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or

ACTING ON BEHALF OF YOUR COMPANY	You must provide within two months (if providing financial statements) or one month (if providing management accounts) (extendable by up to 21 days): (a) recent AUDITED FINANCIAL STATEMENTS or MANAGEMENT ACCOUNTS (in case your audited financial statements are not available); (b) relevant supporting documentation ; and (c) additional information that may be requested by your credit institution.
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Stage 3: Assessment of your financial circumstances

Your credit institution must, in accordance with the Code, **assess the information** submitted by you and your guarantors, if any, within **one month if you are an individual** and **within two months in case of companies** (extendable by up to 14 days).

Your credit institution must also exert **every reasonable effort** to collaborate with you throughout the assessment process in order to accurately determine your *or* your company's repayment capacity and thereby arrive at a **fair and sustainable restructuring plan** that is mutually acceptable.

Stage 4: Evaluation of a range of restructuring options

Upon assessment of your *or* your company's financial information, **your credit institution *must explore all possible restructuring options that may be suitable for your or your company's situation.***

During the evaluation of the different options vis-a-vis your financial position, your credit institution may, if consider it necessary, to contact you in order to obtain further information deemed relevant.

Among the restructuring options that your credit institution **may** consider offering include:

- permanent reduction of your loan instalment with extension of the repayment period of your loan;
- adding your instalments in arrears to your loan to be collected over the remaining term of your loan;
- an interest-only arrangement for a **short** period of time;
- splitting your loan into an affordable loan and a remaining balance is set aside to a later date;
- conversion of your foreign-currency denominated loan into a euro-denominated loan;
- consolidation of your loans into one new loan; and
- combination of two or more of the above restructuring options.



While your credit institution must consider such arrangements, they are **NOT obliged to offer such an arrangement.**

Stage 5: Proposal of a restructuring plan

Following the evaluation of restructuring options, **your credit institution** shall endeavour **to determine at least one sustainable restructuring plan suitable for your case**. This means a restructuring plan that will allow you to repay your loan so that a reduction in your loan balance in the medium term or long term is achieved. On the other hand, your credit institution may **not** manage to determine a sustainable restructuring plan for your case.

Your credit institution must complete your or your company's assessment and orally communicate with you its proposed restructuring plan *or* that no restructuring plan exists within **one month** if you are an individual or within **two months** for companies from the date of receipt of all necessary information. Subsequent to this, your credit institution must hand you or send you within **14 days** from the date of your last contact, either:

- a **"letter of offer"**, if **a sustainable restructuring plan has been determined by your credit institution**, which must, among other things, set out -
 - the revised loan terms and conditions and next steps to officially accept the offer; and
 - the procedure in case you want to reject the restructuring plan, which you can do so within **21 days** the latest from the date of receipt of the letter of offer. In such a case –
 - ✓ you have the **right of an appeal** to the Appeals Committee of the credit institution within **one month** (*more details in stage 6 below*), and
 - ✓ your credit institution may initiate **legal proceedings** for repossession and sale of your mortgaged property after completion of the appeals process and/or any procedure under legislation in force (e.g. the mediation procedure);

or

- a **"letter of negative decision"**, if **your credit institution could not determine a sustainable restructuring plan for your case**, which must, among other things, set out -
 - a clear explanation and the reasoning of its decision;
 - your **right for an appeal** to the Appeals Committee of the credit institution within **one month** (*more details in stage 6 below*); and
 - that your credit institution may initiate **legal proceedings** for repossession and sale of your mortgaged property after completion of the appeals process and/or any procedure under legislation in force (e.g. the mediation procedure).

Stage 6: Appeals process

In case you either **reject the restructuring plan proposed by your credit institution** or **your credit institution did not determine a sustainable restructuring plan for your case**, you have the right to submit an **appeal** to the Appeals Committee of your credit institution. Should you need to submit an appeal, request from your credit institution to provide you with an **appeals form** to complete or download it from the website of the credit institution.

The Appeals Committee must, within **two months**, review your appeal and –

- ***ensure that the provisions of the Code have been adhered to***

and

if **you rejected** your credit institution's proposed restructuring plan, to investigate whether the proposed plan was ***appropriate for your case***; or

- if **your credit institution did not propose any restructuring plan to you**, to conduct ***reassessment of your case*** and ***ensure that indeed no restructuring plan exists appropriate for your case***.



Should you need **further information** regarding the **restructuring process** and/or the **mediation procedure**, your credit institution has available **informative material** in all of its branches and on its **website**.