



## The first Qualified Consumer Friendly Personal Loan

<b>Country name:</b>		Hungary
<b>Region:</b>		The territory of Hungary
<b>City :</b>		n/a
<b>Public organisation name responsible for initiative implementation</b>	<b>In national language</b>	Magyar Nemzeti Bank
	<b>In English</b>	Hungarian National Bank
<b>Department (if any)</b>		n/a
<b>Address:</b>		1054 Budapest, Szabadság tér 9.
<b>Webpage:</b>		<a href="https://www.mnb.hu/mszh/">https://www.mnb.hu/mszh/</a>

### Initiative description

<b>Title:</b>	The first Qualified Consumer Friendly Personal Loan
<b>Features of group/s of beneficiaries</b>	For micro, small and medium-sized enterprises who need additional funds to cope with their difficulties caused by the COVID pandemic
<b>Initiative / tool objective</b>	The aim of the “Qualified Consumer-Friendly Personal Loan” rating system is to launch personal loans available from a wide range of customers: individuals and SMEs, with clear conditions, simple and fast administration.
<b>Steps / phases / stages of tool / initiative implementation and its activities description</b>	<p>To strengthen competition in the banking system, the Hungarian National Bank decided to extend the qualified consumer-friendly product family to personal loans. A consumer-friendly personal loan can only be taken out for credit redemption and free use. The amount of a free-purpose loan can be spent on anything, even to buy a car. General idea is to stimulate consumption and small investments in the small companies that can stimulate better and faster adaptation to change business reality (e.g. delivery in selling model on a local level).</p> <p>A consumer-friendly rating system is introduced for free-use personal loans. Financial institutions can apply for the rating based on the tender conditions published in the summer of 2020.</p> <p>Although the system has been designed on the national level, it can be implemented (for example in other countries) on the local level as well. The system of financial support of individuals and SMEs (in particular – microenterprises), includes in many countries such kind of organisations as local co-operatives banks, local micro-loan funds, etc. offering</p>

	<p>financial products for local clients. Above mentioned institutions, considering necessary central regulations can enrich their regulation by introducing similar standardization of their loan product/s. It has to be highlighted, that this solution, addressing strongly clients expectations, can be – similarly to the Hungarian solution – marketed as “Consumer-friendly”.</p> <p>The main aspects of the consumer-friendly concept are:</p> <ul style="list-style-type: none"> <li>• the loan process and the predictability of instalments,</li> <li>• the easy comparability of qualified offers, thereby strengthening market competition and reducing interest rate spreads.</li> </ul> <p>Qualification based on voluntary applications from lenders is based on a catalogue of the following criteria (i.e. the following conditions must be met for a personal loan to be eligible for the “consumer-friendly” token):</p> <p>Free use and credit exchange:</p> <p>One of the great advantages of personal loans is their free use, i.e. they can even be used to replace loans - however, this practice cannot be recommended as viable in the longer run. According to the central bank's criteria, customers must be allowed to redeem a loan in all situations - this includes when the old loan can be exchanged for a better one at the same bank.</p> <p>The term may not exceed seven years:</p> <p>The term of a consumer-friendly personal loan may not exceed seven years. Most credit institutions in the market meet this expectation, although some offer the option of giving a personal loan for a longer-term.</p> <p>Annuity repayment and fixed interest:</p> <p>This condition is currently met by the banks, the applicants can still only receive a personal loan at a fixed interest rate, where the instalments are evenly distributed over the term.</p> <p>The disbursement fee for consumer-friendly personal loans cannot be more than 0.75 per cent of the loan amount - this is HUF 22,500 in the case of a three million forint loan. Recently, several banks have released the disbursement amount, so there are places where there is currently no need to pay this item at all.</p> <p>Disbursement will take place within three working days:</p> <ul style="list-style-type: none"> <li>• According to the MNB's condition, disbursement must take place within three days of receiving the loan application, and after 1 July 2021 - from then on 100% online application for consumer-friendly loans will be expected - the deadline will be two working days for credit institutions if the application happens online.</li> </ul> <p>The prepayment fee can be a maximum of 0.5%:</p> <ul style="list-style-type: none"> <li>• The prepayment fee is calculated by the bank based on the amount repaid by the debtor - in the case of consumer-friendly personal loans, this ratio may not be higher than half a per cent. If the debtor repays HUF 3 million, the prepayment fee may not exceed HUF 15,000. Besides, if there is less than one year left in the term, the credit institution may not charge a fee for prepayment.</li> </ul> <p>This is how the maximum interest premium is formed:</p> <p>According to the MNB's guidelines, the interest margin is up to 15 percentage points up to HUF 500,000 and 10 percentage points above HUF 500,000 compared to the reference value (currently the central bank base rate for personal loans). As the APR ceiling introduced due to the coronavirus epidemic runs until 31 December, all personal loans are currently eligible, at least for the initial APR. From January, however, a larger difference between the banks' offers can be expected.</p>
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	<p>To successfully start the application, the client needs:</p> <ol style="list-style-type: none"> <li>1. valid identity card, passport or card format license issued to a permanent address in Hungary</li> <li>2. In the case of an employee claimant: <ul style="list-style-type: none"> <li>• Information certificate not older than 30 days or bank statement containing the last 3 months payment credit,</li> <li>• in the case of wages from abroad, an income certificate and bank statement not older than 30 days or an income certificate not older than 30 days,</li> </ul> </li> <li>3. In the case of a pensioner: <ul style="list-style-type: none"> <li>• receipt of a pension to a bank account, or</li> <li>• last monthly pension voucher,</li> <li>• last monthly bank statement showing the pension,</li> <li>• subject year notice,</li> <li>• a certificate or decision from a Pension Payer not older than 30 days,</li> </ul> </li> <li>4. Sole proprietor, primary producer, small producer, lawyer, member of Public limited company Or Limited partnership: <ul style="list-style-type: none"> <li>• Expenditure certificate from the previous closed business year not older than 30 days (bank requests it from the National Tax and Customs Board),</li> <li>• Bank statement certifying 3 months credit.</li> </ul> </li> </ol> <p>The loan amount of the Qualified Consumer-Friendly Personal Loan can be used from 1374.25 EUR to 27485.08 EUR</p>
<p><b>Expected result(s)</b></p>	<ul style="list-style-type: none"> <li>• The initiative can benefit lower-income personal loan applicants in particular, as they are generally unable to take advantage of high-income interest rebates and can only borrow at higher interest rates. With newer consumer-friendly products, this could change and affordable loans would become available to a wider audience.</li> <li>• With the widespread use of qualified products, competition in the personal loan market may intensify, interest rate spreads may decrease, digital solutions may spread, i.e. customers may receive higher quality but cheaper services.</li> <li>• Also, consumer-friendly personal loans will be available to all customers through full online borrowing from July 2021, which will also support the spread of digital financial services.</li> <li>• Products available at favourable premiums may also offset the expected rise in market interest rates following the APR limit introduced at the end of 2020 as part of the economic measures to alleviate the coronavirus epidemic.</li> <li>• According to the expectations of the central bank, consumer-friendly personal loans can result in the strengthening of competition, promote the provision of adequate information to customers, shorten the deadlines related to the provision of loans, and further support the widespread use of comprehensive online borrowing processes.</li> <li>• Introduced on the local level, this kind of activity can significantly improve the capacity of the local population towards consumption' level maintenance, and as result – maintenance of demand on products/services delivered by local companies.</li> </ul>

### Transferability

<b>Transferability to other countries (to be assessed by all Project Partners)</b>	<p>Medium – the initiative / tool can be transferred with the fulfilment of some demanding requirements by adopting organisation</p>
<b>Transferability on country of origin level (to be assessed by all Partner from specific country)</b>	<p>Medium – the initiative / tool can be transferred with the fulfilment of some demanding requirements by adopting organisation</p>
<b>Necessary resources</b>	<p>Technical infrastructure:</p> <ul style="list-style-type: none"> <li>• IT tools (laptop, internet, telephone)</li> <li>• Website operation</li> <li>• Creation of advertising, design</li> <li>• Online data sheet for personalized, free information</li> </ul>
	<p>Knowledge:</p> <p>The people on the executive team has to have the following competencies:</p> <ul style="list-style-type: none"> <li>• economic and financial knowledge and experience,</li> <li>• good communication skills (keeping in touch with customers),</li> <li>• problem-solving skills,</li> <li>• advisory skills,</li> <li>• marketing skills, enabling efficient communication of the product towards local population,</li> </ul>
	<p>Proceedings:</p> <ul style="list-style-type: none"> <li>• credible, comprehensive advice for entrepreneurs</li> </ul>
<b>Key success factors:</b>	<ul style="list-style-type: none"> <li>• Support for those who have lost their jobs due to the coronavirus and / or are unable to generate as much income or to pay their loans instalments as they could before the crisis. Consumer-friendly credit can be a solution to eliminate temporary economic problems.</li> <li>• Distribution of products that strengthen market competition and support the spread of digitization processes related to borrowing.</li> </ul>
<b>Key challenges:</b>	<ul style="list-style-type: none"> <li>• The loan conditions set by the bank must be met and considered creditworthy during the credit assessment.</li> <li>• Operationalizing of the initiative in the local conditions and estimating local consumption.</li> </ul>
<b>Impact on regional economy (general description)</b>	<ul style="list-style-type: none"> <li>• Although personal loans were particularly hard hit by the epidemic, disbursements resumed after the April. The main reason for the subdued growth is the greater degree of prudence resulting from the uncertain economic environment, both on the part of creditors and borrowers. Personal loans also play an important role in financing the population.</li> <li>• According to the expectations of the central bank, consumer-friendly personal loans can strengthen competition, facilitate the provision of adequate information to customers, shorten lending-related deadlines and further support the widespread use of comprehensive online borrowing processes, adapting to the corona virus.</li> <li>• As mentioned before, this kind of activity introduced by local financial institutions (loan funds, co-operatives banks) can significantly improve capacity of local population</li> </ul>

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