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Finantsinspektsioon has issued a memo highlighting to lenders the restructuring measures that should be taken if a borrower has difficulties with repayments. The memo sent to the credit market is intended to explain and clarify the principles of responsible lending and to highlight the importance of working together.

“We really must emphasise that lenders must not take unfair advantage of borrowers who are vulnerable because their capacity to pay is diminished. Loans should be restructured in a way that allows the borrower to recover that capacity and continue fulfilling the contract”, explained Chair of the Management Board of Finantsinspektsioon Kilvar Kessler. “Borrowers must also act honestly and be ready to cooperate when negotiating changes to the conditions of loan contracts”, he added.

The memo lists possible restructuring measures and recommends guidelines for when they should or should not be applied. Using personal guarantees as collateral when payment difficulties arise is generally not in line with the principles of responsible lending for example. Such guarantees may be permitted in exceptional circumstances though, if for example the other options for restructuring a loan have failed, all the parties involved consider it the best solution, and the guarantor is able to meet any resulting obligations.

The memo from Finantsinspektsioon is directed to banks operating in Estonia, branches of banks, and creditors and credit intermediaries that take measures to restructure loan contracts, including consumer loan contracts, when borrowers have fallen into debt because of difficulties in meeting payments. Finantsinspektsioon will monitor whether the lenders follow the guidelines in the advisory memo and if necessary will react by proposing legislative changes.