

LAW ON THE CONVERSION OF HOUSING LOANS INDEXED TO SWISS FRANCS¹

Subject matter

Article 1

This Law regulates the rights and obligations of a bank and a financial service consumer – natural person, with whom the bank concluded an agreement on the housing loan with a currency clause – indexed to Swiss francs (CHF), in the procedure of the conversion of debt under such loan into debt indexed to euros (EUR).

Definitions

Article 2

For the purposes of this Law:

- 1) *bank* has the meaning as defined by the law governing banks;
- 2) *consumer* means a natural person who concluded with a bank an agreement on the loan not intended for his business or other commercial activity;
- 3) *residential real estate property* means a house, apartment and parts of a residential building intended for residence, a garage and/or a garage place together with the apartment, as well as a plot of land with the construction permit for building a house, with vacation homes not considered residential real estate property;
- 4) *loan agreement* means an agreement granting to a consumer a loan which is indexed, i.e. contains a CHF-currency clause, and which is intended for the purchase of residential real estate property and/or its renovation and/or adaptation and/or reconstruction, as well as for the refinancing of such loans;
- 5) *housing loan* means a loan which is subject to the loan agreement;
- 6) *conversion exchange rate* means the CHF/EUR middle exchange rate calculated based on official middle exchange rates of the National Bank of Serbia – RSD/EUR and RSD/CHF exchange rates, valid on the conversion day;
- 7) *conversion day* means the day of concluding the agreement on the conversion under this Law;
- 8) *type of loan* means: a loan for the purchase of residential real estate property; loan for renovation and/or adaptation and/or reconstruction of residential real estate property; loan for refinancing of housing loans;
- 9) *currency clause* has the meaning as defined by the laws governing foreign exchange operations and contracts and torts.

¹ RS Official Gazette, No 31/2019.

Loan agreements subject to this Law

Article 3

The provisions of this Law shall apply to the agreements on loans whose repayment is underway on the day this Law enters into force, apart from agreements where housing loans were converted into EUR-indexed housing loans until that day.

The provisions of this Law shall also apply to agreements on housing loans where debt fell due in entirety until the day this Law enters into force, but the procedure of enforcement or out-of-court settlement has not been instituted, and/or in respect of which the procedure of enforcement or out-of-court settlement was instituted or was underway until that day, including housing loans where residential real estate property which served as collateral was sold, but the debt was not settled in entirety.

Method of conversion and debt reduction

Article 4

A bank with which a consumer is repaying a housing loan, and/or which has receivables under that loan on the day this Law enters into force shall offer the conversion of the remaining debt into EUR-indexed debt at the conversion exchange rate.

The remaining debt within the meaning of paragraph 1 of this Article consists of the amount of principal on the conversion day increased by the amount of due, outstanding regular interest on the conversion day.

The amount obtained through conversion under paragraph 1 of this Article shall be reduced by 38%.

A bank shall apply to the amount of debt under paragraph 3 of this Article the interest rate according to the offer valid on 31 March 2019 for EUR-indexed loans whose type, maturity and the type of interest rate (variable or fixed) are the same as those for the housing loan.

If a bank did not have in its offer EUR-indexed housing loans on 31 March 2019, it shall apply the interest rate under paragraph 9 of this Article.

If a bank had in its offer EUR-indexed housing loans on 31 March 2019 which were not of the same type and/or maturity as the housing loan, it shall apply the interest rate for EUR-indexed housing loans intended for the purchase of residential real estate property, and/or EUR-indexed housing loans with the maturity closest to the maturity of the housing loan.

If the housing loan was contracted at a fixed interest rate and a bank did not have in its offer EUR-indexed housing loans with such type of the interest rate on 31 March 2019, it shall apply the variable interest rate applied on that day to EUR-indexed loans of the same type and maturity as the housing loan.

The offer under paragraphs 4–7 of this Article means a standard, general offer and does not include the offer pertaining to special client categories in terms of benefits to which these clients are entitled.

The variable interest rate under paragraphs 4–7 of this Article may not be higher than 3.4 + three-month or six-month EURIBOR, and the fixed interest rate referred to therein may not be higher than 4%.

A bank shall compile a new loan repayment schedule in accordance with this Article.

Initiated court and other procedures

Article 5

A civil procedure initiated in respect of the currency clause of a loan agreement as defined herein until the day this Law enters into force shall be discontinued on the day this Law enters into force.

Enforcement and/or out-of-court settlement concerning the collection of receivables under a loan agreement as defined herein shall be postponed as of the day this Law enters into force. The procedure may be continued only in accordance with Article 9 of this Law.

Deadline for the calculation of conversion and submission of the proposal to the consumer

Article 6

Within 30 days from the day this Law enters into force, a bank shall submit to a consumer the offer for the conclusion of the conversion agreement along with the indicative calculation of loan conversion carried out at the exchange rate on the day of submission by applying the interest rate under Article 4 of this Law and the proposal of the conversion agreement with the new repayment schedule.

The final text of the conversion agreement shall be mutually determined by a bank and a consumer in accordance with regulations.

A bank shall submit to a consumer the documents under paragraph 1 of this Article by certified mail with a return receipt or personally in the bank's branch office, provided it previously informed the consumer about the possibility of personal takeover, and shall keep these documents, together with proof of delivery, in the consumer's file.

On the consumer's written request submitted to a bank via mail or electronic mail, a bank shall submit the documents under paragraph 1 of this Article to the consumer on a durable medium via electronic mail or in another way agreed upon by a bank and a consumer.

Consumer's obligations in relation to loan conversion

Article 7

If a consumer agrees that the housing loan be converted in accordance with this Law, he shall, within 30 days from the day of receiving the documents under Article 6 of this Law, inform the bank thereof and conclude with it a conversion agreement.

A bank shall submit to a consumer a signed agreement on loan conversion and the repayment schedule at the conversion exchange rate.

Legal consequences of the conversion agreement

Article 8

The conversion agreement shall not be considered a novation agreement within the meaning of the law governing contracts and torts.

The procedure of enforcement or out-of-court settlement under Article 5, paragraph 2 of this Law shall be suspended by concluding the conversion agreement, and a bank shall not be entitled to reimburse from the consumer the costs arising from the procedure.

Consequences of declining the conversion

Article 9

If a consumer fails to inform a bank that he agrees with loan conversion and/or fails to conclude a conversion agreement with the bank within the deadline under Article 7 of this Law, loan repayment shall continue in accordance with the loan agreement, and the procedures discontinued and/or postponed in accordance with Article 5 of this Law shall continue on the day following the expiry of the deadline.

Collateral

Article 10

All collateral established based on the loan agreement shall remain in force, without the need for it to be re-established or re-entered in the registers of competent government authorities, including, without limitation, mortgage and insurance with the National Mortgage Insurance Corporation.

All payments of the National Mortgage Insurance Corporation in respect of paid annuities which were made for housing loans under Article 3 of this Law until the day this Law enters into force shall not be considered a debt reduction for the consumer.

All life insurance policies concluded in respect of the loan agreement shall remain in force, without the need of their being re-issued or changed.

In the event of conclusion of the conversion agreement, a consumer shall not be obliged to provide additional collateral apart from the collateral agreed by the loan agreement.

A bank may not request from a consumer the reimbursement of any costs relating to the collateral under this Article.

Conversion costs

Article 11

The costs of debt conversion and reduction under Article 4 of this Law shall be borne by the bank carrying out the conversion in accordance with that Article.

Acting on the request for the reimbursement of costs relating to debt conversion and reduction submitted by a bank under paragraph 1 of this Article, the Republic of Serbia shall reimburse 15% of the amount obtained through conversion under Article 4, paragraphs 1 and 2 of this Law.

After the submission of the request under paragraph 2 of this Article, the Republic of Serbia and the bank submitting the request shall, within seven days from the day of submitting the request, in accordance

with paragraph 5 of this Article, conclude an agreement determining the amount assumed by the Republic of Serbia as an obligation in respect of the reimbursement of conversion costs.

The funds for the settlement of obligations of the Republic of Serbia arising from the concluded agreements with banks under paragraph 3 of this Article shall be provided from the budget of the Republic of Serbia. To regulate these obligations, the Republic of Serbia shall issue bonds in accordance with market conditions.

The Government shall define in more detail the contents of the request under paragraph 2 of this Article, conditions and mandatory elements of the agreement under paragraph 3 of this Article, as well as the basic elements of bonds, and the conditions for their distribution and collection.

The Government shall adopt the document under paragraph 5 of this Article within 90 days from the day this Law enters into force.

Article 12

If in relation to loan conversion, a document must be certified, or data must be changed, entered in or deleted from the real estate cadastre or other public register, public notaries and/or other holders of public powers providing these services shall provide them free-of-charge.

If a consumer concludes with a bank a conversion agreement and the civil procedure under Article 5, paragraph 1 of this Law is concluded, each party, i.e. the consumer and the bank, shall bear their own costs of the procedure.

A consumer shall not bear any additional costs arising from loan conversion.

Transition period

Article 13

A consumer shall continue to repay instalments and/or annuities determined by the valid repayment schedule until the day of conclusion of the conversion agreement.

A bank shall determine the difference between the amount paid in accordance with paragraph 1 of this Article and the amount for payment according to the new repayment schedule under Article 4, paragraph 10 and Article 7, paragraph 2 of this Law at the time when the first following instalment and/or annuity under the repayment schedule falls due, and shall treat the difference as loan prepayment.

Tax treatment of loan conversion

Article 14

The amount of debt reduction determined in accordance with the calculation under Article 4 of this Law and borne by a bank shall be considered expense for tax purposes in its entirety within the meaning of the law governing corporate profit tax.

A bank shall also be entitled to a tax loan at the level of 2% of the amount of the remaining debt under Article 4, paragraph 2 of this Law, which will be regulated in more detail by the law governing corporate profit tax.

Along with the tax return for profit tax relating to the period in which the expense under paragraph 1 of this Article is recorded in business books, a bank must submit a cumulative summary of the calculation of conversion under Article 4 of this Law based on which the expense is recorded, as well as evidence unambiguously showing that the expense is treated for tax purposes in accordance with the provision of paragraph 1 of this Article.

The revenue arising from loan conversion shall not be considered a consumer's revenue within the meaning of the law on personal income tax.

The National Bank of Serbia may regulate in more detail the accounting treatment of banks' receivables under the conversion agreement and/or the treatment of these receivables within the meaning of regulations governing banks' capital adequacy and the classification of bank balance sheet assets and off-balance sheet items.

The National Bank of Serbia may also regulate the manner of ensuring the implementation of this Law through monetary policy instruments and interventions in the foreign exchange market.

Supervision

Article 15

The National Bank of Serbia shall supervise the implementation of the provisions of this Law during its on-site and off-site supervision in accordance with the law governing banks.

If any irregularities relating to the implementation of the provisions of this Law are determined in the supervision procedure under paragraph 1 of this Article, the National Bank of Serbia shall undertake measures against the bank in accordance with the law governing banks.

Entry into force

Article 16

This Law enters into force on 7 May 2019.