Questions and answers regarding the manner of application of the Decision on interim measures to reduce the adverse effects of the impact of the new coronavirus outbreak on the financial system after mitigating measures to protect the population against communicable diseases

LOAN RESTRUCTURING

What benefits can a bank approve to a loan beneficiary?

Upon the request of the loan beneficiary, the bank may grant one or several of the following benefits:

1) extend the principal or interest repayment date;
2) reduce the interest rate on the granted loan;
3) acquire the debtor's liabilities to a third party, either against full or partial repayment of its loan;
4) reduce the amount of debt, principal or interest;
5) capitalise interest on the loan granted to the debtor;
6) replace the existing loan with a new loan (loan renewal), or
7) make other similar arrangements that alleviate the debtor's financial position.

What conditions must the loan beneficiary meet in order for his loan to be restructured in line with the provisions of this Decision?

A bank that has granted one or several of these incentives to a loan beneficiary, may treat such loan as a new loan in the process of asset classification and allocation of loan loss provision, if:

1) as at 31 December 2019, the loan of the loan beneficiary has not been past due more than 90 days, the loan has not been classified as non-performing loan (classification categories C, D and E) and the loan has not been restructured in 2020 in line with the Credit Risk Decision;
2) the loan beneficiary may provide documents to prove to the bank that its financial position has deteriorated, or will be deteriorated in the near future, due to the adverse effects of the new Coronavirus on its operations from the day of the virus outbreak in the world; and
3) the bank assesses that the credit capacity of loan beneficiary will improve upon the loan restructuring.

Are there limitations in terms of the number of restructurings that a bank may grant to one loan beneficiary in line with this Decision?

If the bank grants some of the aforementioned incentives to the loan beneficiary, i.e. if it restructures a loan, in the process of asset classification and allocation of loan loss provision that restructuring will be treated as new loan only for the first restructuring performed in accordance with the provisions of this Decision.

How and based on what documentation can the loan beneficiary prove to the bank that his financial position deteriorated or will be deteriorated?

In the process of proving adverse effects on the loan beneficiary's financial position, i.e. its expected deterioration in the near future, banks will define what constitutes adequate evidence and how it should be documented. Banks will determine and publish the stated conditions and the manner of documenting on their websites, i.e. their business premises used for dealing with loan beneficiaries, by 1 June 2020.

RESTRUCTURING OF CASH UNSECURED LOANS

Does the new decision offer incentives for beneficiaries of cash unsecured loans?

During the period of validity of this Decision, banks may, under the conditions and in the manner prescribed by the Decision in terms of restructuring loans that are treated as new loans in the process of classification and allocation of loan loss provisions, perform restructuring and classification of loans that, on the day this Decision comes into force, fall under the application of the *Decision on macroprudential measures related to retail banking loans* (hereinafter: the Decision on Macroprudential Measures), including the possibility of concluding an additional repayment period which is no more than two years longer than the deadlines prescribed by the Decision on Macroprudential Measures (six, and eight years), and which are not secured by collateral prescribed by the Decision on Macroprudential Measures.

What exactly does this mean for beneficiaries of unsecured cash loans?

Given the above, a bank that has a limit of six years in line with the Decision on Macroprudential Measures, may, in accordance with the said decision for a cash unsecured loan with a remaining maturity of e.g. five years, extend the repayment period for another year using restructuring. With the new Decision on Interim Measures, this deadline can be extended for another two years, which means that the new maturity can be eight years (5 + 1 + 2). However, if the loan beneficiary has a remaining maturity of nine years at the same bank, in accordance with the provisions of the new Decision the bank cannot extend the repayment period for another two years without obtaining additional collateral.

The new Decision on Interim Measures applies in the same manner to cash loans with banks that are subject to an approval and restructuring limit of eight years. For example, a loan beneficiary who has a cash unsecured loan with an agreed maturity of 10 years, and has seven years of repayment left, can extend the existing repayment period by a total of three years (7 + 1 + 2) in accordance with the new Decision. However, if the loan beneficiary has a remaining maturity of 11 years with the same bank, in accordance with the provisions of the new Decision the bank cannot extend the repayment period for another two years without obtaining additional collateral.

MORATORIUM ON LOAN REPAYMENT

In line with the new Decision, are the banks obliged to approve moratorium to loan beneficiaries at their request?

Unlike the previous Decision on interim measures that prescribed obligation of banks to grant moratorium of 90 days at the request of loan beneficiaries, the new Decisions defines that the **bank may** approve moratorium to loan repayment for a period of up to 90 days. This means that the **banks are not obliged to offer moratorium to loan beneficiaries**, even if the loan beneficiaries meet the conditions prescribed by the new Decision. However, it is expected that if the financial position of loan beneficiary deteriorated or will be deteriorated as a result of measures aimed at combating the epidemic, the banks will be motivated to change the initial conditions of the loan agreement in order to harmonise the repayment plan with the newly expected cash flows of the loan beneficiary. The bank decides whether to use loan restructuring to be treated as new loan, moratorium or some other instrument that the banks has to offer.

If the banks offer moratorium to their loan beneficiaries, do loan beneficiaries need to fulfill some conditions in order to use moratorium?

In accordance with the new Decision, banks can grant moratorium to loan beneficiaries whose financial situation has been negatively affected by the outbreak of the new coronavirus. In addition to this, unlike the previous Decision on Interim Measures, which granted the right to a moratorium to all loan beneficiaries, regardless of their financial situation and days past due during the period preceding the pandemic, banks may approve moratorium in accordance with the new Decision only to loan beneficiaries whose loans as at 31 December 2019 have not been past due more than 90 days, whose loans have not been classified as non-performing (classification risk categories C, D and E in line with the Credit Risk Decision) and whose loans for which a moratorium is requested have not been restructured in 2020, in accordance with the Credit Risk Decision. The aim of granting the moratorium in accordance with the new Decision is to facilitate overcoming the adverse effects of combating the epidemic for loan beneficiaries who had sustainable business in the previous period, i.e. more efficient directing of bank’s funds to those loan beneficiaries whose business problems, i.e. income problems, are temporary.

Can a bank approve moratorium to beneficiaries of all loans?

Having in mind the manner of implementing the moratorium in line with the new Decision, i.e. that the banks are the ones who decide on moratorium, given the above, it is up to the banks to decide whether to offer moratorium for all types of loans or only for certain loan products. Banks are obliged to present their decisions in a clear manner to the public and interested loan beneficiaries by 1 June 2020, and to publish those decisions on their websites.

By when are the banks required to publish detailed conditions for approving moratorium and how to apply for moratorium?

The banks shall determine and publish detailed conditions for the approval of moratorium and the manner for applying for the moratorium on their websites no later than 1 June 2020. When defining the manner for applying for the moratorium (in person, electronically, by phone…), the banks will take into account the measures of competent authorities that are in force in respect of preventing the spreading of the new coronavirus, as well the risks involved based on the individual manner of application. Conditions for approving moratorium shall, inter alia, involve the manner of determining and documenting adverse impact of the new coronavirus in respect of the financial position of the loan beneficiary.

When can the loan beneficiaries start applying for moratorium?

Having in mind that the banks are obliged to prepare and publish detailed conditions for approving moratorium and how to apply for moratorium by 1 June 2020, loan beneficiaries will be able to apply for moratorium after this date.

Within what period will the banks be obliged to inform a loan beneficiary whether a moratorium has been approved?

Banks are obliged to inform the loan beneficiary within eight days following the day they receive a valid request whether they have granted the moratorium in line with the defined conditions of the bank and to apply the moratorium. After receiving a notification from the bank on the acceptance of the moratorium, the loan beneficiary, with the appropriate certificate issued by the bank, submits a notification to the employer or another person through whom the loan is repaid in the manner prescribed by the employer. Employers and other persons through whom loan repayment is performed are obliged to suspend payments related to loan repayments approved by banks, no later than three working days from the day of receiving notification from the loan beneficiary.

Until when can loan beneficiaries apply for moratorium and does the moratorium have to be used only for a period of 90 days?

Loan beneficiaries who meet the conditions for a moratorium on loan repayment may apply to the bank at any time during the course of the interim measure, defined by the Decision in question. Also, a loan beneficiary can request a moratorium for a period shorter than 90 days (30 or 60 days). The use of moratorium at any time during the course of the interim measures envisages that if the loan beneficiary, for any reason, does not need or does not want to immediately, after interim measures defined by the Decision enter into force, request a moratorium on loan repayment, the loan beneficiary can use that right at a later time (in a month, two, ...), provided that the moratorium may last until this Decision ceases to apply.

What does moratorium on loan repayment entail?

The moratorium on loan repayment includes the interim suspension of all payments of obligations arising from the loan (principal, interest, default interest, and the like) during the moratorium. This implies that the loan beneficiary will not pay annuities (principal and interest) during the course of moratorium, and the amount of which is defined by the repayment plan, which is an integral part of the loan agreement. Accordingly, if the bank activates a moratorium for a period of 90 days, and in that time period, in accordance with the repayment plan, he is due three annuities in the total amount of 900 euros (3 annuities of 300 euros), the specified amount will not will be charged by the bank during the moratorium, but will increase the disposable income of the loan beneficiary.

During the moratorium, the bank shall not calculate default interest rate on outstanding loan receivables, it shall not initiate enforcement proceedings or enforced collection, or take other legal actions to collect receivables, it shall not calculate days past due, nor reclassify loans to a lower classification category. The above implies that if the loan beneficiary, at the time of submitting the request for the use of moratorium, was for example 92 days past due and the bank calculated default interest, at the moment of activating the moratorium, banks will stop further calculation of default interest and calculation of days past due and will not reclassify the loan to a lower classification category in which it would fall in case that delays in repayment continued during the moratorium.

For loan beneficiaries for whom moratorium is introduced, the loan repayment period is extended for the duration of the moratorium, i.e. up to 90 days. In relation to the regular, contractually defined interest, which the bank calculates during the moratorium, in accordance with the valid contract and repayment plan, it shall be added to the principal debt at the end of the moratorium and distributed evenly over the remaining maturity, which includes extension for the duration of the moratorium, without changing other contractual terms and the method of calculating interest. When it comes to calculating interest during the moratorium, as well as the further course of loan repayment, banks cannot agree a nominal interest rate that is higher than the nominal interest rate from the loan agreement to which the moratorium applies.

The bank and the loan beneficiary can agree some other manner of loan repayment after the moratorium expires.

After the moratorium expires, loan beneficiaries will continue to repay their loans, in line with the new repayment schedules.

Can the bank demand or charge the loan beneficiary any administrative costs related to the use of the moratorium or costs of possible annexes to the loan and collateral agreements?

The Bank may not demand nor charge the loan beneficiary any administrative costs related to the use of the moratorium, including any costs of possible annexes to the loan and collateral agreements. This implies that the bank may not require the loan beneficiary to bear any additional costs related to the extension of the collateral agreement or insurance policy that insures the life of the loan beneficiary or pledged assets that serve as collateral. In the event that the bank decides not to renew the collateral agreement, including the insurance policy, all risk of mismatch between the duration of the loan agreement and the collateral agreement is on the side of the bank.

Can the bank change the conditions for using moratorium, defined by this Decision?

Banks are obliged to provide loan beneficiaries with the moratorium conditions as defined by the Decision on Interim Measures and explained in more detail in this instruction. No modifications of the said Decision are allowed, which would change the essence of the defined measures, and which would offer the loan beneficiaries moratorium conditions that are less favorable in relation to those provided by the Decision.

On the other hand, banks may offer loan beneficiaries conditions that are more favorable than those provided in the Decision and inform them about these incentives. These may include:

- one-off payment of accrued interest after the moratorium expires;
- one-off payment of all three annuities (principal and interest) from the moratorium period;
- other repayment methods agreed to by the user of moratorium.

Can a bank, for a loan for which it approves a moratorium, extend the loan repayment period for a period longer than the duration of the moratorium?

To avoid abuse, the repayment period for the loan that was in moratorium can only be extended for the duration of the moratorium.

To extend the loan repayment period, banks can use a loan restructuring that is treated as a new loan, which is an instrument that provides a wide range of benefits for loan beneficiaries, including allowing a grace period in which no payment is made based on the principal and interest, with an extension of the repayment period that does not have to be in line with the duration of the grace period.

Do loan beneficiaries who exercise the right to a moratorium in accordance with the provisions of the previous Decision on Interim Measures have the right to use that moratorium for a period of 90 days?

Loan beneficiaries, who have applied for the use of the right to a moratorium in accordance with the previous decision on interim measures until the day this Decision enters into force, have the right to use that moratorium until it expires, that is up to 90 days.

Are loan beneficiaries who have exercised the right to a moratorium in accordance with the provisions of the previous Decision on Interim Measures entitled to apply for the benefits of the new Decision on Interim Measures?

Loan beneficiaries who have used the right to a moratorium in accordance with the previous Decision on Interim Measures, have the right to submit a request for approval of the moratorium after its expiration under the conditions established by the new Decision. In this manner, loan beneficiaries who have used the moratorium in accordance with the provisions of the previous Decision on Interim Measures and to whom the bank approves the moratorium in accordance with the new Decision, can use the moratorium on repayment of their loan for up to 180 days or six calendar months. After that period expires, if they meet the conditions prescribed by the new Decision, and until the moment of its validity, they can apply to the bank for loan restructuring that is treated as new loan in line with the new Decision.

Do the provisions of this Decision apply to other institutions in addition to banks, and what are those institutions?

This Decision also applies to financial leasing providers and recipients and to microcredit financial institutions and their users.

The Decision does not apply to loan beneficiaries of Atlas Bank in bankruptcy and Invest Bank Montenegro in bankruptcy, and the Bankruptcy Administration, headed by Bankruptcy Boards and Bankruptcy Administrators, will decide on the application of this measure to their loan beneficiaries as soon as possible, and notify loan beneficiaries of these banks in a timely manner.

Competent authorities of the Investment and Development Fund shall decide on the application of this Decision to the Fund's loan beneficiaries.