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UDRUŽENJE ZA ODGOVORNO
UPRAVLJANJE LIČNIM FINANSIJAMA

DEBT COUNSELING MANUAL

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FOREWORD

Financial inclusion, meaning access to and use of formal financial services, has increased the world over, often with support and direct engagement of different official government institutions. The number of account holders has grown globally, but two billion people still do not have an opened account with a formal financial institution. In the aftermath of the global financial crisis, central banks have become increasingly more involved in promoting financial inclusion in their countries, boosting monetary policy efficiency, facilitating financial market understanding, promoting activities related to public trust in financial system, establishing sustainable economic policy and fostering long-term economic growth.

At the same time, growing financial inclusion is also accompanied by challenges, particularly pronounced in the case of inadequate financial literacy and awareness of the population. Increased access to finance may lead to excessive risk taking and threaten financial stability in the case of over-indebtedness of the population and risky borrowing by individuals and households. In addition to over-indebtedness of citizens, non-performing loans are also an issue as they are a major source of risk for banking sector and an impediment to credit activity. Relevant institutions in BiH have initiated activities to establish a framework for addressing non-performing loans, and once these processes are completed, the level of non-performing loans in BiH banking sector can be expected to drop. Proactivity of all institutions is important for both addressing the present level of non-performing loans and preventive action to prevent this same issue from reoccurring in the future.

The Central Bank of Bosnia and Herzegovina has an active role in developing and implementing a policy of stability and sustainable economic growth of Bosnia and Herzegovina through ensuring stability of the domestic currency and overall financial and economic stability in the country. Functioning of financial services and their transparency depend largely on understanding of this area. Entrepreneurs and all other persons have to have sufficient information to understand services and markets. Only well-informed citizens are interested to commit to new financial services. If efficient and widely used, financial services can contribute to an improved business environment. Consumer protection is also contingent on impartial information on financial markets.

Financial inclusion is going to continue the growth trend and regulators have to address the different segments of activity, including continuing education of the population, as financial literacy has a direct impact on an increased financial inclusion, provided that service prices and adequate consumer education and protection are also addressed. In this respect, this Debt Counseling Manual is welcome and extremely helpful to the work of all levels of government, mostly so to the work of the municipalities and the towns/cities, which are the first contact with their respective local communities and every citizen of our country.

The Central Bank of Bosnia and Herzegovina supports financial education and counseling activities and programs with a view to strengthening financial inclusion by way of responsible financial management for the benefit of economic development and growth of Bosnia and Herzegovina.

Senad Softic, PhD

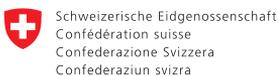
The Central Bank of Bosnia and Herzegovina Governor

THE PROJECT IN RETROSPECT

It is evident that citizens have lost trust in financial institutions, and we have to open the communication channels and ensure respect of their financial rights for them to regain it. This need of our citizens has been recognized in the work and the proceedings so far of the Banking System Ombudsman of FBiH, and the activities of the Association „U plusu“* as nongovernmental sector are merely to reinforce the fulfillment of the mission to take joint action through this project. All indicators that the Department of Ombudsman collected through its work, which were presented in several workshops that were held for municipal officers, point to filed citizen complaints/requests for protection of financial rights being warranted. They also point to challenges in exercising these rights, issues arising between financial institutions and their clients, and issues in managing relationships between financial institutions and their clients. This Manual precisely contributes to improving and establishing a two-way communication between financial institutions and citizens, providing them with the support they need to exercise their rights. In the majority of cases, there is an angst among citizens to contact financial institution directly because of their belief that they are insufficiently legally and financially educated, and therefore the assistance provided by the municipal officers in this initial stage will for sure help facilitate this form of communication. Enhancing protection of citizens – financial consumers, has to be emphasized because of the effects of the global economic crisis and aggressive marketing policy of the financial institutions. New legislation referenced in this Manual, which became effective in 2014, will for sure contribute to a much greater level of protection of consumers and guarantors than it is today, but the fact is also that the financial institutions still have a lot of work to do in the area of implementing EU standards, in order to reach the level of the developed banking systems. I therefore express support to this Project and further initiative to develop financial education of citizens aimed at making it available to consumers going forward as part of our joint activities.

Lejla Smajovic

Banking System Ombudsman of FBiH



Our special gratitude goes to our key partners and donors, State Secretariat for Economic Affairs (SECO) of the Swiss Government, European Fund for Southeast Europe (EFSE DF), International Finance Corporation (IFC), member of the World Bank Group, and initiators of this service, MCF Mi Bospo, MCF EKI and MCF Partner, who were the first to recognize the need for and support the Free Debt Counseling Program.

Sarajevo, April 2016

TABLE OF CONTENTS

1. INTRODUCTION
 - 1.1. A Reflection on the Importance of Counseling
 - 1.2. Structure and Methodology

2. AN ANALYSIS AND A COMPARISON OF DIFFERENT FINANCIAL PRODUCTS
 - 2.1. Money Transfer Service
 - 2.2. Leasing
 - 2.3. Savings
 - 2.4. Insurance
 - 2.5. Current Account
 - 2.6. Debit Card
 - 2.7. Credit Card
 - 2.8. Loan
 - 2.9. Requisite Knowledge - Repetition

3. FINANCIAL COUNSELING
 - 3.1. Introduction
 - 3.2. Client Financial Counseling Objectives
 - 3.3. Stages and Process of Counseling
 - 3.4. Most Common Problems Faced by Indebted Citizens and Their Solutions
 - 3.4.1. Credit Card Repayment
 - 3.4.2. Loan Refinancing
 - 3.4.3. Rescheduling
 - 3.4.4. Prepayment

4. FINANCIAL STATEMENT DEVELOPMENT
 - 4.1. Introduction
 - 4.2. Data Collection
 - 4.2.1. Personal Information
 - 4.2.2. Income and Assets
 - 4.2.3. Expenditures
 - 4.2.4. Loan Commitments and Debts
 - 4.2.4.1. Central Credit Register (CCR) Statement

5. DEBT COUNSELING LEGAL AND INSTITUTIONAL FRAMEWORK
 - 5.1. RS/FBiH Law on Banks
 - 5.2. FBiH Financial Consumer Protection Law/RS Law on Banks-Microcredit Organizations

5.3. FBiH Guarantor Protection Law

5.4. BiH Consumer Protection Law

6. COMPETENT INSTITUTIONS AND THEIR ROLE IN PROTECTING FINANCIAL CONSUMER RIGHTS

6.1. Bank and Microcredit Organization

6.2. Banking Agency 46

6.3. Banking System Ombudsman

6.3.1. Complaint

6.3.2. Release from a Guarantee Procedure

6.3.3. Amicable Dispute Resolution Procedure – Mediation

6.4. BiH Consumer Protection Ombudsman

6.5. Associations of Citizens

6.6. Ministries, Educational Institutions, Media

7. ROLE OF COURT AND OUT-OF-COURT SETTLEMENTS IN RESOLUTION OF INDEBTEDNESS ISSUES

7.1. Court Settlement

7.2. Out-of-Court Settlement

7.3. Mediation

8. LEGAL COUNSELING – MOST COMMON DISPUTES IN THE AREA OF LOAN RELATIONSHIPS

8.1. Variable Interest Rate

8.2. Loan Agreement Termination

8.3. Scope of Guarantor's Liability and Their Rights

8.4. Falsification of Documents

9. COUNSELOR'S ROLE AND COMMUNICATION WITH CLIENT

9.1. Preparation for Client Interview

9.2. Client Communication

9.2.1. How to Ask Questions?

9.2.2. Ask Questions and Demand Answers

9.2.3. Active Listening and Non-Verbal Communication

9.2.4. Client Approach – Trust and Relaxation

9.2.5. Motivating Client to Collect Documents

10. ORGANIZATIONAL ASPECT OF COUNSELING

10.1. Collection and Careful Handling of Documents

10.2. Document Categorization and Case File Creation

10.3. Possible Manners of Document Archiving

- 10.4. Personal Data Protection and Processing
 - (What Are Personal Data, Personal Data Protection Requirement)
 - 10.4.1. Personal Data Protection Agency
 - 10.4.2. What Is Personal Data?
 - 10.4.3. When Personal Data May Be Processed?

LEGAL ANNEX

MAIN DEFINITIONS

FREE COUNSELING

USEFUL CONTACTS

1. INTRODUCTION

Fast growth of the microfinance sector in Bosnia and Herzegovina in the late nineties provided the low-income citizens and households with the necessary access to financial services and products, with the primary goal of investing in business activities. In this respect, the microfinance sector was one of the key drivers of creating new jobs in the country and therefore the reconstruction, with each of the microloan beneficiaries employing two people on an average.

However, without a common citizen debt register and an adequate legal framework in place and with a low level of citizen financial literacy in Bosnia and Herzegovina, this boom in microloans (and in loans in general) had, among other things, an effect on emergence of risky borrowing, leading to over-indebtedness of many individuals and households too. The issue of over-indebtedness came to the forefront during the 2008 financial crisis, affecting ultimately the trust of the microfinance sector investors, but also the trust of a portion of citizens who believed that poor business practices, insufficient information or inadequate records led to indebtedness.

With almost 300,000 microfinance borrowers, the over-indebtedness crisis became a serious issue. In addition to the aforementioned, many overindebted clients rarely asked for professional counseling assistance in the beginning as such service was not available, instead commonly relying on advice of friends or family members, hiding the problem (sense of shame) or simply avoiding fulfillment of the liability.

Taking on board the need for citizen counseling and educational support to mitigate or avoid adverse effects of indebtedness on individual and household functioning, a Financial and Credit Counseling Center was established in Tuzla in 2009 with the aim of providing free citizen counseling and education, as a kind of a response to the emerging situation of growing indebtedness. In early 2012, the Association for Responsible Personal Financial Management „U plusu“ was established at the level of BiH, with the head office in Sarajevo, inheriting the objectives, mission and vision of citizen counseling and education.

This Debt Counseling Manual is a result of the know-how and the experience from the work of the Association “U plusu” in providing citizen counseling and education services in Bosnia and Herzegovina in the area of financial literacy, but it is also a result of the noted issues, challenges and experiences that arose in the trainings of municipal officers and staff of the centers for social work.

1.1. A Reflection on the Importance of Counseling

In its striving to help interested citizens, the Association „U plusu“ has continuously provided, with the help of its donors and partners, professional counseling assistance in addressing the over-indebtedness issues and finding ways to continue repaying debts. In addition to the aforementioned, „U plusu“ has made efforts to have an effect on raising the level of citizen financial literacy through preventive action and organizing educational workshops, highlighting the importance of financial education with a view to responsible borrowing.

Given the noted importance of counseling and educational activities, but also the fact that the provision of these services has been contingent on donor support, an initiative emerged to try to find a way to make the counseling services financially sustainable. At an initiative of the partners and donors, and pursuant to a decision of the bodies within the Association „U plusu“, cooperation was established with interested municipalities, centers for social work, but also with free legal aid agencies. The objective of this cooperation was to transfer the know-how and the practice gained by „U plusu“ through a special training process to the selected staff of these institutions, with the ultimate goal of making financial counseling service be a part of free services available to citizens in local communities. In this way, the financial counseling service would be geographically present and therefore more available to citizens in several locations in BiH, and sustainability of the service would be achieved. The training process was implemented in three cycles, with several two-day and multiple day trainings organized for staff – future counselors.

In adhering to the specified purview, this type of counseling is exclusively provided by the municipal staff, i.e., the centers for social work staff. This Manual is primarily intended for them, to serve as a reminder of what they learned, potentially complementing their know-how and enabling them to find in one place the answers to the questions they may come across in the process of counseling.

1.2. Structure and Methodology

With regard to its contents, this Manual treats in a systematic way those areas of the financial counseling that are relevant to presenting the required know-how, process and modalities in order for a specific problem of an indebted person to be reviewed in its entirety. The first section includes the know-how, the models and the examples that are important to know for reviewing the scope of a financial problem, more efficient financial management and use of financial products and services for their intended purposes that match the actual needs and means of a client.

Another important segment is an overview of the legal and institutional framework that is relevant to debt counseling, as well as an overview of the most common issues noted in the counseling practice of the Association „U plusu“ in the area of credit relationships.

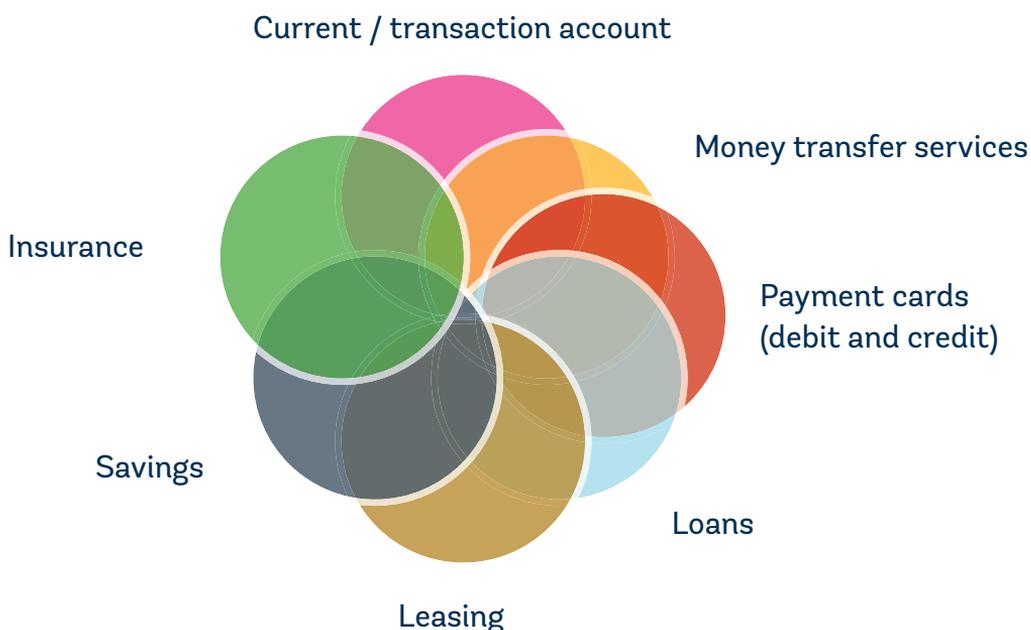
The above referenced information is necessary in the process of understanding specific problems and identifying the right solutions to a given case. Also, the necessary basic know-how in the area of data collection, recording and protection is presented as part of the legal section. In order to make it more browsable for the counselors who underwent the aforementioned training, a kind of legal annex is closely related to this section of the Manual, depicting and describing more concretely specific legal norms.

And finally, in order to encourage establishment of harmonization of the counseling processes, the Manual also includes a section highlighting the role of a counselor, presenting the models of potential communication with a client, how the data on the financial standing of a client are to be collected and processed, as well as the analysis and benchmarking of potential solutions against the best practice.

A glossary with an overview of the most important terms used in the Manual is available at the end, as well as an overview of the municipalities participating in the project and other institutions with their contact information.

2. AN ANALYSIS AND A COMPARISON OF DIFFERENT FINANCIAL PRODUCTS

There is a wide range of financial products, and the ones that are most commonly encountered by individuals are: Money transfer service, Leasing, Savings, Insurance, Current account, Loan and Payment cards.



2.1. Money Transfer Service

Money transfer service is a fast and safe electronic transfer of money. Neither the recipient nor the sender is required to have a bank account. The costs of money transfer are paid by the sender, while the recipient is paid the full amount – without a fee.

2.2. Leasing

Leasing can be defined as an agreement entered into between a leasing provider (leasing company) and a leasing recipient (user of the leasing object).

Under a leasing agreement:

- the leasing provider shall provide the leasing object for use to the leasing recipient for a specified period of time,
- the leasing recipient shall pay the periodic fee to the leasing company under the terms of the agreement.

The leasing provider shall be the owner of the leasing object throughout the financial leasing agreement period. The leasing recipient shall become the owner of the leasing object upon expiry of the financial leasing agreement period, or earlier, if they bought out the leasing object before the expiry of the period in accordance with the agreement.

Leasing vs. Specific-Purpose Loan (Car Loan)

It is very important to review the terms of a loan or a financial leasing before borrowing, as well as to establish the pros and cons of the one and the other option.

The main difference between taking on a car loan to buy a car and buying a car through a leasing is in the fact that in the latter case the beneficiary does not become the owner of the car all until the financial liabilities under the agreement have been paid off. Namely, in the case of leasing, all until the time of repayment, the leasing beneficiary is merely a user of the car, while the leasing company is the owner, and the agreement defines how the title to the car is to be acquired following the payment of all monthly annuities.

2.3. Savings

Savings represent saving of material goods or money. There are different kinds of savings:

- Saving „under the mattress“;
- Sight deposit saving or „a vista saving“ is a form of saving that allows the client to get a corresponding interest by opening this account and investing a specified amount of money in it, but also to dispose with their money at any time without having to pay any fee to the bank. Either a very low or non-existent interest rate. The average interest rate is 0.1%, and the majority of the banks do not have it;
- Term deposit saving – the model that allows a person with a specified amount of funds who does not intend to use those funds in a specified period of time to earn income from interest. The highest interest rate;

- Open / free saving – Free saving is a form of term deposit saving allowing an infinite number of deposits to be made and occasional drawdowns during the term period. It is intended for people who have a surplus of funds from time to time, which they wish to invest without changing the end date of the term period under the agreement.
- Gradual saving is intended for those clients who wish to save gradually according to their own wishes and means, and who can get additional benefits by making regular monthly payments.

Savings, i.e., deposits are safe in BiH. From 2001, the Deposit Insurance Agency has insured the deposits of individuals in the domestic or foreign currency in the banks in BiH. The insured amount is currently **BAM 50,000 per a person per a member bank**. By visiting the Agency's web site www.aod.ba it can be seen what banks are the Agency's members.

2.4. Insurance

Insurance is a form of risk management, primarily targeting reduction of financial losses. Insurance is a transfer of risk from an insured person to an insurance company, with payment of an insurance premium. The most common types of insurance are: auto insurance, life insurance, health insurance, property insurance, travel insurance, etc.

2.5. Current Account

Current account is an account that we open in a bank to have our income deposited in it and make our payments out of it. The person is able to dispose with the funds in the account by means of debit cards, and to potentially use authorized overdraft, which is contingent on the amount of a regular monthly income.

Under the Law on Financial Consumer Protection, an agreement on opening and maintenance of an account shall include the following required elements in addition to the elements defined by the legislation regulating payment operations:

- type and amount of all fees and other charges to be borne by beneficiary, specifying whether they are fixed or variable, and if variable, periods in which they will be varied by bank,
- information on whether bank pays interest, amount of interest rate at which bank calculates interest, specifying whether it is fixed or variable, and if variable, elements whose variation affects variation of interest rate, periods in which bank will vary it, manner of variation, reasons for variation, as well as method applied to calculate interest (conform, proportional, etc.),
- interest rate and additional charges that are calculated in case of unauthorized account overdraft,
- notification of terms and manner of assignment of claims against beneficiary in case of default,
- right of complaint and ability to initiate mediation proceedings to settle dispute out of court.

Current account charges may consist of:

- account opening fee, maintenance fee,
- fee for issuance of regular account statements,
- Internet banking charges, SMS banking charges, etc.

If the bank increases its fees and other charges above agreed upon amount, it shall notify the beneficiary of this **no later than 15 days** before the revised fees, i.e., other charges, become effective.

Banks may charge these charges separately or combine them. The charges may be monthly or annual. Some charges are mandatory, and some are optional, such as Internet and SMS banking charges. Of course, there may be additional charges for other products offered to current account holders. The beneficiary is entitled to **free closure of the account**.

Authorized current account overdraft

Authorized current account overdraft is a loan by which the bank allows overdraft of an authorized amount on a client's current account to the clients with regular income that is deposited to the current account that they have opened with the bank.

Authorized overdraft (limit) is set on the basis of the average income of a client, his credit worthiness and the bank's lending rules. By issuing and delivering the account statements in agreed upon manner, the bank shall notify the beneficiary of the opening balance, changes in the account balances resulting from deposits, drawdowns, recoveries and payments, and fees and charges charged by the bank for the services delivered, as well as of the closing account balance for the reporting period in the Federation of Bosnia and Herzegovina (FBiH) at least at the end of each year, while in the Republika Srpska (RS) this is at least at the end of each month.

How does an authorized overdraft work?

Overdraft is a type of a bank loan. The bank calculates interest on the value „in the red“ under the agreement. The interest is usually calculated on a daily basis for the value owed to the bank. The current account does not have a grace period and the bank starts calculating the interest as soon as the account balance turns into debt.

An agreed upon overdraft can be resolved without additional penalty charges by paying the amount that covers the overdraft and the interest. When a client reaches or overruns the overdraft limit, the debt has to be fully repaid in order for them to be able to use the authorized overdraft again.

The following is an overview of the potential calculation method for the overdraft charges:

$$\text{value of overdraft} \times (\text{number of days in overdraft} / 365) \times \text{annual interest rate} = \text{charged interest}$$

A practical example of calculation of the overall overdraft charges.

DATE	TRANSACTION	AMOUNT	BALANCE
3/1/2011.			320
3/5/2011.	Debit	500	-180
3/17/2011.	Credit	200	20
3/21/2011.	Debit	300	-280
3/28/2011.	Credit	350	70
3/31/2011.	Charged interest (BAM)		1,69

$$\begin{aligned} &\text{from 03/05 to 03/17 (12 days)} \\ &180 \times (12/365) \times 15\% = \text{BAM } 0.88 \end{aligned}$$

$$\begin{aligned} &\text{from 03/21 to 03/28 (7 days)} \\ &280 \times (7/365) \times 15\% = \text{BAM } 0.81 \end{aligned}$$

The overall overdraft charges in March 2011 therefore amount to BAM 1.69.

A current account overdraft is a convenient way for a client to borrow cash for several days or even weeks and usually costs less than borrowing through a credit card.

However, an overdraft may become costly and challenging to repay. A client who uses it to finance major purchases may find themselves in a situation where they are unable to revert their account balance to “in the black” for months.

2.6. Debit Card

Debit card is a representative of a current bank account. The funds that are available in the account are spent using the debit card. Drawing cash from ATM's and paying for good and services through POS terminals. The beneficiary is entitled to a fee-free payment card closure.

2.7. Credit Card

Credit cards are a type of a revolving loan. These loans have neither an agreed upon repayment period nor a fixed monthly installment. The authorized funds may be used, the debt may be repaid and new borrowing may be undertaken throughout the entire loan duration.

The card allows for the goods and services to be purchased and money to be drawn within the authorized credit limit. Monthly interest is charged on this card. When products and services are purchased with a credit card, there is usually a shorter free loan period that is defined in the agreement (most often it is up to 15th day in a month) during which the accrued amount needs to be paid and no interest is charged in that period. If payment of that amount is deferred, the interest will be charged for the loan period. In the case of an ATM cash draw, there is no free loan period.

The remainder of the debt is renewed on a monthly basis. This would mean that the bank's monthly requirements are for 5% of the debt to be repaid, and the remainder is considered a renewed loan for the duration of one month. The bank charges a monthly interest on the debt amount. It follows that if a client wishes to have lower costs, they should be advised to pay more than 5%.

How much does a credit card cost us?

CREDIT CARDS	Bank 1	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 6
	NI	EIR	NI & EIR	NI & EIR	NI & EIR	NI & EIR	NI	EIR
	13.50%	15.27%	14.00%	12.97%	13.49%	15.49%	12.00%	15.74%

2.8. Loan

A loan is money lent by a financial institution to a loan beneficiary with a contractual obligation for the loan beneficiary to repay it with an interest, which is the charge for the money lending service.

According to maturity (length of repayment period), loans may be classified as: short-term loans (usually shorter than a year) and long-term loans (longer than a year).

There are two main types of loans, distinguished one from another by how they work: amortized and revolving loans.

Standard loans, such as home or consumer loans are so called amortized, i.e., annuity, loans. These are the loans with an agreed upon full loan repayment period and a fixed monthly installment.

Credit cards and bank overdrafts are a different type of a loan, so called revolving loans. These loans have neither an agreed upon repayment period nor a fixed monthly installment. Interest rates on revolving loans are typically considerably higher than on amortized loans.

Loans are divide according to their purpose into: home/mortgage, consumer, business, agricultural, etc.

The purpose of a loan is important for risk assessment and costs. Financial institutions analyze through the purpose the certainty of repayment, thereby endeavoring to determine the interest rate through the cost.

Loan costs, how much is the cost in BiH? Cross section of costs, banks – January 2016

Loans	Bank 1		Bank 2		Bank 3		Bank 4		Bank 5		Bank 6	
	NI	EIR	NI	EIR	NI	EIR	NI	EIR	NI	EIR	NI	EIR
Non-specific purpose loans	7.25%	14.80%	8.49%	10.63%	6.50%	9.92%	8.99%	9.89%	7.39%	8.24%		
Substitute loans	7.25%	12.30%	6.03%	8.13%	6.50%	9.15%	depends on how long loan beneficiary is behind on payment:		6.79%	8.40%	depends on how long loan beneficiary is behind on payment	
Home/mortgage loans	9.45%	11.08%	6.79%	7.37%	6.00%	7.29%	6.20%	6.41%	6.20%	6.69%		
Car loans	9.00%	10.79%	8.69%	11.41%	depends on how long loan beneficiary is behind on payment:		depends on how long loan beneficiary is behind on payment:		6.00%	6.71%		

An overview of an analysis of the current market prices – banks. It is evident that the interest rates vary according to the purpose. Also, the difference in the prices of the specific products across the different financial institutions definitely lead to the conclusion that, in spite of the similarity, the institutions have different assessments and approaches to the market.

Loans secured by an insurance policy

Unforeseen situations may occur during the repayment of a loan, potentially threatening financial stability of the loan beneficiary and their family. Insurance companies have designed insurance products for loan beneficiaries.

Loan beneficiary insurance is primarily intended for loan repayment from the insured sum to be paid out in the case of death, accident, unemployment (termination).

The security instrument is an insurance policy with transferability restricted in favor of the bank. Restriction on transferability of the insurance policy is an assignment of right to be paid the insurance sum to the creditor in the case of an insured event. This actually means that the insurance company will pay the insured sum to the creditor (bank or MCF) if an insured event happens.

In the case of an insured event, damages need to be reported without a delay, along with the appropriate required documents provided for in the insurance policy.

Microloans

Microloans are specific specific-purpose loan products. The maximum amount that can be approved in this way is up to BAM 10,000 by microcredit foundations (MCF) and up to BAM 50,000 by microcredit companies (MCC).

The target group for microloans is population that cannot normally meet the requirements for obtaining bank loans (self-employment, farming, tradesmen, persons who are not permanently employed, start-up businesses). The approval procedure often entails a more direct communication with beneficiaries, household visits to verify the trade or the assets.

The average interest rate in the microfinance sector at the end of the third quarter of 2015¹:

- EIR on overall loans – average 25.16%
- EIR on short-term loans – average 27.15%
- EIR on long-term loans – average 24.65%
-

2.9. Requisite Knowledge - Repetition Interest

A loan is an amount of money lent for a specific period of time, but the clients have to pay the price for borrowing the money from the bank. This price is called interest. When repaying a loan, the interest and the principal are repaid.

An interest rate is a percentage that is calculated on the borrowed amount of money – the principal.

Types of interest rates:²

- **Nominal interest rate.** This is the interest rate that is stipulated by the creditor as the interest rate in an agreement. Monthly loan installments are calculated based on the nominal interest rate.
- **Effective interest rate (EIR)** is the interest rate that shows how much the loan actually costs the client, i.e., how much is the total cost of the loan. In addition to the regular interest rate, the effective interest rate is also affected by the fees paid by the client to the creditor on the approval of the loan, the loan repayment duration, the amount of potentially required guarantee deposit or share, etc. It is important to understand the effective interest rate since this allows the potential consumers to assess and easily compare the costs of similar financial products across banks or MCO's or to compare the costs or the returns across the products with different fee structures and other terms. For example, potential consumers can compare the effective costs of a loan with 10% nominal interest rate and no fees with a loan with 8% nominal interest rate and BAM 200 loan processing fee and BAM 10 monthly fee.
- **Variable interest rate** means that the bank is entitled to change the interest according to its operating requirements or market changes. This means that the installments and the total debt (interest and principal) can increase, but can also decrease.
- *(LIBOR and EURIBOR are the interest rates at which the commercial banks throughout Europe lend money to one another and they are reference interest rates used by the banks as the basis when calculating interest rates on the loans that they approve to their clients. LIBOR and EURIBOR are set daily.)*
- If a loan with a **fixed interest rate** is taken out, this means that the interest rate is invariable for the entire duration of the loan agreement.

EXAMPLE:

The following examples calculate different EIRs for three loans with the same nominal interest rates, maturities and amortization schedules, but with different fees ³:

- a) Loan agreement for the total loan value of EUR 6,000 to be repaid in 24 equal monthly installments of EUR 274.11 and with no other fees and charges. The EIR on this loan is 9.4%. The nominal interest rate is equal to the EIR;*
- b) Loan of the same sum and with the same 24-month amortization, but with a EUR 60 administrative fee at the time of the signing of the agreement. When this administrative fee is added, the EIR on the loan increases to 10.5% (i.e., the fee increases the EIR by 1.1%);*
- c) The same terms as in b) with additional insurance charges of 5% of the loan limit, which are distributed in 24 monthly installments. The insurance charges increase the EIR to 15.5%. This insurance amount is high, but is used to show how much of an impact the fees and charges can have on the EIR. In this example, the EIR is over 6.0% higher than the EIR on the first fee-free loan.*

² - www.cbbh.ba/print.php?id=888

³ - www.cbbh.ba/print.php?id=888

Both entity-level Banking Agencies require for the EIR to be calculated using a complex methodology that was prescribed for all banks and microcredit organizations for all loans and deposit agreements.

Grace Period

Grace period is a period of initial loan period in which the debtor is not required to start repaying the loan. Grace period is a time of „freezing“ the commitments typically to allow the debtor to put in place the prerequisites to duly repay the loan (start a business, earn stable income, etc.). This deferral of the start of repayment is agreed upon for a period of up to several months. Only interest is paid during the grace period.

Example – Amortization Schedule with a Grace Period

Data required:

Loan amount: 1,000

Annual interest: 6.96% Repayment period: 1 year

OF MONTHS	INSTALLMENT	INTEREST	PRINCIPAL	OUTSTANDING DEBT
1	5.75	5.75	0.00	1,000.00
2	5.75	5.75	0.00	1,000.00
3	5.75	5.75	0.00	1,000.00
4	5.75	5.75	0.00	1,000.00
5	5.75	5.75	0.00	1,000.00
6	5.75	5.75	0.00	1,000.00
7	170.10	5.65	164.45	835.55
8	170.10	4.72	165.38	670.17
9	170.10	3.78	166.32	503.85
10	170.10	2.84	167.26	337.53
11	170.10	1.90	168.20	169.33
12	170.10	0.95	169.15	0.00
TOTAL	1,055.10	54.34	1,000.76	

Under the Law on Financial Consumer Protection of FBiH and the Law on Banks of RS, the bank, the microcredit organization, i.e., the leasing provider, may pronounce at a request of a beneficiary a stay in the repayment, i.e., a moratorium for a specific period, if the credit worthiness of the beneficiary is diminished in the course of the duration of the contractual relationship, i.e., if other relevant circumstances beyond the beneficiary's control occur. In this period, the bank, the microcredit organization, i.e., the leasing provider, does not charge the penalty interest on the accrued outstanding claim.

Amortization Schedule

When a person makes enquiries about the terms at which they can take out a loan, e.g., how much they can take out, what is the interest rate, whether it is fixed or variable, whether they are taking out a short-term or long-term loan, etc., a bank officer creates an amortization schedule.

That is a table showing how much money was borrowed from the bank, at what interest rate, for what repayment time period (how many years), how you will pay installments (monthly, quarterly, semi-annually), showing the amount of installment for every e.g. month, i.e., the principal portion and related interest.

Data required:

Loan amount: 1,000

Annual interest: 10%

Repayment period: 12

NUMBER OF MONTHS	INSTALLMENT	INTEREST	PRINCIPAL	OUTSTANDING DEBT
1	87.8975	8.30	79.60	920.40
2	87.8975	7.64	80.26	840.14
3	87.8975	6.97	80.92	759.22
4	87.8975	6.30	81.60	677.62
5	87.8975	5.62	82.27	595.35
6	87.8975	4.94	82.96	512.40
7	87.8975	4.25	83.64	428.75
8	87.8975	3.56	84.34	344.41
9	87.8975	2.86	85.04	259.37
10	87.8975	2.15	85.74	173.63
11	87.8975	1.44	86.46	87.17
12	87.8975	0.72	87.17	0.00
TOTAL	1,054.77	54.77	1,000.00	

of months, i.e., time during which loan is repaid

Total ultimate loan amount to be repaid (principal + interest)

Total amount of interest on loan taken out, i.e., price at which money was borrowed.

Amount of outstanding debt for each month on which interest for next month is calculated

Example – Creating an Amortization Schedule in Excel

Data required:

Loan amount: 5,000

Annual interest: 9.45% Repayment period: 2 years

The screenshot shows an Excel spreadsheet titled "Loan Amortization1" with the following data:

Enter values		Loan summary	
Loan amount	\$ 5,000.00	Scheduled payment	\$ 229.46
Annual interest rate	9.45 %	Scheduled number of payments	24
Loan period in years	2	Actual number of payments	24
Number of payments per year	12	Total early payments	\$ -
Start date of loan	20.5.2013	Total interest	\$ 506.98
Optional extra payments			

Lender name:

Pmt. No.	Payment Date	Beginning Balance	Scheduled Payment	Extra Payment	Total Payment	Principal	Interest	Ending Balance	Cumulative Interest
18	20.6.2013	\$ 5,000.00	\$ 229.46	\$ -	\$ 229.46	\$ 190.08	\$ 39.38	\$ 4,809.92	\$ 39.38
19	20.7.2013	\$ 4,809.92	\$ 229.46	\$ -	\$ 229.46	\$ 191.88	\$ 37.88	\$ 4,618.34	\$ 77.25
20	20.8.2013	\$ 4,618.34	\$ 229.46	\$ -	\$ 229.46	\$ 193.09	\$ 36.37	\$ 4,425.25	\$ 113.62
21	20.9.2013	\$ 4,425.25	\$ 229.46	\$ -	\$ 229.46	\$ 194.61	\$ 34.85	\$ 4,230.64	\$ 148.47
22	20.10.2013	\$ 4,230.64	\$ 229.46	\$ -	\$ 229.46	\$ 196.14	\$ 33.32	\$ 4,034.50	\$ 181.79
23	20.11.2013	\$ 4,034.50	\$ 229.46	\$ -	\$ 229.46	\$ 197.69	\$ 31.77	\$ 3,836.81	\$ 213.56
24	20.12.2013	\$ 3,836.81	\$ 229.46	\$ -	\$ 229.46	\$ 199.24	\$ 30.21	\$ 3,637.57	\$ 243.77
25	20.1.2014	\$ 3,637.57	\$ 229.46	\$ -	\$ 229.46	\$ 200.81	\$ 28.65	\$ 3,436.76	\$ 272.42
26	20.2.2014	\$ 3,436.76	\$ 229.46	\$ -	\$ 229.46	\$ 202.39	\$ 27.06	\$ 3,234.37	\$ 299.48
27	20.3.2014	\$ 3,234.37	\$ 229.46	\$ -	\$ 229.46	\$ 203.99	\$ 25.47	\$ 3,030.38	\$ 324.96
28	20.4.2014	\$ 3,030.38	\$ 229.46	\$ -	\$ 229.46	\$ 205.59	\$ 23.86	\$ 2,824.79	\$ 348.82
29	20.5.2014	\$ 2,824.79	\$ 229.46	\$ -	\$ 229.46	\$ 207.21	\$ 22.25	\$ 2,617.58	\$ 371.06
30	20.6.2014	\$ 2,617.58	\$ 229.46	\$ -	\$ 229.46	\$ 208.84	\$ 20.61	\$ 2,408.73	\$ 391.68
31	20.7.2014	\$ 2,408.73	\$ 229.46	\$ -	\$ 229.46	\$ 210.49	\$ 18.97	\$ 2,198.24	\$ 410.65
32	20.8.2014	\$ 2,198.24	\$ 229.46	\$ -	\$ 229.46	\$ 212.15	\$ 17.31	\$ 1,986.10	\$ 427.96
33	20.9.2014	\$ 1,986.10	\$ 229.46	\$ -	\$ 229.46	\$ 213.82	\$ 15.64	\$ 1,772.28	\$ 443.60
34	20.10.2014	\$ 1,772.28	\$ 229.46	\$ -	\$ 229.46	\$ 215.50	\$ 13.96	\$ 1,556.78	\$ 457.56
35	20.11.2014	\$ 1,556.78	\$ 229.46	\$ -	\$ 229.46	\$ 217.20	\$ 12.26	\$ 1,339.58	\$ 469.81
36	20.12.2014	\$ 1,339.58	\$ 229.46	\$ -	\$ 229.46	\$ 218.91	\$ 10.55	\$ 1,120.67	\$ 480.36
37	20.1.2015	\$ 1,120.67	\$ 229.46	\$ -	\$ 229.46	\$ 220.63	\$ 8.83	\$ 900.04	\$ 489.19
38	20.2.2015	\$ 900.04	\$ 229.46	\$ -	\$ 229.46	\$ 222.37	\$ 7.09	\$ 677.67	\$ 496.28
39	20.3.2015	\$ 677.67	\$ 229.46	\$ -	\$ 229.46	\$ 224.12	\$ 5.34	\$ 453.55	\$ 501.61
40	20.4.2015	\$ 453.55	\$ 229.46	\$ -	\$ 229.46	\$ 225.89	\$ 3.57	\$ 227.66	\$ 505.19
41	20.5.2015	\$ 227.66	\$ 229.46	\$ -	\$ 227.66	\$ 225.87	\$ 1.79	\$ -	\$ 506.98

An amortization schedule can be created in the template in Excel titled “Loan Amortization Schedule”.

The loan amount, i.e., 5,000, is entered in „Loan amount“, while 9.45% annual interest rate is entered in „Annual interest rate“. „Loan period in years“ is the loan repayment period, which is 2 years in this case. We enter 12 in „Number of payments per year“, which is the number of months in a year. We enter the date when we wish to start repayment of the loan in „Start date of loan“, which is 05/20/2013 in our case.

After the aforementioned items are entered, an amortization schedule will be displayed.

3. FINANCIAL COUNSELING

3.1. Introduction

Financial counseling is intended for those citizens who need an independent advice related to debt and general financial counseling that can help with:

- deciding on best financial product,
- contractual provisions that require special attention when entering into an agreement with a financial institution,
- issues related to guarantees, advantages/disadvantages of credit or debit cards, etc.

3.2. Client Financial Counseling Objectives

The financial counseling objective is to enable citizens to better examine their financial situation, manage their finances more effectively and use financial products for their intended purposes that match their needs.

Being in a problem due to an inability to repay loan debt or a sense of violation of contractual rights typically leads to disrupted communication between the financial institution and the client, eliminating the relationship characterized with good business customs and imposing a sense of shame. And it is exactly because of this that it is important for some people to try to examine their problem more objectively on a „neutral“ ground and try to find a solution with professional help.

Financial counseling is needed because it:

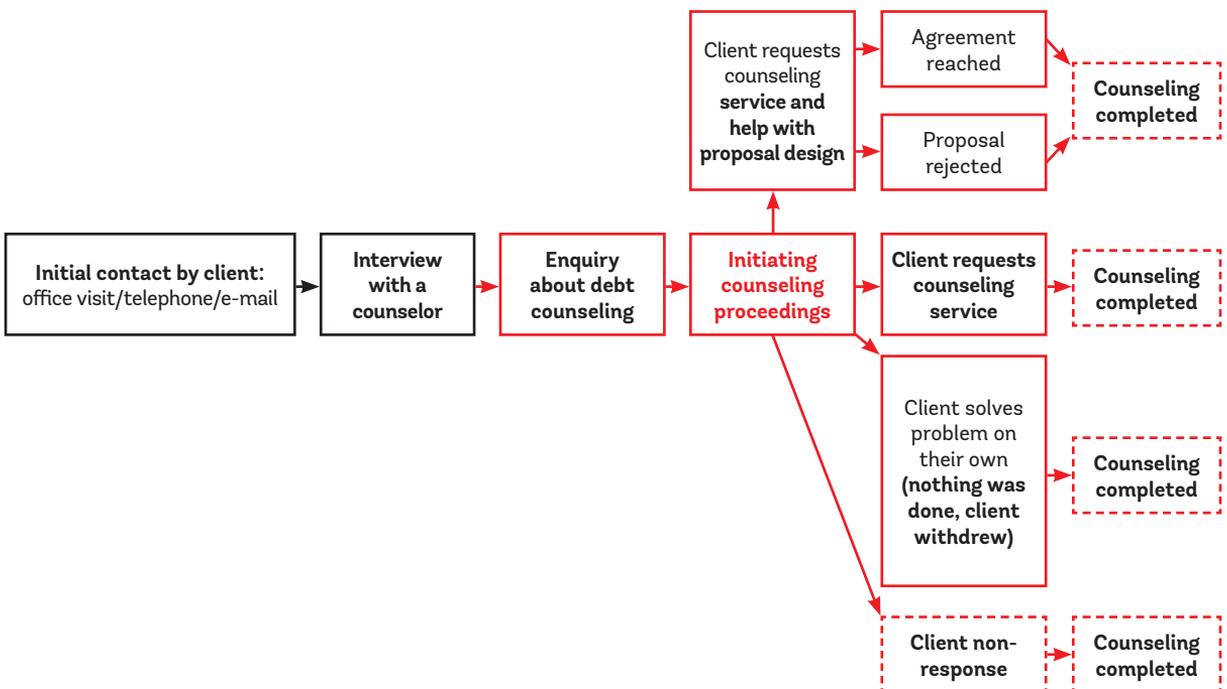
- allows objective approach to examining problems,
- honors client's needs, but also those of the financial institution as well, striving for a compromise,
- represents a means to build a responsible relationship to one's own commitments,
- endeavors to eliminate a sense of shame and facilitate an individual's functioning in the society.

3.3. Stages and Process of Counseling



Counseling process serves to provide an analytical, systematic and objective approach to problem examination and resolution through basic steps.

The chart below shows visually the most common trajectories of the client contact process and the counseling process.



In agreement with a client, initiation of counseling proceedings entails initiation of an analytical process, review of the documents and a detailed interview with the client. It is important to note that this part of the process appears to be the most sensitive with regard to client withdrawal.

Identification is done with the help of official personal identification documents. Depending on the type of a problem, the client is informed about the documents that are required for an objective review of the problem. Copies of the required documents typically suffice.

Additional counseling steps entail reviewing the documents and the statements made by the client, drawing up a framework financial cross section of the situation – financial statement, and developing potential solutions.

In addition to the material evidence of the client's means and the amount of the commitment undertaken, an oral interview is very important, because it sometimes provides the counselor the information that is not evident from the documents provided.

It is a possible case to have a situation where a client took out a loan in their own name and for account of another person, or where someone else took out a loan for them, and they are under a commitment to repay it, but it is not visible from the official debt document (the Central Credit Register statement).

The collected documents and the client's statements are reviewed with the goal of drawing up a Financial Statement as a comprehensive document that strives to systematically arrange information that is relevant to assessing the client's means and general living circumstances, as well as to be a cover for a proposal that will potentially be sent to the financial institution.

Once a potential solution proposal has been developed as a result of the comprehensive data review, it is presented to the client. The client chooses the solution and decides about the future steps at their discretion and it is important to bear this in mind, since they are the debt "owner". The counseling process ends when the financial institution either accepts or modifies the original proposal.

3.4. Most Common Problems Faced by Indebted Citizens and Their Solutions

Indebted citizens face a host of problems, but the most common ones are:

- inability to duly repay,
- credit card repayment,
- not understanding potential options offered by financial institutions as solution to client's problem,
- explanation of contractual provision on prepayment.

The reasons for the inability of the indebted citizens to repay may be: diminished income, job loss, decreased business/trade activity, illness or death, indebtedness.

3.4.1. Credit Card Repayment

First and foremost, a distinction needs to be made between a debit and a credit card. A debit card allows beneficiaries to spend their money from their current account. A credit card allows beneficiaries to borrow money from a bank.

Credit cards are a type of a revolving loan. These loans have neither a repayment period nor a fixed monthly interest rate. The authorized funds may be used, the debt may be repaid and new borrowing may be undertaken throughout the entire loan duration. The card allows for the goods and services to be purchased and money to be used within the authorized credit limit. Monthly interest is charged on this card. When products and services are purchased with a credit card, there is usually a shorter free loan period that is defined in the agreement during which the accrued amount needs to be paid and no interest is charged in that period. If payment of that amount is deferred, the interest will be charged for the loan period. In the case of an ATM cash draw, there is no free loan period. The remainder of the debt is renewed on a monthly basis. This would illustratively mean that the financial institution's monthly requirements are for 5% of the debt to be repaid, and the remainder is considered a renewed loan for the duration of one month. The financial institution charges a monthly interest on the debt amount. The beneficiary has a right to use the card until the maximum borrowing limit approved by the bank is reached.

COUNSELING EXAMPLE

Loan repayment dynamics have an impact on the overall product costs, which is visible from the following example: if a beneficiary has used up the funds on their credit card in the amount of BAM 5,000, the minimum payment is BAM 250. The beneficiary will repay the debt in 97 months, repaying the total interest in the amount of BAM 1,614.

However, if the beneficiary pays more than 5%, more specifically if the installment amounts to BAM 350, the aforementioned debt will be repaid in 16 months, while the total interest repaid will amount to BAM 543.

5,000 KM		5,000 KM	
Installment amount	5% minimum payment	Installment amount	350 BAM
# of repayment months	97	# of repayment months	16
Total interest	1,614.00	Total interest	543

3.4.2. Loan Refinancing

When a loan beneficiary has a problem with repayment of their loan debt or senses that they are going to face challenges with their loan repayment, one of the options is to restructure the loan, i.e., to refinance or reschedule the loan.

Loan refinancing is an activity that entails replacing an existing debt arising from one or more obtained loans with a new loan. A refinance loan can be used to:

- prepay a loan that has already been used up,
- settle credit card debt,
- settle authorized current account overdraft debt, etc.

The cost-effectiveness of the refinancing needs to be verified. It is important to note that in the first several years of the repayment of a long-term loan the monthly annuity (installment) largely consists of the interest and, to a lesser extent, of the principal, which is why it is very important to assess well whether and when it is best to refinance the loan. If a principal debtor wishes to have their loan debt refinanced, the principal debtor must not be behind more than 90 days on the repayment of the loan to be refinanced.

It is important to compare the offers of the different financial institutions, i.e., at what terms selected financial institutions offer this type of loan (important items in this assessment are: nominal interest rate, and especially effective interest rate, duration of repayment period, amount of monthly installment, as well as the instruments required by financial institutions as a loan repayment security, i.e., promissory notes, guarantor's statements, mortgages, etc.).

EXAMPLE – AN OVERVIEW OF REFINANCING ACTIVITY AND ITS IMPACT:

„I have two loans, which I have been duly repaying. I also have two credit cards, I have used up the available amount and I try to make the minimum payments. The credit card charges are high and are especially taxing, because in the absence of additional income, the debt on these credit cards keeps growing and the interest keeps piling up. I have neither a property of my own - I live as a tenant, nor any other valuables. I am married, my wife is not employed, we have two underage children. The existing income is barely enough to meet our elementary needs. Even though I am not in a bad category in the Central Credit Register and I am formally not behind on my payments, I dread unforeseen life situations that might prevent me from duly repaying my debt. I am simply afraid that my car might break down or that I will have to buy some medicine and that I would not be able to repay my debt then. What are the best options for me to improve my financial standing and achieve some sort of financial stability, is it possible to make some kind of consolidation of such debts?“

SOLUTION:

In line with the description and the highlighted facts, the possible solution to the problem is in refinancing, i.e., consolidating the loan debts into one, in order to repay the credit cards at a lower interest rate, i.e., in order for the client to have a specified amount of monthly annuities. Since the client is in good CCR categories, the situation will likely have a positive outcome. Still, the client should be advised to pay attention to the duration of the arrears, because if they end up in “C” category or “D”, “E”, refinancing will not be permitted under the internal acts of the majority of the financial institutions.

3.4.3. Rescheduling

Loan rescheduling is a process in which the terms of a loan agreement are modified. Most often, the amortization schedule is modified to reduce the loan installments.

If a loan beneficiary wishes to reschedule their loan debt, they must not be behind more than 90 days on the repayment of the loan to be rescheduled.

Under earlier decisions of the Banking Agency, the beneficiary is required to attach to a loan rescheduling application a proof that:

- they lost job,
- their salary was considerably reduced,
- they receive salaries with a delay of at least three months,
- or some other documents proving that they are currently unable to repay their loans.

Under the Banking Agency’s decisions, loans approved up to the maximum amount of BAM 70,000 may be rescheduled.

3.4.4. Prepayment

Loan prepayment entails repayment of accrued and unaccrued principal and accrued outstanding interest. Before adoption of the Law on Financial Consumer Protection in FBiH, i.e., amendments to the Law on Banks of RS, a prepayment fee, which could not exceed the fee charged for loan application processing, was paid.

Under the above referenced laws, the fee amount may be agreed upon up to the amount of the damages suffered as a result of the prepayment, and may amount to a maximum of 1% of the amount of the prepaid loan, namely if the period between the prepayment and the loan repayment period exceeds one year. If it is a period of less than one year, the fee may not exceed 0.5% of the amount of the prepaid loan.

The financial institution may not require the prepayment fee:

- if repayment was made under a concluded insurance agreement, whose purpose was to insure loan repayment,
- if repayment is made during the period for which a variable nominal interest rate was agreed upon, except for property loans,
- in the case of authorized account overdrafts.

Provided below is a case from practice with potential solutions.

EXAMPLE – AN OVERVIEW OF PREPAYMENT ACTIVITY AND ITS IMPACT:

“I lost my job, I have one loan. I am single and have no children. Since I am 55 years old and given the labor market conditions and my level of education – I have a high school diploma, I believe that it is not certain that I will be able to get another job. As soon as I lost my job, I contacted the financial institution from which I took out the loan and they offered me a loan reschedule in order to reduce the amount of my monthly installments. I still have about BAM 20,000 of debt, i.e., another 7 to 8 years of repayments. I have land for which I have a buyer. It is not the clearest to me what a reschedule is and if I am already in such an unenviable position, I am interested to know what would installment reduction mean for me in a long term? Actually, I do not know at all whether it pays for me to reschedule, because I do not have income continuity, and I do not know how much my total debt will be in the end. One thing is for sure, I wish to repay my debt, but I do not know what options are available to me in such an unenviable situation?”

SOLUTION:

First and foremost, the client needs to be made aware of the definition of a reschedule, i.e., what it entails. Since the client has no income continuity and has a property that he has put up for sale, i.e., has a buyer, the assumption is that the best solution to his current financial situation is a prepayment of his loan, which entails repayment of accrued and unaccrued principal and accrued outstanding interest.

It has been noted in practice that the majority of people with problem debt are very reluctant to sell their property. But if a loan beneficiary, i.e., a principal debtor, has no means to meet their commitments, they need to be made aware of the potential actions of the financial institution to enforce recovery. It is possible that the financial institution will initiate legal action to enforce recovery of the loan, additionally increasing the loan cost. Court action entails court costs, which are contingent on the debt amount.

If a beneficiary is behind on a loan repayment, they are charged penalty interest, which they pay as an additional cost (penalty) for a delay or a default on an installment. Penalty interest is an additional interest, and in addition to it, regular interest is still calculated and the beneficiary is required to pay both interests.

Statutory penalty interest in FBiH is 12% on an annual level.

Penalty interest rate in RS consists of:

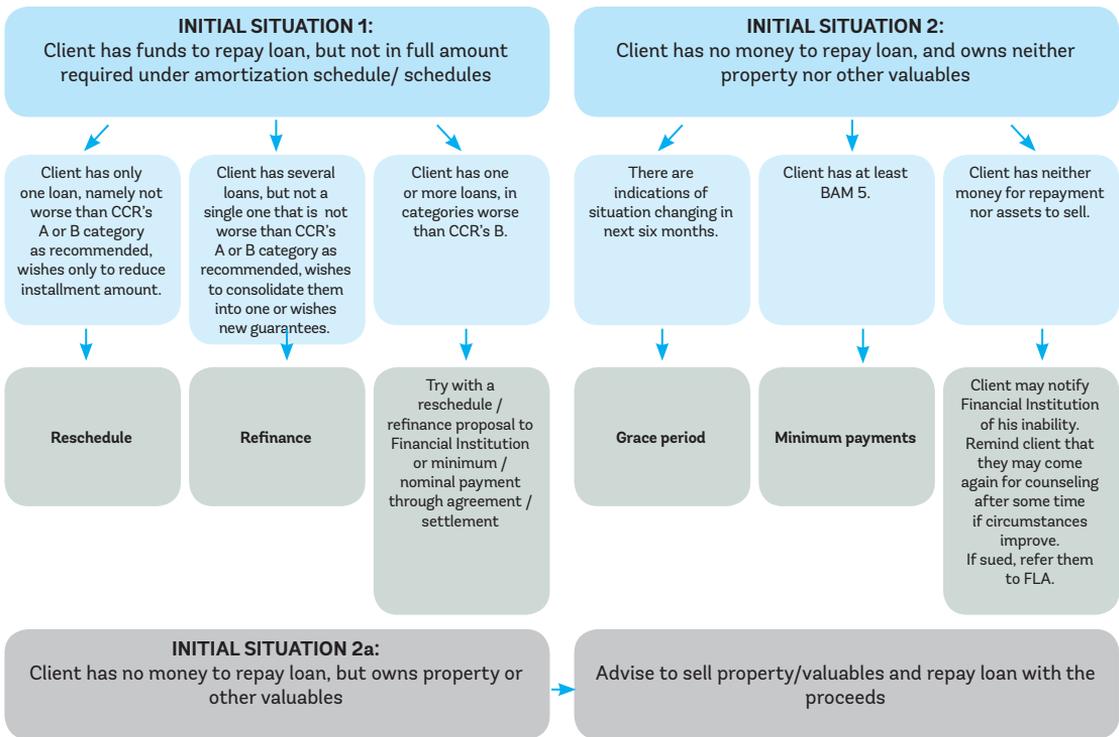
- consumer price growth rate for the period for which penalty interest is calculated and
- fixed rate of 0.05% daily.

Penalty interest is calculated by multiplying the fixed rate of 0.05% daily with the number of days in arrears, and the rate so determined is multiplied with the amount of the principal debt increased by the interest at the consumer price growth rate from the preceding Paragraph. If the consumer price growth rate from the preceding Paragraph is zero or negative, only the fixed rate of 0.05% daily shall apply.

It is also important to make the client aware of the loan risk classification (the Central Credit Register - CCR categorization). The loan risk classification is expressed by categories denoted with A, B, C, D and E. The number of days in arrears that is used to determine loan categorization differs in banks and microcredit organizations. Generally, A category denotes loans that are duly repaid, B denotes loans with arrears that are “tolerable” for financial institution, C denotes a loan that is no longer eligible for a reschedule due to the duration of arrears, and all further categories are generally subject to legal action.

It is very important to emphasize the importance of establishing communication between the client and the financial institution with the goal of finding a solution.

Given the aforementioned, a brief matrix and a simplified chart were prepared to be used in practical case analyses and searches for potential solutions.



Debt management scenario and solution proposal	SUCCESS FACTOR		
	Situation assessment and proposal definition	Debt features	Proposal to financial institution

BASIC SITUATIONS AND SOLUTIONS

<p>1 Debt consolidation / refinancing agreement. Existing debts are closed and new loan is granted.</p>	<p>Client has disposable income for loan repayment (minimum 50% of sum of all current installments), but cannot pay 100% of existing installments under agreement. Still, client's disposable income and credit rating make them eligible for refinancing.</p>	<p>Debts piled up and payments were delayed, but client is still in A or B categories (recommendation is that none of the loans should be in a category worse than A or B) in CCR.</p> <p>Total loan commitments exceed disposable income, but with some cost savings and reduction of loan commitments, client can make regular payments in amount lower than originally agreed upon. Lower threshold should be about 50%. Multiple loan and/ or card debt at different interest rates.</p>	<p>Consolidation – refinancing with a new loan at normal commercial terms.</p> <p>Creditor may agree to refinance up to the amount of one own loan or to a greater amount, maximum up to client's total multiple loan debt.</p> <p>Client undertakes not to take on new debt until refinancing loan has been repaid.</p>
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<p>2 Extension of repayment period – reschedule</p>	<p>Client has disposable income for loan repayment, but cannot pay the amount agreed upon and cannot refinance debt. Unlike refinancing, rescheduling does not mean a new loan agreement or new approval procedure.</p> <p>If client has multiple loan commitments exceeding disposable income and wishes to reschedule those, in this case each loan is separately rescheduled. If they wish to consolidate multiple loans into one, that is refinancing, so refer to situation 1 above.</p>	<p>Total loan commitments exceed disposable income, but if regular repayments can be significantly reduced, they could be paid from disposable income.</p> <p>Client is not behind more than 90 days (A or B category recommendation).</p> <p>Client meets rescheduling requirements and has required evidence (that they are not to blame for losing their job, reduced earnings, ill health, etc.).</p> <p>Client would like to have his monthly installment reduced with same guarantees in a fast-track procedure, without signing a new loan agreement and without consolidating multiple loans.</p>	<p>Extension of repayment period. Different loans are rescheduled individually on a pro rata (proportional) basis depending on existing debt.</p> <p>Financial organization has already incurred provisioning costs on client's debts, with a high probability that these costs will grow.</p> <p>There is no regular loan that would match client's ability to regularly pay their commitments.</p> <p>Client cannot take on new loans until they have repaid existing loans.</p> <p>Client's financial situation is occasionally reviewed. If client's financial situation improves, new amounts of repayments shall be agreed upon.</p>
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Debt management scenario and solution proposal	SUCCESS FACTOR		
	Situation assessment and proposal definition	Debt features	Proposal to financial institution

BASIC SITUATIONS AND SOLUTIONS

<p>3 Minimum / nominal payment to financial institution (considerably lower than agreed upon payment with extended repayment period)</p>	<p>Client's disposable income for repayment is considerably lower than agreed upon one, i.e., it is below 60% of agreed upon one, and it is insufficient for refinancing or rescheduling and has no direct effect on improvement of financial situation. An agreement is entered into in order to continue repayment in minimum amounts. This kind of agreement can realistically be expected if repayment arrears are long, recovery so far has failed and if it is evident that client's financial situation will not improve in a foreseeable time. From counseling experience, minimum amount is BAM 50 on an average, but it can be even lower depending on arrears, outstanding debt and financial institution's practice.</p>	<p>Disposable income is lower than half of agreed upon installment, but not lower than BAM 50.</p> <p>Client can be in C, D, E categories, and loan can even be written off under BF2 form.</p> <p>Client's income is irregular and uncertain, and it is most commonly at the level of basic living expenses.</p>	<p>Minimum payments to all creditors as confirmation of repayment responsibility.</p> <p>Periodic reviews of client's financial situation. Client undertakes not to take on new loans until he has repaid existing debts.</p> <p>Financial institution has already incurred provisioning costs on client's loans.</p>
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<p>4 Client received counseling and decided to solve their problem on their own</p>	<p>Client received counseling according to situations 1, 2, 3 or 5 and decided to solve their problem on their own.</p>		<p>Counselor records advice offered and client's decision. We can kindly ask client to notify us, if possible, that they have solved their problem (once solution has potentially been reached) for our record keeping.</p>
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<p>5 Temporary payment deferral by agreed upon period of time</p>	<p>Client has no disposable income for loan repayment and there are no realistic chances for their financial situation to improve.</p> <p>Do not accept solely client's oral statements, but instead make a decision on their inability to repay once you have reviewed their documents (person gets their meals from soup kitchen, medical costs, they are social assistance recipient, etc.).</p> <p>Based on experience, lack of funds means that client is unable to pay more than BAM 20 without threatening their and their family's basic subsistence.</p>		<p>Payment deferral occurs very rarely in practice. Circumstances because of which client is currently unable to make repayments under agreement need to be fully proven and financial institution needs to be convinced that circumstances will change soon.</p> <p>Deferral in practice can mean approval of grace period in which only interest is repaid, but not principal. Once agreed upon grace period has expired, client needs to bear in mind that interest paid during grace period does not reduce total amount of interest to be repaid on principal amount.</p> <p>Loans with grace period are available as financial products, meaning that grace period can be agreed upon in negotiation phase of loan approval.</p> <p>If loan is not approved with grace period, but instead grace period is sought once loan repayment has started, chances of approval of grace period are slim in practice, except potentially in the case when grace period is sought right at the beginning of repayment following loan approval.</p>
<p>6 There is no realistic expectation that client will be able pay debt (not even minimum payment)</p>	<p>Client has no disposable amount for payment of one or more loans, but there are justified indications that they will be able to make payments after specific period.</p>		<p>Client can inform financial institution that they cannot currently meet their commitment, but that they will strive to review again potential for its settlement in the case of changed circumstances.</p>
<p>7 Client is not ready to pay or sell disposable assets</p>	<p>Poor cooperation of debtor.</p>		<p>No proposal is designed.</p>

4. FINANCIAL STATEMENT DEVELOPMENT

4.1. Introduction

Financial statement is actually a presentation of a client's means and, where necessary, it is developed in the case of financial or financial and legal counseling.

The most important function of financial statement is to determine the amount that a debtor can direct towards debt repayment in a long term without threatening at the same time their and their family's basic subsistence.

Financial statement represents a detailed presentation of all debtor's income, expenditures, loan commitments and potential credit exposure (guarantees), because the objective is to create a realistic, unbiased amortization schedule that is feasible in a long term for debtor. It takes into account formal and informal information sources. Formal information sources are:

- payslips,
- pension checks and other evidence of income,
- utility bills,
- CCR BF1 and BF2 extracts,
- debt balance certificates issued by financial institutions and other official documents.

Informal sources are subjective estimates, i.e., a client's statements about informal income and informal expenditures in terms of debts they owe to their family, friends, loans that someone else took out for them, etc.

4.2. Data Collection

In order to present a client's financial situation as realistically as possible, counselor collects the following data: personal information, income and assets, expenditures, loan commitments and debts.

4.2.1. Personal Information

A client's personal data may be collected during an interview with the client, such as: client's first name, surname, address, telephone number, occupation and status (employed/unemployed/retired).

In addition to this, client's household data is collected (number of household members, number of employed persons, number of underage persons, as well as geographic area (FBiH, RS, Brcko District). If client has dependants (children), their first name, surname and date of birth is entered in the statement.

Financial Statement – Personal Data

FINANSIJSKI IZVJEŠTAJ

Datum	Broj klijenta

Lični podaci o klijentu	
Ime	
Prezime	
Datum rođenja	
Adresa	
Telefon : mobilni	
Telefon : mobilni	
e-mail	
Zanimanje	
Status	

Podaci o domaćinstvu	
Geografsko područje	
Potrošačka korpa	
Broj osoba u domaćinstvu	
Broj uposlenih u domaćinstvu	
Broj zavisnih osoba	
Broj maloljetne djece	

Dodatni kontakt 1	
Srodstvo	
Ime	
Prezime	
Adresa	
Opština	
Poštanski broj	
Telefon : fiksni	
Telefon : mobilni	
e-mail	

Consumer basket item line is categorized into:

- distinctly urban area: consists of major cities with significant economic base, i.e., municipalities with over 75,000 inhabitants (e.g., Sarajevo, Banja Luka, Tuzla, Bijeljina, Mostar, etc.);
- medium urban area: medium-sized towns and places with solid economic base, i.e., populated places with between 5,000 and 75,000 inhabitants (Zivinice, Prnjavor, Trebinje, Livno, etc.) and
- rural area: places with weaker economic base, i.e., environments with less than 5,000 inhabitants.

It is very important to categorize aforementioned item lines for further financial statement analysis. Identification card is used to confirm a client's identity, but their driver's license or passport can also be used.

4.2.2. Income and Assets

It is important to explain all categories and capture all income. All income that a client has is taken into account, such as regular (salary, pension), irregular (occasional employment, remittances from abroad, etc.), informal (informal employment, own production, help from family members, etc.), as well as benefits from a center for social work, employment agency or other government agencies.

In order to make as realistic and transparent financial analysis as possible, it would be desirable for a client to provide the following evidence for review to support their statements about their income:

- A copy of payslip, i.e., pension check that is not more than two months old, represents regular income (salary, pension). In addition to a client's regular income, regular income of other family members is also taken into account;
- Copies of piecework agreements, books of accounts, copies of current account statements showing payments made to accounts, etc., represent irregular income. In addition to a client's irregular income, irregular income of other family members is also taken into account;
- For irregular income where no written evidence of the amount of such income is available (e.g., own production, informal employment, help from family members, etc.), unavailability of the evidence of such income needs to be highlighted and an explanation needs to be provided on how informal income was estimated and its amount. In addition to a client's informal income, informal income of other family members is also taken into account;
- Copies of decisions approving cash benefits represent benefits from a center for social work, employment agency or other government agencies.

Financial Statement – INCOME AND ASSETS

PRIHODI I IMOVINA

Datum	Broj klijenta	Ime i prezime klijenta
	0	

Prihodi	Mjesečni Iznos	Komentar
Plata, penzije, prijavljeni i neprijavljeni prihodi - za članove domaćinstva		
Klijentova plata		
Plata Supruga/Supruge		
Ostale plate u domaćinstvu		
Penzija 1		
Penzija 2		
Ostali prihodi (regres, honorarni rad, najamnina, kućna radinost i itd.) - svih članova		
Doznake iz inostranstva		
Ukupno	-	
Beneficije (Centar za socijalni rad)		
Stalna novčana socijalna pomoć	-	
Jednokratna pomoć	-	
Novčana pomoć za nezaposlene žene porodilje za prehranu djeteta	-	
Naknada plate ženama-porodiljama	-	
Naknade licima sa invaliditetom	-	
Naknada za tuđu pomoć i njegu	-	
Uvećani dodatak na djecu	-	
Dodatak za djecu nezaposlenih roditelja	-	
Invalidnine CŽR-a	-	
Smještaj djece i odraslih lica u drugu porodicu	-	
Smještaj djece i odraslih lica u ustanovu socijalne zaštite	-	
Pomoć nezaposlenim ženama porodiljama	-	
Regulisanje starateljstva	-	
Ukupno	-	
Beneficije (Federalni zavod za zapošljavanje)		
Osiguranje za slučaj nezaposlenosti	-	
Ukupno	-	
Ostalo		
Ostali prihod		
Ostali prihod	-	
Ukupno	-	
Ukupni prihodi	-	

Imovina	Iznos	Komentar
Gotovina		
Štednja		
Osiguranje	-	
Stan		
Kuća		
Zemlja		
Imovina u kući		
Osnovno prevozno vozilo		
Ostala vozila		
Razna oprema		
Ostalo		
Ukupno imovina	-	

Dodatni komentar o prihodima i imovini klijenta i porodice:

Data that is collected on assets include appraised values of home, apartment, car, savings, equipment, etc.

It is very important to explain all categories, i.e., examine income regularity, examine asset value (surface areas of land, forest, home, home build year, car's made year), whether there are any other assets available, such as for example equipment, machinery, their value), whether they have occasional work, whether they have own production, etc.

4.2.3. Expenditures

Expenses need to be reviewed:

- objectively,
- realistically,
- sufficient for living needs,
- debtor's personal expenses,
- family expenses,
- other expenses.

Expenses may be divided into regular and irregular. Evidence of regular ones includes: copies of utility bills (water, power, heating, telephone, cable TV, Internet) that are not more than two months old, copy of lease agreement. Irregular expenses are expenses incurred for clothes, shoes, etc.

- *Food, beverages and personal hygiene* – How much do they spend monthly on food and beverages? How often do they shop for staples (flour, oil, milk)?
- *Clothes and shoes* – Do they shop for child? How did they outfit their child for school?
- *Housing* – how much is rent?
- *Power, gas, water and other fuels* – If they live in a building, do they pay for maintenance, that is an additional expense? If they live in a home, what do they use for heating, how much money do they spend annually on firewood and coal?
- *Health* – if they spend on medicines, do they buy some medicines on a regular basis? How much do they spend monthly?
- *Transport* – Inquire how often do they fill up on gas? How much does vehicle registration cost? Do they have monthly/annual public transport passes? How does child go to school? How do they travel to their workplace?
- *Communications* – How many household members have a mobile phone? How often do they recharge credit? Do they use Internet? How much does it cost?
- *Education* – How do they get school textbooks and supplies for child? Do they pay for their child's school meals?
- *Other products and services* – If child is preschool age, who looks after the child? How much do they pay for childcare? If child is in university, how much does university admission fee cost? Do they study full-time or part-time?
- *Other* – tobacco and other expenses that a client has.

It is desirable to make a cross section of average expenses based on average expense costs in a specific area and view them as benchmarks based on which specific variations can be identified more clearly. For example, if average cost of renting an apartment in an area is BAM 300, and a person pays BAM 500, that may be a sign that there is room for potential savings.

Once we have obtained all necessary information, we can proceed with solving our client's problem.

Financial Statement - Expenditures

RASHODI

Datum	Broj klijenta	Ime i prezime klijenta
1/0/1900	0	0

KORISTI OVAJ TAB ZA IZRACUNAVANJE POSTOJEĆIH TROŠKOVA I ODREĐIVANJE PRIHVATLJIVIH I IZVODLJIVIH USTEDA.

Za prosječnu 4 članu
porodicu

Rashodi	Mjesečni iznos	Odstupanje - u KM	Odstupanje - u %	Komentar
Hrana, piće i lična higijena	0	#N/A	#N/A	
Odjeća i obuća	#N/A	#N/A	#N/A	
Stanovanje	#N/A	#N/A	#N/A	
Režije: El.energija, grijanje, plin, voda, kablovska, itd	#N/A	#N/A	#N/A	
Namještaj, oprema i usluge za domaćinstvo	#N/A	#N/A	#N/A	
Zdravstvo: Lijekovi, zubar, optika, itd...	#N/A	#N/A	#N/A	
Prevoz: Gorivo, parking, održavanje vozila, karte, i slično	#N/A	#N/A	#N/A	
Komunikacije: fiksni telefon, mobilni, internet i slično	#N/A	#N/A	#N/A	
Rekreacija/slobodno vrijeme, kultura i slično	#N/A	#N/A	#N/A	
Obrazovanje: lično i za djecu	#N/A	#N/A	#N/A	
Ugostiteljske usluge	#N/A	#N/A	#N/A	
Usluge smještaja	#N/A	#N/A	#N/A	
Ostali proizvodi i usluge, deparac za djecu, vanredni troškovi	#N/A	#N/A	#N/A	
Ostalo	#N/A	#N/A	#N/A	
Ukupno rashodi	-	#N/A	#N/A	

Komentari i sugestije savjetnika

Maksimalna odstupanja i dodatni troškovi	KM
Izrazito urbana sredina	200.00
Srednje urbana sredina	200.00
Seoska / ruralna sredina	150.00
Po zavisnoj osobi do 18 godina	50.00
Po zavisnoj osobi preko 18 godina	50.00

4.2.4. Loan Commitments and Debts

Information on loan commitments and debts is very important for debt repayment analysis and proposal to be suggested by a counselor. Loan commitments and debts can be divided into three categories:

- Priority debts,
- Non-priority debts,
- Client's exposure under guarantee agreements.

Priority debts can be defined as:

- Loan secured on property
- Rent arrears
- Court fines
- Utility services
- Taxes
- Lease arrangement
- Loans secured by cosigner or guarantee
- Attachment of earnings
- Leasing debts

It is very important to highlight that a client may make categorization in accordance with their needs. Data on loan commitments and debts are collected in three ways:

- through an interview with a client, information on their personal debts (loans, credit cards, authorized overdraft), debts as a guarantor are obtained. It is very important to establish what is the reason for their inability to pay;
- by reviewing the Central Credit Register (CCR) statement, i.e., BF1 and BF2 extracts, counselor verifies information provided by the client during the interview. Data in CCR statements are updated on a daily basis;
- directly from financial institution through telephone contact and verification of specific statements.

Financial Statement – Loan Commitments and Debts 2

FINANSIJSKI IZVJEŠTAJ

Lični podaci o klijentu	
Broj	0
Ime	0
Prezime	0
Matični broj	001013500
Adresa	0
Broj telefona	0

Geografsko područje	
Informacije o domaćinstvu	
Tip naselja	0
Broj osoba u domaćinstvu	0
Broj osoba u domaćinstvu u punoljetnoj dobi	0
Broj zaposlenih osoba	0
Broj imalošćine slijede	0

Raspodjela sredstva i imovina	
Iznos (MM)	
Gotovina	-
Usporedne vrijednosti	-
Patrimona imovina	-
Nepokretna imovina	-
Ostala imovina	-
Ukupno imovina	-

Raspodjela raspisanih prihodi	
Iznos (MM)	
Prava, plaća i lična svojina	-
Beneficije (Centar za socijalni rad)	-
Beneficije (Federalni zavod za zapošljavanje)	-
Ostalo	-
Ukupni prihodi	-

Mjesečni rashodi	
Iznos (MM)	
Prava, plaća i lična svojina	-
Režije, te. i Internet komunikacija, stanovanje	-
Obrascovanje	-
Zimovanje	-
Održava i obnova	-
Prevoz	-
Prehrana i piće	-
Ostali troškovi i usluge	-
Ukupno rashodi	-

Dostignuća za kreditore nakon osnovnih troškova	
Iznos XMI	-

PRIORITETNA DUGOVANJA*						
Broj kredita	Financijska institucija	Orginalni iznos odobrenog kredita	datum postavljanja/ datum opozita	rok oplate kredita u mj.	Mjesečna rata	Ostatak duga na dan
1	2	3	4	5	6	7
2	3	4	5	6	7	8
3	4	5	6	7	8	9
4	5	6	7	8	9	10
5	6	7	8	9	10	11
6	7	8	9	10	11	12
7	8	9	10	11	12	13
8	9	10	11	12	13	14
9	10	11	12	13	14	15
10	11	12	13	14	15	16
11	12	13	14	15	16	17
12	13	14	15	16	17	18
13	14	15	16	17	18	19
14	15	16	17	18	19	20
15	16	17	18	19	20	21
16	17	18	19	20	21	22
17	18	19	20	21	22	23
18	19	20	21	22	23	24
19	20	21	22	23	24	25
20	21	22	23	24	25	26
21	22	23	24	25	26	27
22	23	24	25	26	27	28
23	24	25	26	27	28	29
24	25	26	27	28	29	30
25	26	27	28	29	30	31
26	27	28	29	30	31	32
27	28	29	30	31	32	33
28	29	30	31	32	33	34
29	30	31	32	33	34	35
30	31	32	33	34	35	36
31	32	33	34	35	36	37
32	33	34	35	36	37	38
33	34	35	36	37	38	39
34	35	36	37	38	39	40
35	36	37	38	39	40	41
36	37	38	39	40	41	42
37	38	39	40	41	42	43
38	39	40	41	42	43	44
39	40	41	42	43	44	45
40	41	42	43	44	45	46
41	42	43	44	45	46	47
42	43	44	45	46	47	48
43	44	45	46	47	48	49
44	45	46	47	48	49	50
45	46	47	48	49	50	51
46	47	48	49	50	51	52
47	48	49	50	51	52	53
48	49	50	51	52	53	54
49	50	51	52	53	54	55
50	51	52	53	54	55	56
51	52	53	54	55	56	57
52	53	54	55	56	57	58
53	54	55	56	57	58	59
54	55	56	57	58	59	60
55	56	57	58	59	60	61
56	57	58	59	60	61	62
57	58	59	60	61	62	63
58	59	60	61	62	63	64
59	60	61	62	63	64	65
60	61	62	63	64	65	66
61	62	63	64	65	66	67
62	63	64	65	66	67	68
63	64	65	66	67	68	69
64	65	66	67	68	69	70
65	66	67	68	69	70	71
66	67	68	69	70	71	72
67	68	69	70	71	72	73
68	69	70	71	72	73	74
69	70	71	72	73	74	75
70	71	72	73	74	75	76
71	72	73	74	75	76	77
72	73	74	75	76	77	78
73	74	75	76	77	78	79
74	75	76	77	78	79	80
75	76	77	78	79	80	81
76	77	78	79	80	81	82
77	78	79	80	81	82	83
78	79	80	81	82	83	84
79	80	81	82	83	84	85
80	81	82	83	84	85	86
81	82	83	84	85	86	87
82	83	84	85	86	87	88
83	84	85	86	87	88	89
84	85	86	87	88	89	90
85	86	87	88	89	90	91
86	87	88	89	90	91	92
87	88	89	90	91	92	93
88	89	90	91	92	93	94
89	90	91	92	93	94	95
90	91	92	93	94	95	96
91	92	93	94	95	96	97
92	93	94	95	96	97	98
93	94	95	96	97	98	99
94	95	96	97	98	99	100
95	96	97	98	99	100	101
96	97	98	99	100	101	102
97	98	99	100	101	102	103
98	99	100	101	102	103	104
99	100	101	102	103	104	105
100	101	102	103	104	105	106
101	102	103	104	105	106	107
102	103	104	105	106	107	108
103	104	105	106	107	108	109
104	105	106	107	108	109	110
105	106	107	108	109	110	111
106	107	108	109	110	111	112
107	108	109	110	111	112	113
108	109	110	111	112	113	114
109	110	111	112	113	114	115
110	111	112	113	114	115	116
111	112	113	114	115	116	117
112	113	114	115	116	117	118
113	114	115	116	117	118	119
114	115	116	117	118	119	120
115	116	117	118	119	120	121
116	117	118	119	120	121	122
117	118	119	120	121	122	123
118	119	120	121	122	123	124
119	120	121	122	123	124	125
120	121	122	123	124	125	126
121	122	123	124	125	126	127
122	123	124	125	126	127	128
123	124	125	126	127	128	129
124	125	126	127	128	129	130
125	126	127	128	129	130	131
126	127	128	129	130	131	132
127	128	129	130	131	132	133
128	129	130	131	132	133	134
129	130	131	132	133	134	135
130	131	132	133	134	135	136
131	132	133	134	135	136	137
132	133	134	135	136	137	138
133	134	135	136	137	138	139
134	135	136	137	138	139	140
135	136	137	138	139	140	141
136	137	138	139	140	141	142
137	138	139	140	141	142	143
138	139	140	141	142	143	144
139	140	141	142	143	144	145
140	141	142	143	144	145	146
141	142	143	144	145	146	147
142	143	144	145	146	147	148
143	144	145	146	147	148	149
144	145	146	147	148	149	150
145	146	147	148	149	150	151
146	147	148	149	150	151	152
147	148	149	150	151	152	153
148	149	150	151	152	153	154
149	150	151	152	153	154	155
150	151	152	153	154	155	156
151	152	153	154	155	156	157
152	153	154	155	156	157	158
153	154	155	156	157	158	159
154	155	156	157	158	159	160
155	156	157	158	159	160	161
156	157	158	159	160	161	162
157	158	159	160	161	162	163
158	159	160	161	162	163	164
159	160	161	162	163	164	165
160	161	162	163	164	165	166
161	162	163	164	165	166	167
162	163	164	165	166	167	168
163	164	165	166	167	168	169
164	165					

4.2.4.1. Central Credit Register (CCR) Statement

Counselor reviews the Central Credit Register (CCR) statement, i.e., BF1 and BF2 extracts, to verify information provided by a client during an interview with them.

Current debt statement – BF1- is a presentation of current debts of an individual as a beneficiary and current debts of an individual as a guarantor. This statement includes the date when a person took out a loan, approved amount, repayment date, outstanding debt, amount of principal and interest arrears in BAM, monthly installment amount, name of financial institution, and CCR category.

Expired/repaid debt statement – BF2 – is a presentation of former debts of an individual as a beneficiary and former debts of an individual as a guarantor. This statement includes the date when a person took out a loan, approved amount, repayment date, outstanding debt, amount of principal and interest arrears in BAM, monthly installment amount, name of financial institution, CCR category and reason for closure of a loan.

Data in CCR statements are updated on a daily basis.

The loan risk classification is expressed by categories denoted with A, B, C, D and E. The number of days in arrears that is used to determine loan categorization differs in banks and microcredit organizations. Generally, A category denotes loans that are duly repaid, B denotes loans with arrears that are “tolerable” for financial institution, C denotes a loan that is no longer eligible for a reschedule due to the duration of arrears, and all further categories may be subject to legal action.

A statement from the Central Credit Register is attached hereto.

EXAMPLE – FINANCIAL STATEMENT DEVELOPMENT

„I need help with repayment of a loan to a financial institution. Changed, i.e., significantly deteriorated family circumstances are the reason why I have financial problems. I have one loan with monthly installment of BAM 204, while my second loan with installment of BAM 222 was written off. I invested the loan proceeds in home renovation. I work as a saleswoman in a shopping mall. My husband is also employed, but he has loan debt too and those monthly installments are duly repaid through my husband’s payslip. Available funds of BAM 300 that come from my husband’s salary are used to meet the basic living needs of our household, as well as BAM 100 that my mother gives to the household. My current salary is BAM 608.88. I have a daughter who was born in 2008. We live in my mother-in-law’s house and I do not know the value of the house. My husband has a car that was bought for BAM 5,500 two years ago and I do not know its current value. I cannot meet my loan commitment with disposable funds. What is your advice for me?“

SOLUTION:

Information on Income and Expenditures

Disposable monthly income:	Amount (BAM)
Salaries	908.88
Other income:	100.00
Total income:	1,008.88

Monthly expenditures	Amount (BAM)	Comment
Food and beverages	280.00	Client's parents have a garden, they also help by buying some produce.
Overheads: power, heating, gas, water, etc.	102.00	Power BAM 90, water BAM 12. They use firewood bought by mother-in-law for heating.
Communications: (telephone, Internet and TV service fee)	67.50	Telephone BAM 29.60, Internet BAM 19.90, BAM 18 for client's and her husband's mobile phones.
Health	10.00	For medicines as needed.
Transport	75.00	BAM 50 for gas, BAM 25 for car registration.
Other products and services	120.00	Kindergarten
Total expenditures	654.50	

Agreement for attachment of a portion of salary	Amount (BAM)
Bank 1 – amount of BAM 203.81 is deducted from payslip for a loan taken out from the aforementioned institution	203.81

Income	Essential expenditures	Remainder for creditors
1,008.88	858.31	150.57

Loan debts

Name of institution	Outstanding debt	Monthly annuity	CCR category	Comment
Bank 1	18.139,09	203,81	A	Loan is repaid through payslip.
MCF 1	1.929,18	222,91	WRITTEN OFF	
TOTAL	20.068,27	426,72		

How financial statement is developed is shown below.

1. Personal Information

FINANSIJSKI IZVJEŠTAJ	
Datum	Broj klijenta
5/10/2014	11037
Lični podaci o klijentu	
Ime	XY
Prezime	YX
Datum rođenja	8/4/1983
Adresa	Fadila Jahića Španca 34
Telefon : mobilni	062 948 450
Telefon : mobilni	
e-mail	
Zanimanje	
Status	
Podaci o domaćinstvu	
Geografsko područje	FBiH
Potrošačka korpa	Izrazito urbana sredina
Broj osoba u domaćinstvu	3
Broj uposlenih u domaćinstvu	2
Broj zavisnih osoba	1
Broj maloljetne djece	1
Dodatni kontakt 1	
Srodstvo	
Ime	
Prezime	
Adresa	
Opština	
Poštanski broj	
Telefon : fiksni	
Telefon : mobilni	
e-mail	

2. Income and Assets

PRIHODI I IMOVINA			
Datum	broj klijenta	ime i prezime klijenta	
5/10/2014	11037	XY	YX

Prihodi	Mjesečni iznos	Komentar
Plata, penzije, prijavljeni i neprijavljeni prihodi - za članove domaćinstva		
Klijentova plata	608.88	plata klijentice
Plata Supruga/Supruge	300.00	ostatak plate od supruga nakon otplate svog kredita
Ostale plate u domaćinstvu	-	Objasniti svaku kategoriju
Penzija 1	-	Objasniti svaku kategoriju
Penzija 2	-	Objasniti svaku kategoriju
Ostali prihodi (regres, honorarni rad, najamnina, kućna radinost i itd.) - svih članova	-	Objasniti svaku kategoriju
Doznake iz inostranstva	-	Objasniti svaku kategoriju
Ukupno	908.88	Objasniti svaku kategoriju
Beneficije (Centar za socijalni rad)		
Stalna novčana socijalna pomoć	-	Objasniti svaku kategoriju
Jednokratna pomoć	-	Objasniti svaku kategoriju
Novčana pomoć za nezaposlene žene porodilje za prehranu djeteta	-	Objasniti svaku kategoriju
Naknada plate ženama-porodiljama	-	Objasniti svaku kategoriju
Naknade licima sa invaliditetom	-	Objasniti svaku kategoriju
Naknada za tuđu pomoć i njegu	-	Objasniti svaku kategoriju
Uvećani dodatak na djecu	-	Objasniti svaku kategoriju
Dodatak za djecu nezaposlenih roditelja	-	Objasniti svaku kategoriju
Invalidnine CZR-a	-	Objasniti svaku kategoriju
Smještaj djece i odraslih lica u drugu porodicu	-	Objasniti svaku kategoriju
Smještaj djece i odraslih lica u ustanovu socijalne zaštite	-	Objasniti svaku kategoriju
Pomoć nezaposlenim ženama porodiljama	-	Objasniti svaku kategoriju
Regulisanje starateljstva	-	Objasniti svaku kategoriju
Ukupno	-	Objasniti svaku kategoriju
Beneficije (Federalni zavod za zapošljavanje)		
Osiguranje za slučaj nezaposlenosti	-	Objasniti svaku kategoriju
Ukupno	-	Objasniti svaku kategoriju
Ostalo		
Ostali prihod	100.00	majka klijentice daje svaki mjesec
Ostali prihod	-	Objasniti svaku kategoriju
Ukupno	100.00	Objasniti svaku kategoriju
Ukupni prihodi	1,008.88	

Imovina	Iznos	Komentar
Gotovina		Objasniti svaku kategoriju
Štednja		Objasniti svaku kategoriju
Osiguranje	-	Objasniti svaku kategoriju
Stan		Objasniti svaku kategoriju
Kuća		od svekrve, ne zna vrijednost kuće nije na njeno ime
Zemlja		Objasniti svaku kategoriju
Imovina u kući		Objasniti svaku kategoriju
Osnovno prevozno vozilo		od supruga auto seat, plaćen je 5500 KM ne zna njegovu vrijednost
Ostala vozila		Objasniti svaku kategoriju
Razna oprema		Objasniti svaku kategoriju
Ostalo		Objasniti svaku kategoriju
Ukupno imovina	-	

Dodatni komentar o prihodima i imovini klijenta i porodice:

3. Expenditures

RASHODI

Datum	Broj klijenta	Ime i prezime klijenta	
5/10/2014	11037	XY	YX

KORISTI OVAJ TAB ZA IZRACUNAVANJE POSTOJEĆIH TROŠKOVA I ODREĐIVANJE PRIHVATLJIVIH I IZVODLJIVIH UŠTEDA.

Za prosječnu 4 članu porodicu

Rashodi	Mjesečni iznos	Izrazito urbana sredina		Odstupanje		Komentar
		Izrazito urbana sredina	Odstupanje - u KM	- u %		
Hrana, piće i lična higijena	280.00	500.00	-	220.00	-44%	roditelji od klijentice imaju bastu i oni tako pomazu
Odjeća i obuća	-	28.88	-	28.88	-100%	dijete dobija odjecu od rodbine
Stanovanje	-	300.00	-	300.00	-100%	ne placaju
Režije: El.energija, grijanje, plin, voda, kablovska, itd	102.00	200.00	-	98.00	-49%	struja 90 KM, voda 12 KM
Namještaj, oprema i usluge za domaćinstvo	-	31.66	-	31.66	-100%	Objasni svaku kategoriju
Zdravstvo: Ljekovi, zubar, optika, itd...	10.00	20.10	-	10.10	-50%	za dijete po potrebi
Prevoz: Gorivo, parking, održavanje vozila, karte, i slično	75.00	62.61	-	12.39	20%	gorivo 50 KM, registracija za auto 25 KM
Komunikacije: fiksni telefon, mobilni, internet i slično	67.50	76.00	-	8.50	-11%	telefon 29,60; internet 19,90; 18 KM mobilni za klijenticu i supruga
Rekreacija/slobodno vrijeme, kultura i slično	-	28.25	-	28.25	-100%	Objasni svaku kategoriju
Obrazovanje: lično i za djecu	-	20.00	-	20.00	-100%	Objasni svaku kategoriju
Ugostiteljske usluge	-	16.60	-	16.60	-100%	Objasni svaku kategoriju
Usluge smještaja	-	6.86	-	6.86	-100%	Objasni svaku kategoriju
Ostali proizvodi i usluge, deparac za djecu, vanredni troškovi	-	87.04	-	87.04	-100%	Objasni svaku kategoriju
Ostalo	120.00	-	-	-	-	obdanište za kćerku
Ukupno rashodi	654.50	1,378.00	-	843.50	-61%	

Komentari i sugestije savjetnika

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Maksimalna odstupanja i dodatni troškovi	KM
Izrazito urbana sredina	200.00
Srednje urbana sredina	200.00
Seoska / ruralna sredina	150.00
Po zavisnoj osobi do 18 godina	50.00
Po zavisnoj osobi preko 18 godina	50.00

4. Financial Statement

PRIORITETNA DUGOVANJA*									
Broj kredita	Financijska institucija	Originalni iznos odobrenog kredita	datum postavljanja/ datum obilježavanja	rok oplate kredita u mj.	Mjesečna rata	Ostatak duga na dan	Priljeđug nove mjesečne rate	Period oplate - mjeseci	Komentar
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
NEPRIORITETNI DUGOVANJA UKUPNO							-	-	

Ukupno dostupno za kreditore
Ukupno prioritetni dugovi
Iznos raspoloživi nakon odbitka za prioritetna dugovanja

NEPRIORITETNA DUGOVANJA**									
Broj kredita	Financijska institucija	Originalni iznos odobrenog kredita	datum postavljanja/ datum obilježavanja	rok oplate kredita u mj.	Mjesečna rata	Ostatak duga na dan	Priljeđug nove mjesečne rate	Period oplate - mjeseci	Komentar
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
NEPRIORITETNI DUGOVANJA UKUPNO							-	-	

IZLOŽENOST KLIJENTA PREMA UGOVORIMA O JEMSTVU									
Broj kredita	Financijska institucija	Originalni iznos odobr. kredita	datum postavljanja/ datum obilježavanja	rok oplate kredita u mj.	Mjesečna rata	Ostatak duga na dan	Priljeđug nove mjesečne rate	Period oplate - mjeseci	Komentar
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
IZLOŽENOST PO JEMSTVIMA							-	-	

* PRIORITETNA DUGOVANJA: Dugovanja prema svim pozajmicima koji imaju zakonito i ugovorno pravo da direktno iliše dužnika (u izdavanju članove ugovore prodajnoj i izdavanju članova ugovora) dimenzija ili stope
** NEPRIORITETNA DUGOVANJA: Dugovanja svih drugih povjerenica prema kojima dužnik ima formalnu ugovornu obavezu. Svi dostupni raspoloživi prihodi (nakon plaćanja prioritetnih dugovanja) savjetnik će raspodijeliti kreditirima na pro rata odnosno proporcionalnoj osnovi, a u odnosu na iznos neplaćene obaveze.

Dodatni komentari savjetnika

Popis klijenta: _____ Datum: _____
Popis savjetnika: _____ Datum: _____

***** VAŽNO *****
Priložen Finansijski izvještaj predstavlja najbolju procjenu stvarnog finansijskog stanja dužnika u datom momentu. Prilikom pripremanja Finansijskog izvještaja, uvesti su u obzir formalni i neformalni izvori informacija. Formalni izvori informacija su običajno izvješćuju, a odnose se na CRK Izvode, potvrde o stanju duga od strane finansijskih institucija, potvrde o primanjima i rashodima klijenta i ostala službena dokumentacija od pomoći pri analizi finansijske sposobnosti dužnika. Neformalni izvori su subjektivne procjene, odnosno izvaje glavnog dužnika o sopstvenim prihodima i rashodima koji su preneseni savjetniku tokom razgovora sa klijentom. Rashodi klijenta su upoređeni sa odgovarajućim referentnim vrijednostima za određenu porodicu u FBiH, prilagođenim za odgovarajuću životnu sređinu, broj članova porodice i varenje izdatke specifične za tu osobu. Ukoliko imate bilo kakvih pitanja ili se ne slažete sa priloženom analizom kao realnom procjenom finansijskog stanja dužnika molimo vas da kontaktirate savjetnika koji je dostavio ovaj priljeđug za otplatu. Priljeđug za otplatu u ovaj finansijski izvještaj su vjerodostojni dokumenti samo ukoliko su potpisani od strane savjetnika.

After the financial statement was developed, it was identified that the monthly remainder available for a creditor was BAM 150.57. The client was advised to direct the disposable monthly amount towards settlement of her commitments under the loan taken out from MCF.

The aforementioned loan commitments will be settled in 13 months.

5. DEBT COUNSELING LEGAL AND INSTITUTIONAL FRAMEWORK

In understanding the issue of indebtedness or generally communication between financial consumers and financial service providers, it is important to consider a whole series of provisions that regulate this relationship, aiming to make it more transparent and clearer for its participants. Quite a lot of amendments were made to the normative framework in BiH in the last few years, introducing a whole series of rules for the participants in these relationships. The intent in this section is to briefly present the primary and the secondary legislation that is relevant to the relationships discussed herein. A special Legal Annex to this Manual includes a more detailed overview of the norms. While this section refers to a basic introduction to the laws and the main definitions, the annex includes a more detailed description of the contents of the laws introduced herein, allowing counselors to see in it how and in what conditions the lawmakers treated the possibilities to withdraw from a contract, guarantor positions, prepayments, complaints, etc. Given our selective approach to the presentation of core provisions (driven by the counseling practice so far), the aforementioned can for sure be of practical help to the counseling process.

5.1. RS/FBiH Law on Banks

When speaking about the laws that define the basic issues of incorporation, activities and operations of banks and microcredit organizations in BiH, the attention needs to primarily turn to two laws, namely the Law on Banks and the Law on Microcredit Organizations. These laws were enacted on the entity level and, in a nutshell, they regulate the basic issues of incorporation, operations, governance and work of banks and microcredit organizations respectively.

In the Federation of BiH and the Republika Srpska, these laws generally provide for the following:

- terms of incorporation, operations and termination of operations of banks and microcredit organizations,
- how bodies operate and their accountability,
- definition of related parties and cash flow control.

In the Federation of BiH, the Law on Banks and the Law on Microcredit Organizations do not directly treat financial consumer/guarantor protection. The rights of financial consumers, i.e., guarantors, are treated by special laws. On the other hand, amendments to the Law on Banks and the Law on Microcredit Organizations were enacted in the Republika Srpska, incorporating protection of consumer rights, i.e., financial consumer and guarantor rights, in the existing laws without adoption of a new, special law.

In addition to the existing norms, the 2011 amendments to the Law on Microcredit Organizations in the Republika Srpska introduced a series of provisions that provide additional protection to consumers of lending and micro-lending services.

With regard to consumer protection under loan agreements, the financial consumer rights are mostly equal in both entities in the case when service providers are banks and microcredit organizations.

It is, therefore, important to distinguish that the protection framework in the Republika Srpska is an integral part of the Law on Banks and the Law on Microcredit Organizations, while a special law was enacted in the Federation of BiH – the Law on Financial Consumer Protection, and in addition to it, the Law on Guarantor Protection with regard to the treatment of guarantees as security instruments for claims.

5.2. FBiH Financial Consumer Protection Law/ RS Law on Banks-Microcredit Organizations

Since it was necessary to legally regulate a framework governing the rights and the obligations of the participants in contractual relationships in the provision of financial services, the amendments to the RS Law on Banks⁴ and the RS Law on Microcredit Organizations⁵ (2011), and the FBiH Financial Consumer Protection Law⁶ (2014), introduced a whole series of the provisions **that improved the system for protection of consumer rights**, i.e., financial consumer rights, by introducing new rules for financial service providers. Within the meaning of this Law⁷, **consumer is a natural person who enters into a relationship with a financial institution in order to use its services, provided that they use such services for the purposes that are not intended for their business or other commercial activity.**

⁴ - "Official Gazette of RS, number 116/11"

⁵ - "Official Gazette of RS, number 116/11"

⁶ - "Official Gazette of FBiH, number 31/14"

⁷ - Article 98 of the RS Law on Banks and Article 2 of the FBiH Financial Consumer Protection Law (hereinafter: the FCPL)



Under the Law on Obligations, if principal debtor (loan beneficiary) defaulted on their obligation, creditor had an obligation to send them a notice and leave a deadline for fulfillment of their obligation, and if the beneficiary still failed to fulfill their obligation, creditor was entitled to request fulfillment of the obligation from the guarantor⁹. A portion of the public highlighted the need to regulate the position of guarantors through a special law, which would in this case be “lex specialis” in interpretation of a guarantee as a loan security instrument and the capacity of the rights and the obligations of a guarantor in relation to both creditor (in this case financial service provider) and principal debtor (loan beneficiary). Given the aforementioned, the Guarantor Protection Law¹⁰ (hereinafter: the GPL) was enacted in 2014 in the Federation of BiH, requiring banks, microcredit organizations and leasing companies in FBiH as financial service providers to comply with the provisions from this Law and the existing provisions contained in other laws that are related to the procedure in a precontractual and negotiation phase preceding award of loan funds and entry into an agreement. More on the provisions of this law can be found in the Legal Annex.

A guarantee is a form of security for fulfillment of obligations. In the case of loan relationships, one party (guarantor) undertakes under a guarantee to perform the obligation to the creditor instead of a beneficiary, if the beneficiary defaults. The Guarantor Protection Law was enacted in FBiH (this law does not exist in RS) and as can be seen it has significantly limited who, when and on what terms may be a guarantor, introducing other novelties too such as the right of a guarantor to withdraw from an agreement, the obligation of a creditor to exhaust all options for debt recovery from a debtor before calling a guarantor to fulfill the obligation (required element of a loan agreement), the right to a release from a guarantee, the limitations with regard to the amount of an installment that may be repaid by a guarantor, the age of a guarantor, etc.

5.4. BiH Consumer Protection Law

The Law on Consumer Protection of BiH¹¹ was enacted in 2006, at one point constituting the basis for legal framework for protection of financial consumers of consumer loans. In the context of protecting consumer loan beneficiary rights, this Law strived to improve in detail the relationships between service providers and service consumers.

With regard to its contents and the circumstances to which this Law applies, the requirements that it provides for are, in a nutshell, the following:

- right of access to essential goods and services,
- right to education and information on consumer issues,
- right to be informed in writing of all provisions before signature of an agreement,
- right to damages and compensation.

⁹ - The Law on Obligations, Article 1004(1)

¹⁰ - „Official Gazette of FBiH”, number 100/2013”

¹¹ - „Official Gazette of BiH”, number 25/06

It is important to note that the norms of this Law apply to consumer loans and they are therefore not applicable to non-specific purpose, business or housing loans. The provisions on a consumer loan do not apply to loan agreements whose purpose is purchase, rent or renovation of property¹².

This Law also established the institution of BiH Consumer Protection Ombudsman whose competences will be discussed at a greater length in the section on competent institutions. The BiH Consumer Protection Ombudsman was established with the aim of promotion and sound and efficient implementation of consumer protection policy in BiH.¹³ The headquarters of the institution of BiH Consumer Protection Ombudsman are in Mostar.

The Law on Amendments to the BiH Consumer Protection Law provides that consumer loan agreements must not include a provision on the indexed foreign currency except in Euros.¹⁴

6. COMPETENT INSTITUTIONS AND THEIR ROLE IN PROTECTING FINANCIAL CONSUMER RIGHTS

6.1. Bank and Microcredit Organization

When a financial consumer (or a guarantor) feels that a provider does not comply with the provisions of a signed agreement, good business customs and/or their published general operating terms, they may file a complaint with the financial service provider. In any case, a consumer is advised to maintain written correspondence with a financial institution.

A written complaint needs to include:

- basic client data,
- description of issue between client and financial institution (bank or MCO) that in client's opinion arose as a result of bank's non-compliance with its general operating terms, good business customs and/or a signed agreement.

Under the above referenced laws, a financial service provider shall respond to a client's complaint within 30 days from its filing. The response must be in writing, comprehensible, complete, include a description of the issue, an assessment of whether there are grounds for complaint, the reasons that caused the issue and a legal advice.

If a provider fails to provide a response within 30 days or a client is not satisfied with its response, the client may notify in writing the Banking System Ombudsman (within the Banking Agency), who will then request the financial institution to respond to the

¹² - The Consumer Protection Law, hereinafter: CPL, Article 53

¹³ - "Official Gazette of FBiH", number 100/2013

¹⁴ - The Law on Amendments to the BiH Consumer Protection Law, Article 52a, (Official Gazette of BiH, number 88/15).

- **Joint** (guarantor undertakes as a guarantor and is jointly liable with the principal debtor for fulfillment of obligation).
- **Subsidiary** (guarantor may be requested to fulfill obligation only once the principal debtor has been called to do it and they fail to do it within specified period).

complaint. Description of the Banking System Ombudsman's proceedings in response to client complaints is explained in more detail in a presentation of the Financial Consumer Protection Law and the Law on Banks (Legal Annex) and the institution of the Banking System Ombudsman.

6.2. Banking Agency

The Banking Agency (hereinafter: the Agency) was established and legally founded to regulate and control the banking and the microcredit system and also supervise the operations of leasing companies and act as a stand-alone and an independent legal entity. The Banking Agency in BiH operates on the entity level and there are therefore **the FBiH Banking Agency and the RS Banking Agency**.

The main objective of the Agency is to maintain and strengthen stability of the banking and the microcredit system and enhance its safe, sound and legal operations.

The following can be singled out as the most important tasks of the Agency:

- control of creditworthiness and compliance of operations of banks¹⁵ – off-site and on-site control of operations of banks, taking of appropriate supervisory measures,
- enactment of acts regulating operations of banks,
- enactment of acts and taking actions to ensure protection of consumer rights, i.e., rights of natural persons who are financial consumers in banking¹⁶ system, supervising implementation of laws in this area and undertaking other activities and taking appropriate measures within its authority,
- other competences under law.

6.3. Banking System Ombudsman

The recent laws created in the entities of Bosnia and Herzegovina (the Federation of BiH and the Republika Srpska) self-sustainable, independent and stand-alone institutions to promote and protect the rights and the interests of consumers, i.e., natural persons as financial consumers.¹⁷

The Banking System Ombudsman, as one of the stakeholders in the protection of financial consumer rights facilitates equitable and fast resolution of disagreements and disputes arising between banking system institutions and financial consumers, with a minimum of formalities through out-of-court settlement, mediation or in other amicable ways. Its main function is to protect the rights and the fundamental interests of financial consumers (natural persons) when they are threatened on a complaint basis and issue a recommendation, opinion or proposal of further measures based on the information collected.

¹⁵ – This also applies to MCOs

¹⁶ – This also applies to MCOs

¹⁷ – The Law on Amendments to the Law on the FBiH Banking Agency, "Official Gazette of FBiH, number 34/12".

Financial consumer rights are threatened whenever a financial institution violates specific laws or bylaws providing for how financial institutions are to treat financial consumers. The main statutory activities of the Banking System Ombudsman¹⁸ are to:

- a) provide information on rights and obligations of financial consumers and financial service providers;
- b) monitor and propose activities to enhance relationships between financial consumers and banking system financial organizations;
- c) investigate financial market activities ex officio or on a complaint basis in order to protect financial consumer rights;
- d) review financial consumer complaints, provide responses, recommendations and opinions and propose complaint resolution measures;
- e) mediate in amicable resolution of disputes between financial consumers and banking system financial organizations;
- f) issue guidelines or recommendations on special standard requirements or activities for application of good business customs in operations of the Federation of BiH banking system financial organizations and propose to the Governing Board of the Agency enactment of acts from its competence in the area of protection of financial consumer rights;
- g) cooperate within its competence with competent judicial, administrative and other authorities and organizations as well as with supervisory and control institutions in the country and from abroad;
- h) cooperate with other authorities and entities competent for protection of consumer rights;
- i) take other actions in the area of protection of financial consumer rights.

For illustration purposes, below are some of the potential reasons for contacting the institution of the Banking System Ombudsman:

- terms of use of financial services are not clear, comprehensible and accurate;
- monetary contractual obligation is not determined, i.e., determinable;
- effective interest rate is not expressed;
- financial institution does not provide information to consumer on terms and all essential service features in form of standard information sheet;
- financial institution does not inform other participants in loan relationship (cosigner, guarantor) under previously obtained approvals of documents and data collected in process of consumer's creditworthiness assessment;
- financial institution refuses to recognize consumer's right to withdraw from signed loan agreement within 14 days from agreement signature date without having to state reasons for withdrawal in case when consumer has not explicitly requested disbursement of loan;

¹⁸ - The Law on the FBiH Banking Agency (Official Gazette of FBiH, numbers 9/96, 27/98, 20/00- the High Representative (45/00- confirmation by the Parliament), 58/02- the High Representative, 13/03- the High Representative, (19/03- confirmation by the Parliament), 47/06- the High Representative, 59/06, 48/08, 34/12, and 77/12), the Law on the RS Banking Agency (Official Gazette of RS, numbers 10/98, 16/00, 18/01, 71/02, 18/03, 39/03, 123/06, 40/11, and 59/13).

- financial institution alters essential elements of agreement without written approval of all participants in loan relationship;
- financial institution fails to respond, rejects or proposes specific resolution in response to complaint that is not acceptable to consumer/client;
- financial institution does not comply with its obligations arising from its agreement with consumer or good business customs.

Therefore, the Banking System Ombudsman protects the rights and the interests of financial consumers and it is expedient to advise a client to contact the Banking System Ombudsman in compliance with the prescribed rules on how such contact is to be made whenever it is suspected that their rights have been violated by a financial institution.

6.3.1. Complaint

Proceedings before the Ombudsman are initiated with a request/notification/complaint or ex officio.

The Banking System Ombudsman may be contacted **following a previously filed complaint with the financial institution and depending on the response of the institution that has to be provided to the complainant within 30 days** or if no such response is provided. A financial consumer (client) shall personally contact the Ombudsman, namely:

- **by way of written complaint** that needs to include basic consumer data (first name and surname, address, contact telephone), description of issue that in consumer's opinion arose as a result of non-compliance with provisions of law, signed agreement, general operating terms and good business customs, and when and where issue arose. Documents of relevance to grounds and factual situation highlighted in complaint need to be provided with complaint. Complainant is required to sign complaint,
- **Banking System Ombudsman** may, if deemed necessary, request further revision of complaint,
- **headquarters of Republika Srpska Banking System Ombudsman** operating within competent Banking Agency are located in Banja Luka, while **headquarters of Federation of BiH Banking System Ombudsman** operating within competent Banking Agency are located in Sarajevo.

Upon receipt of a complaint and assessment of whether there are grounds for it, the Banking System Ombudsman will request the service provider to respond to the allegations from the complaint, namely within 8 days.

If the FBiH Banking System Ombudsman finds that there are grounds for the complaint (request) after a response by the service provider, i.e., that there is violation of legislation,

it shall provide a written recommendation to the Banking Agency for further proceedings according to its authority. If the Ombudsman finds no omission, i.e., no violation of legislation based on the facts and the evidence, the Ombudsman, the complainant and the financial service provider may make a proposal (in writing) to initiate mediation proceedings. Irrespective of whether a specific complaint is deemed founded or unfounded, the Banking System Ombudsman shall respond to it to the complainant.¹⁹

Based on the facts and the circumstances from a complaint and the response by the financial service provider and the evidence collected and if the RS Banking System Ombudsman finds that no mediation between the parties is required for the proceedings to be completed, they shall notify in writing the service consumer within 15 days from the day of the receipt of the service provider's response of it and a potential proposal of a solution to the issue if provided by the provider and provide them with appropriate recommendations or opinions.²⁰

The Banking System Ombudsman may be contacted following a previously filed complaint with the financial institution and depending on the response of the institution that has to be provided to the complainant within 30 days or if no such response is provided.

6.3.2. Release from a Guarantee Procedure

Under the FBiH Guarantor Protection Law and the Decision on Guarantor Request for Release from Guarantee Obligation Based Method and Procedure of the Banking System Ombudsman, the FBiH Banking System Ombudsman shall “examine, based on the facts and the evidence provided in a guarantor's request and following the creditor's response to those facts and evidence, whether the provisions of the FBiH Guarantor Protection Law have been violated.” This Decision also specifies that „the Ombudsman shall, once the proceedings have been conducted and the facts and the evidence have been reviewed, provide a recommendation in writing to the Agency proposing how to proceed with the guarantor's request“ and that the Agency shall decide on it by a Decision.

Therefore, the FBiH Guarantor Protection Law also provides for an option to release a guarantor from a guarantee, where the role of the FBiH Banking System Ombudsman is important, which is explained in more detail in a section discussing the FBiH Guarantor Protection Law.

¹⁹ - The Rules of Procedure of the FBiH Banking System Ombudsman (Official Gazette of FBiH, number 62/14)

²⁰ - The Rules of Financial Consumer Notification or Complaint Based Procedure of the RS Banking System Ombudsman (Official Gazette of RS, number 111/11)

6.3.3. Amicable Dispute Resolution Procedure – Mediation

If the Ombudsman finds based on the facts and the circumstances that a specific dispute can be resolved through an amicable dispute resolution procedure, i.e., mediation, they shall invite the parties to the dispute to provide within 15 days their approval for initiation of mediation proceedings.

The features of these proceedings are:

- party that received mediation proposal shall respond within 15 days or within another period specified in proposal whether they agree to proposal to conduct proceedings. If they fail to do it within specified period, which cannot be shorter than 8 days, proposal shall be deemed rejected;
- if Ombudsman finds based on granted approvals that mediation is necessary, they shall notify parties of meeting time, place and date;
- mediation proceedings shall be initiated by signature of written mediation agreement;
- Ombudsman shall mediate in a neutral and unbiased manner throughout the proceedings, guided by principles of mediation proceedings (equality, volunteerism, confidentiality and informality);
- party may at any time during mediation proceedings withdraw from proceedings;
- Ombudsman may suspend proceedings if they find that further conduct of proceedings is not expedient;
- mediation proceedings shall be conducted under rules of Mediation Law and Banking Agency's internal rules;
- in case of mediation, proceedings before Ombudsman are also free of charge for parties (travel expenses, expert witness fees, etc., shall be borne by parties);
- settlement agreement reached by parties in mediation proceedings and drawn up in writing has power of enforceable document.²¹

The Ombudsman is independent in performance of their tasks and accountable for their performance and they do not act as an agent of the Banking Agency in performance of their functions. It needs to be noted that proceedings conducted by the Banking System Ombudsman are free of charge and may be initiated only by natural persons in their capacity as a beneficiary/consumer or natural persons/legal entities in their capacity as guarantors.

²¹ – Based on a legal act that has a power of an enforceable document, enforcement of a claim established by such act may be requested (settlement agreement).

6.4. BiH Consumer Protection Ombudsman

The BiH Consumer Protection Ombudsman is an independent institution established to create an environment for implementation of consumer protection policy in BiH. The headquarters of the BiH Consumer Protection Ombudsman are located in Mostar.

In a nutshell, we can highlight the following when speaking about this institution's competences:

- monitors activities in service provider – consumer relationship;
- provides information on consumer rights and obligations and provides support to consumer associations in their activities;
- takes decisions on consumer complaints;
- investigates, monitors market activities, issues guidelines to ensure more efficient protection of consumer rights,
- proposes resolution of consumer disputes through application of alternative dispute resolution mechanisms;
- proposes improvement of legislation.

An interested consumer (consumer loan beneficiary/consumer in case of debt counseling for financial consumers) may under the Consumer Protection Law file a complaint with the institution of the Consumer Protection Ombudsman indicating violation of consumer rights, but also a training or information related enquiry, etc.

Similarly as in the case of the Banking System Ombudsman:

- proceedings before Ombudsman are initiated through a consumer complaint or report or ex officio (on own initiative),
- complaint must be filed in writing and must include complainant's first name and surname, address and contact telephone, clearly designated parties to relationship, chronological descriptions of events specifying relevant facts that point to violation of rights, statement whether and when proceedings have been initiated in relation to this same case with another authority, date and complainant's signature,
- copies of documents that are relevant to complaint allegations need to be attached to complaint,
- in order to facilitate communication between institution of Ombudsman and consumers, there is a complaint template that can be used. This template is on Consumer Protection Ombudsman's website www.ozp.gov.ba. Also, more information can be found on aforementioned website on alternative dispute resolution opportunities and advantages,
- if complaint is stated orally or by telephone, fax, e-mail, and Ombudsman finds that there are grounds to accept complaint, it shall proceed with it in regular procedure,
- if in proceeding with complaint Ombudsman finds that complainant's rights have been violated, they shall issue recommendations to violators to terminate such practices and remove their consequences.

The Consumer Protection Ombudsman may also initiate investigation proceedings ex officio and based on specific findings on potential existence of a more severe violation of collective consumer interests or performance of trading activity in a manner that is in contravention of good business customs, and if they find that consumer rights have been violated, they shall draw up a decision on the violation of rights with recommendations of proceedings.

Decisions made by the Consumer Protection Ombudsman are neither enforceable nor binding.

6.5. Associations of Citizens

There is a series of associations in BiH striving to help or protect the interests of citizens who are either consumers of financial products, guarantors or wish to be additionally educated and become financially literate. The non-governmental sector plays an important role in the development of a democratic society and may be an initiator or a corrective to specific present practices, in order to make them better, more efficient and transparent, and may also be an initiator of protection of rights of a specific group. Given that there are non-governmental organizations striving to promote specific financial literacy ideas, educate, promote or protect the specific interests of participants in relationships arising from consumption of financial products, it can also be rightly said that the aforementioned organizations are active creators of proposals of approaches, ideas and oftentimes legislative initiatives that complement the existing practice.

In a nutshell, the role of associations for counseling, protection of consumers-beneficiaries of financial products/guarantors, depending on the defined objectives of each organization separately, is to:

- gather and analyze data on compliance and implementation of legislation,
- collective representation of specific interests,
- initiate amendments to legislation,
- participate in public consultations,
- provide technical assistance in protection of rights.

Sometimes laws also authorize the associations to represent the interests of a specific group, and so the FBiH Guarantor Protection Law authorizes the Association of Guarantors in Bosnia and Herzegovina to initiate action before a competent court for compensation of damages in the case of a service provider or a loan beneficiary (principal debtor) acting in contravention to the provisions of this law.²²

²² -The GPL, Article 28

6.6. Ministries, Educational Institutions, Media

- **Ministry of Finance**

As an authority of the executive branch of government, it performs the tasks of proposing legislation, analyzing reports and supervising the implementation of legislation in the areas of: banking system, capital markets, insurance of property and persons, non-deposit financial institutions.

- **Educational Institutions, Media**

Educational institutions occupy indirectly an important role in promotion of financial literacy, contributing to a greater degree of knowledge among present and future financial consumers.

- **Media**

Greater citizen awareness of their rights and the competent institutions and a more transparent and objective financial market presentation also contributes to creation of a more transparent business framework.

7. ROLE OF COURT AND OUT-OF-COURT SETTLEMENTS IN RESOLUTION OF INDEBTEDNESS ISSUES

7.1. Court Settlement

In a nutshell, the parties to litigation resolve their dispute through a court settlement by their corresponding declarations of will, eliminating the need for a court ruling. It is important to note that a court settlement can be concluded all until the validity of the verdict.²³

A settlement concluded before a court becomes a court settlement upon signature of the minutes in which a statement that the settlement was concluded is entered. With regard to its contents, a portion of a claim can also be the subject matter of a settlement. A court **settlement has the effects of a valid verdict**²⁴.

A court settlement may be avoided by filing a lawsuit if it is concluded through deceit or under the influence of coercion or fraud.

²³ – Validity ensues on expiry of the appeal period, and, if an appeal is filed in a timely fashion, then on the day of refusal, i.e., rejection of the appeal by the second instance authority.

²⁴ – Validity is a feature of a court decision meaning that such decision can no longer be avoided by using the regular legal remedies (legal redress that is used to avoid a decision rendered in first instance proceedings).

Advantages of a court settlement:

- brings litigation that has already been commenced to an end, namely in manner agreed by contractual parties (there is an option for parties to agree freely) through an agreement between contractual parties,
- constitutes an instrument that is more resilient for regulating legal relationships among parties than verdict,
- typically delivers faster redress for citizens,
- unburdens judiciary,
- when court renders court decision, one party is generally dissatisfied with decision, settlement contributes to improvement of relationships between litigation parties – each one of them strives to make compromise.
- settlement, as surrogate for verdict, has force of verdict (court decision) – additional litigation costs of second instance proceedings or costs of enforcement of court decision are eliminated, etc.

COUNSELING EXAMPLE:

At one point during the repayment, a loan beneficiary did not repay regularly his loan installments. The reason for non-repayment was a reduced volume of business (he is a craftsman), and he did not have sufficient funds for regular loan repayment. After two notices, the bank initiated enforcement proceedings before court against the beneficiary. The beneficiary filed an objection to the enforcement proposal and the court referred the case to litigation proceedings. The beneficiary reiterated the reasons for non-repayment at the scheduled hearing, presenting his debt records that he challenged through the objection. He also reiterated that he was aware of his obligation, but that he could not regularly repay full loan installments. Having recognized the beneficiary's willingness, the bank representative proposed conclusion of a court settlement, thereby bringing the dispute to an end. Namely, he proposed for the settlement to provide for repayment in an amount that is lower than the one originally agreed given the beneficiary's new circumstances and for the repayment to be continued in such a manner. The court settlement also specified the amount and the time by which the beneficiary is required to make monthly payments and that as long as he proceeded accordingly the court dispute would not be resumed against him.

7.2. Out-of-Court Settlement

An out-of-court settlement agreement is an out-of-court agreement or illustratively mutual concession by contractual parties, whereat the concession may relate to reduction of an interest rate, extension of a period, agreement to a partial repayment, waiver of a requirement, etc.

It needs to be noted that in the case that only one of the parties makes a concession to another party, we cannot characterize such an agreement as an out-of-court settlement. In the case of an out-of-court settlement, the parties therefore agree on resolution to a specific dispute outside of court proceedings and this decision does not have the power of an enforceable document. The method of enforcement of a court decision rendered earlier (e.g., an Enforcement Decision) can also be agreed through an out-of-court settlement), of which court can also be notified with a proposal to stay temporarily the proceedings or even to terminate definitively the proceedings. It was described above how court settlements are concluded and their importance in legal transactions. If a party wishes to avoid an out-of-court settlement, they do so under the provisions on avoidance of agreements.

The main differences between a court and an out-of-court settlement:

- Avoidance of a court settlement is done by filing an action (a lawsuit), whereas avoidance of an out-of-court settlement (an out-of-court settlement agreement) is done under the provisions of the Law on Obligations on avoidance of agreements.
- A court settlement has the power of an enforceable document, whereas an out-of-court settlement does not have such legal force.

COUNSELING EXAMPLE:

A loan beneficiary has not been repaying his loan for a while. The reason for this is the fact that he lost his job and spent some time abroad. The bank initiated enforcement proceedings, an Enforcement Decision was rendered, but since the beneficiary had neither salary nor other assets, it did not manage to recover its claims in the enforcement proceedings. The beneficiary returned to the country after some time and went to the bank with a proposal to agree on the repayment. He explained that he had earned some money abroad and that he was ready to settle at once a portion of his debt and repay reduced installment amounts on a monthly basis. Since the enforcement proceedings do not provide for hearings and since he has not been settling his debt under this loan for a while, the bank accepted his proposal and they concluded an out-of-court settlement. They agreed that he would pay at once BAM 1,300 (total debt is BAM 7,000), and that the remainder would be settled through monthly installments of BAM 200 (originally agreed installment was BAM 320) until final repayment.

7.3. Mediation

The legal framework for introduction of mediation was created in 2004²⁵. A mediation is a proceeding in which a third neutral party (mediator) helps the parties in their attempt to reach a mutually acceptable resolution to their dispute. More information can be found on this website <http://www.umbih.ba/> on mediation proceedings, as well as a list of mediators in BiH.

- Mediation is not a substitute for judicial dispute resolution, but rather a complementary method for resolution of disputes that have arisen and is based on the following principles: volunteerism of parties, confidentiality, neutrality, objectivity, informality and equality.
- Mediation proceedings are initiated by a written mediation agreement, and they may be initiated prior to civil action or until conclusion of main hearing.
- Mediation proceedings end with a settlement agreement that has the power of an enforceable document.
- Mediation meeting hourly rate is BAM 100, whereas in more complex cases mediator can use an additional hour of preparation charged at a rate of BAM 50.

The main features of mediation:

- contributes to building an amicable dispute resolution culture,
- represents fast and efficient dispute resolution method,
- absence of publicity,
- parties may terminate proceedings at any time,
- mediation proceedings are confidential (statements of parties made in mediation proceedings may not be used as evidence in any other proceedings without their approval),
- mediation meeting may last for maximum four hours (includes time of one hour of preparation of mediator and three hours of mediation).

It is evident from the above themes that amicable dispute resolution proceedings – mediation may also be initiated before the institution of the Banking System Ombudsman, with the section on this institution explaining the steps.

²⁵ – The Mediation Proceedings Law, Official Gazette of BiH, number 37/04

8. LEGAL COUNSELING – MOST COMMON DISPUTES IN THE AREA OF LOAN RELATIONSHIPS

As with any social and legal relationship, a relationship ensuing from the use of a financial service may at some point result in disputes. Dilemmas and issues with regard to specific rights and obligations are possible in the course of a relationship, especially given the diversity of financial products, the multitude of services, the consumer needs and the multitude of consumers. This market diversity and constant dynamism often require interpretation of a specific issue through a prism of different norms, potential outcomes. To this effect, loan relationship, as a primarily debtor-creditor relationship, is also a set of the rights and the obligations that the contractual parties are required to comply with.

The experience in financial and legal counseling of citizens points to the fact that the most common disputes in loan relationships arise in the specific areas that often refer to variations in interest rates in the course of the duration of a contractual relationship, consequences of termination of loan agreements, scope of a guarantor's liability and rights, calculation of various charges and falsification of documents in the past.

Based on the practice of the Association „U plusu“, presented below are some of the issues identified that have so far been subject to citizen enquiries and therefore subject to analysis and interpretation.

8.1. Variable Interest Rate

As is evident from the overviews of the laws presented herein, use of loans can be agreed in our market, defining by the agreement that the interest rate during the loan repayment would be:

- **fixed (unchangeable),**
- **variable (changeable).**

In addition to this freedom of contract and as mentioned above, the FBiH Financial Consumer Law and the RS Law on Banks allow for a possibility to agree variable and fixed interest rates, but provided that the loan agreement **specifies both the baseline (reference rate)** at which the interest rate might be varied **as well as the time interval** in which it might be varied.

A variable interest rate loan is a loan with an interest rate that is not fixed throughout the duration of the loan agreement, but can be varied instead. It is exactly this fact that the interest is not fixed and that the financial institution may vary the interest rate that indicates that a changed repayment situation may arise for the loan beneficiary, and it is therefore **important to agree precisely the variability itself.**

The law provides that a financial institution is required to inform a loan beneficiary about the variability, namely in the negotiation phase through an information sheet, hence prior to the signature of an agreement. It also provides that that a loan agreement needs to define as an essential element among other things “the amount and the variability of a nominal interest rate and the elements based on which the agreed variable nominal interest rate is to be determined, their amount at the time of the signature of the agreement, the periods in which they are to be varied and how they are to be varied, as well as the fixed element if agreed”²⁶, i.e., in the case of the RS “the amount of a nominal interest rate with a specification of whether it is fixed or variable, and if variable – the elements based on which it is to be determined (reference interest rate, consumer price index, etc.), their amount at the time of the signature of the agreement, the periods in which it is to be varied, as well as the fixed element if agreed ”.²⁷

It is therefore important for an agreement to **specify the baseline** used for a potential increase in the interest rate in the future, as well as **the periods** in which the interest rate can be varied. It needs to be noted that if a reference rate that is used as the baseline has multiple rates (e.g., EURIBOR²⁸), the agreement needs to specify which rate is to be used concretely in the case of variability of the interest rate in the specific contractual relationship.

What is provided by the amendments to the relevant legislation is important in this respect, i.e., that all variations in the nominal interest rate and the effects that they have on the effective interest rate (EIR) **are required to be presented to the beneficiary prior to the commencement of the application of the variation in the interest rate**, either through a written or an electronic notification (or in another agreed manner). New amortization schedule reflecting the balance at the new interest rate also needs to be provided with this notification.²⁹

²⁶ – The FCPL, Article 17(6)

²⁷ – The RS Law on Banks, Article 98z(5)

²⁸ – EURIBOR (Euro Interbank Offered Rate) is the interest rate at which banks in the Eurozone borrow funds from one another.

²⁹ – The FCPL, Article 29; the RS Law on Banks, Article 98r

EXAMPLE:

A debtor entered into a loan agreement with a creditor, specifying among other things that a variable interest rate tied to the value of EURIBOR as a reference rate was agreed. At the time of the negotiations and even the signature of the loan agreement, the debtor did not pay as much attention to the fact that he had agreed a variable interest rate as he primarily deemed the fact that the proposed initial amount of the interest rate had been considerably lower than the one offered to him had he agreed a fixed interest rate as an advantage. Also, the reference rate (EURIBOR) to which the variability is tied was unclear to him, but he thought that the interest rate was lower in any case and that the variability of that reference value would not significantly affect the increase in the interest rate. After 11 months of the repayment of the loan and due to variations in the movement of the amount of the value of EURIBOR, the debtor was notified by the financial institution that the interest rate was increased which now amounted to 11% instead of originally agreed 9.4%. In spite of the debtor's dissatisfaction, the fact is that in the subsequent period the value of EURIBOR had been variable, i.e., grew, affecting the interest rate in this concrete contractual relationship and the final interest rate that the beneficiary was required to pay was greater. However, given that the variability under the agreement was tied to a transparent reference rate that could not be affected either by the service provider or the consumer, had that value been reduced, the interest, and therefore the loan cost would have been also reduced.

In the above example, the debtor agreed the variability tied to a verifiable and a transparent reference value/rate, which, in spite of the risk, does not constitute the magnitude of risk that entails agreeing of „an administrative variable interest rate“, which was present as a form of contracting in BiH and which entailed that the variability of an interest rate could be agreed without specifying the baseline, which can allow the financial service provider to affect on their own the variation in the interest rate.

8.2. Loan Agreement Termination

Loan agreement termination ensues when one party defaults on its obligation to another party. In this case, the other party may request fulfillment of the obligation or terminate the agreement through a declaration, with the right to compensation for damages.

In practice, an agreement is terminated when the debtor defaults on its obligations to settle the accrued financial institution's claims. The law provides for a requirement for a financial service provider to "notify clearly the consumer of the consequences in the case of a default on their obligations, the terms, the procedures and the consequences of a notice of termination, i.e., termination of a loan agreement under the law regulating obligations, as well as notification of the terms and the method of assignment of claims in the case of a default on the obligations"³⁰, i.e., "notice with regard to consequences of a default on the obligations"³¹. The FBiH Guarantor Protection Law also provides for "notice

³⁰ - The FCPL, Article 17(11)

³¹ - The RS Law on Banks, Article 98z(10)

of consequences in the case of default on the obligations, the terms, the procedures and the consequences of a notice of termination, i.e., termination of a loan/micro loan agreement under the Law on Obligations, as well as notification of the terms and the method of assignment of claims in the case of a default on the obligations”.³² This clearly provides that **an agreement needs to specify the terms of its termination as well as the procedure for it**, which has often been a query posed by financial consumers who have contacted the Association “U plusu”, along with the lack of understanding of the consequence in itself.

An understanding of the consequences of an agreement termination is of relevance to counseling process, especially to allow a counseled person to examine the consequences of their irresponsible behavior with regard to settlement of their accrued obligations.

The Law also provides that “if during the duration of a contractual relationship the beneficiary’s creditworthiness is reduced, i.e., if other material consequences that the beneficiary has no influence over arise, the bank, the microcredit organization, i.e., the financial leasing provider may on the beneficiary’s request proclaim a stay (moratorium) in the repayment for a specified period, and in this period, the bank, the microcredit organization, i.e., the financial leasing provider does not calculate penalty interest on their accrued outstanding claim”³³. That is, in the case of the RS, “if during the duration of a contractual relationship the consequences that lead the beneficiary to financial distress arise, i.e., other material consequences that the beneficiary has no influence over, the bank may on the beneficiary’s request proclaim a stay (moratorium) in the repayment for a specified period, and in this period, the bank does not calculate penalty interest on their accrued outstanding claim.”³⁴

EXAMPLE:

An example from the practice shows how a loan beneficiary had to face the process and the consequences of a loan agreement termination. Namely, under the concluded loan agreement, the contractual parties agreed that the loan agreement termination was also possible in the case that the loan beneficiary failed to notify the financial institution of a residence address change within ten days from the day of it. The agreement also specified that the termination in itself entailed maturity of the entire amount of the principal and the interest accrued by the time of the termination. In this concrete case, the loan beneficiary changed his residence address and failed to notify the financial institution of it. According to his own admission, he was not even aware of this requirement even though it was specified by the agreement, because he did not read the agreement in such detail. With regard to the repayment of money, the loan beneficiary settled regularly his

³² – The GPL, Article 7(11)

³³ – The FCPL, Article 31

³⁴ – The RS Law on Banks, Article 98p

obligation without a delay. He initiated in the meantime the retirement process, but he did not think about rescheduling his loan as he counted on a new source of income that would allow him to repay duly the money that he had borrowed. At one point he received a written notification that the loan agreement had been terminated since he had failed to notify the financial institution of a residence address change and that the entire principal and accrued interest debt needed to be settled. When a debtor enters into a loan agreement with a financier (financial institution), they agree to the rights and the obligations, as well as that they understood the provisions of the Agreement and that they will comply with them. Regular fulfillment of the agreed obligations is one of the debtor's key obligations, but there are also other obligations that if violated may be the grounds for a loan agreement termination. Under the internal procedures, the operating policies and the provisions of an agreement, the financial institution may terminate the loan agreement and proclaim the liabilities fully due, which can represent a very unfavorable position for the debtor who now faces the obligation to settle their debt at once and fully. Although this demonstrated example is probably not so common as the grounds for loan agreement termination, it is rather a default on a loan obligation, contractual parties are also allowed to negotiate and agree other agreement termination terms too, including among others this one on an address change. Also, terminations due to failure to notify of a job change, job loss, etc., may also be defined. All this underlines the importance of reading and of understanding the agreement as a foundation of this legal transaction. Also, the loan beneficiary and the financial institution are in a business relationship and they need to have an open communication. A loan agreement termination leads the debtor to a more unfavorable position, and it is therefore important for the loan beneficiary to discuss all potential changes or anticipated inability to repay the debt with a representative of the financial institution. Under their adopted procedures and operating policy, the financial institutions probably have mechanisms for how and in what way to try and find an appropriate model for resolution of settlement of loan obligations related problems.

8.3. Scope of Guarantor's Liability and Their Rights

A guarantee is undertaking by one or more persons to the creditor to fulfill a legitimate and due obligation of the debtor should they fail to do it.

In the civil law theory and practice, there are **two forms of guarantees**, which are defined as subsidiary guarantee and joint guarantee. A subsidiary guarantee means that the creditor may request the subsidiary guarantor to fulfill the obligation only if the principal debtor fails to fulfill it within the period specified in a written notification. A joint guarantee means that the creditor may request fulfillment of the obligation either from the principal debtor or the guarantor or both at the same time. **Therefore, with regard to the scope of a guarantor's liability, the guarantor is liable to the creditor as the principal debtor in the case of a joint guarantee.**

When speaking about guarantor's liability, the following can be highlighted:

- guarantor's liability **may not exceed principal debtor's liability**, and guarantor is typically liable for fulfillment of entire obligation for which they have guaranteed unless their liability is limited to specific portion of obligation. Also, unless otherwise specified, guarantor is also liable for potentially incurred debt recovery costs (e.g., costs of court action);
- it is important to note that guarantor may raise all principal debtor's objections against creditor, including offsetting objection, but not purely personal debtor's objections;
- objective of guarantee as legal institution is not to relieve principal debtor of obligation, but to provide security to creditor. To this effect, guarantor who paid debt or only portion of debt may request principal debtor to reimburse them amount paid, including interest from payment date.

The Guarantor Protection Law of the Federation of BiH was enacted in the FBiH, abolishing the category of a joint guarantee and establishing a special procedure for debt recovery from a guarantor. More will be said about guarantees after adoption of this law in a section on its introduction in the Annex.

It is important to bear in mind in the process of counseling the fact that a guarantee does not mean relieving the principal debtor of their obligation and that the guarantor who repaid the debt or a portion of the debt has become the principal debtor's creditor (may file "recourse action").

EXAMPLE:

A debtor did not settle regularly their debt, and, under the agreement and following the notifications, the financial service provider proceeded to enforce debt recovery in accordance with available security instruments. In this concrete case, an approval for attachment of earnings from the guarantor's salary was activated, resulting in the attachment of 1/3 of the guarantor's salary. The guarantor insisted that he was not the only guarantor and that his obligation was there only once all possibilities of debt recovery from the beneficiary had been exhausted, and that he was only one of the three guarantors, namely the third in a sequence, which should mean that the financial institution should have also first exhausted the possibilities of recovery against the other two guarantors after having exhausted the mechanisms against the debtor, before becoming entitled to request the fulfillment of the obligation from him. This dispute arose in 2012. Prior to the adoption of the Guarantor Protection Law in the FBiH in 2013, there was no legal basis for the aforementioned guarantor's objections given the then applicable approach of unconditionality of a guarantor's liability to fulfill the obligation in the case that the debtor does not regularly fulfill their obligation. Also, the sequence highlighted as the grounds for

the objection was of no relevance since the sequence did not bind the financial institution to the sequence in itself of how the guarantors were to be treated, i.e., it was left at the discretion of the financial institution to request the fulfillment of the obligation from all guarantors at the same time or an individual guarantor, without a requirement to stick to the sequence in which they had been enumerated in the agreement. In this concrete case, the only option that the guarantor had left was the right to recourse action once he had fully settled the debt against the debtor on whose behalf he had settled the debt.

It is important to note that the activation period of the security instruments is important in the counseling process given the aforementioned Guarantor Protection Law in the FBiH (adopted in 2014), which has considerably limited the scope of a guarantor's liability by specifying a requirement for a creditor to take specific actions prior to requesting the fulfillment of an obligation from a guarantor.

8.4. Falsification of Documents

Financial service providers are making great efforts to avoid in their selection process of their future employees those persons who have criminogenic propensities or are ex-convicts in order to act preventively. They are also adopting a series of procedures and operating standards that have preventive effects on potential perpetrators of criminal offenses.

To this effect, deviant phenomena in the lending process remain of marginal character, but are not an insignificant issue, especially in the context of forgery of documents that are required for approval of loans. A contact by a person who has a problem with forgery of documents is not excluded in the counseling process, especially when their signature is forged on a specific document (e.g., loan agreement).

The aforementioned case requires a response to the effect of referring the affected person to report the given case to either the police authorities or the competent prosecutor's office. Following this report, it is also important to inform the financial service provider, who will in the aforementioned case decide on their further proceedings until the final criminal verdict.

The affected person may also initiate a civil litigation to render the obligation that has arisen as a result of the committed criminal offense null and void.

EXAMPLE:

A person filed a loan application in 2007, which was rejected. The documents that they had collected back then and submitted to the financial institution were not returned to them after they were notified that their loan application was rejected.

After five months, this person received a notification to settle a loan obligation under a loan on which they were recorded as a guarantor. Confused, the person went to a branch office of the financial institution and learned that they were a guarantor on a loan of a person whom they did not know. They also notified the financial institution that they had never signed anything in the capacity of a guarantor. Irrespective of these claims and since the obligation remained unsettled, the financial institution initiated enforcement of recovery from the person's salary through judicial enforcement proceedings and based on a promissory note. Using an option and invoking the claims that they never signed anything, the person raised an objection challenging the grounds of the debt claimed against them and asserting that they did not sign the promissory note. The objection was allowed and the person requested in the litigation proceedings a graphologist expert witness report, which found that they had not signed the documents underlying the claims against them as a guarantor and they were relieved of the liability. Given that falsification is a criminal offense, the person also reported it to the police. In this concrete case, most probably an officer acting in a bad faith had taken advantage of the opportunity of having had access to the documents provided as part of a loan application that was rejected and falsified the signature on the documents underlying another loan obligation.

9. COUNSELOR'S ROLE AND COMMUNICATION WITH CLIENT

The counselor's primary function is to help client collect financial data, develop a general financial cross section and analyze financial cross section/statement in order to improve it.

Counselor's tasks also include:

- finding optimal solutions, while taking into account collected information, client's wishes and means and his/her financial security or liquidity;
- analyzing and comparing most important facts from financial institutions' offerings and helping client choose best solution.

Counseling needs to be performed independently, responsibly, professionally and individually. Advice needs to focus on how to responsibly manage personal finances, keep a household budget, plan and monitor expenses, as well as help client to understand potential dilemmas in capacity of rights and obligations, how to balance income and expenditures and plan to get out of financial distress and over-indebtedness.

9.1. Preparation for Client Interview

A counselor needs to prepare for an interview and create an environment to achieve honesty and openness as a prerequisite for a job well done.

Questions that may facilitate preparation of counseling are:

- What information do I have about potential client? – summarizing available data;
- How can I create both relaxed and friendly atmosphere during client interview? – consider relaxing greeting, let light into room, clear up table, etc.;
- What is client's level of education? – information that helps us adjust our client approach;
- What information or arguments can secure you client's trust? – feeling that you elicit in client that you are professional, kind, trustworthy;
- How can I respond to client demands? – strive to continually professionally develop;
- How can I get client to tell me more about themselves? – again build trust and discreet relationship;
- How to motivate client to take an active approach to problem resolution with support? – present them potential solutions and advantages they can have.

9.2. Client Communication

It is important for a counselor to listen carefully to a client, show understanding for the client's current situation and propose realistic options to overcome that situation.

Counselors should comply with the following principles:

- always treat clients seriously, with respect and smile,
- always have friendly attitude to client, without judgment,
- if we made promise to client, we need to keep it,
- it needs to be explained to client that each action that we take requires his/her approval,
- if client does not inform us about all their debts (formal and informal), potential proposal or advice may be inadequate

9.2.1. How to Ask Questions?

Counselor needs to avoid leading questions.

Open-ended question: What has led you to this situation where you are unable to repay your loan?

Closed-ended question: Do you live with a family?

Paraphrasing: So that is the reason why you are behind on repayment of that loan?

It is important to know that **we steer an interview with questions.**

Counselor needs to make sure that interview is focused on collection of relevant information required for analysis of client's financial situation, in order for the time with the client to be used to the maximum for finding a solution to the situation that has arisen. Given that debts also entail major psychological stress, one needs to be very cautious during a client interview.

Such questions are, for example:

- What has changed since the time you took out the loan?
- In your opinion, what is the cause of this situation?
- Do you expect your financial situation to improve in the foreseeable future?
- Could someone from your family help you?
- Do you see a way out of this newly arisen situation? How?

Counselor needs to explain to client why their total debts need to be considered, irrespective of whether it is debt owed to financial institutions, commercial shops, family members, or the problem with their duly repaying has also to do with responsiveness of their creditors.

9.2.2. Ask Questions and Demand Answers

Clients are often restrained or try to portray the situation as they emotionally experience it, neglecting their actual means. **It needs to be remembered that debt counseling means disclosure of private data and is often stressful for client.**

There are clients who are lonely and use counseling opportunity to have company and deal with loneliness. **Do not let client emotionally manipulate you and avoid answers.**

It also happens that clients enter counseling to „appease“ their own consciousness or fulfill a wish of people who are dear to them, creating the impression that merely entering the counseling necessarily means that they care. In this case answers are usually reduced and client is showing disinterest. **Do not let client be flat and disinterested in giving answers.**

It is important that client communication through answers focuses on a specific issue, without unnecessary interference in other irrelevant circumstances. For example, client took out a loan that he could not cope with from the start, and he got divorced in the meantime and tries to portray during counseling the divorce circumstance as the cause of his inability to repay the loan. **Do not let client fully eliminate through answers their own potential responsibility for the issue that has arisen.**

9.2.3. Active Listening and Non-Verbal Communication

Active listening in a simplest comprehension is careful and devoted listening that allows counselor to fully understand client's declaration and expectations, but also instills a sense in client that that they are understanding, concrete, committed to problem resolution. Active listening also entails non-verbal communication, counselor's gesticulation is important as well as their demeanor that shows openness to client.

It is important for a counselor to understand that as much as there are similarities, each client has their own specific story.

Client's body language tells us whether they are open or reserved.

EXAMPLE:

A person is sitting across us with an absent look on their face and stiff demeanor. They are nervously glancing at their watch and are rather indirect in their answers. Their answers are mainly followed by nervous fidgeting – the aforementioned indicates that the person has taken a reserved attitude in communication and counselor should relax the person and therefore the communication in order to better collect data and motivate the client, convincing the client of their good intentions and importance of openness.

9.2.4. Client Approach – Trust and Relaxation

In addition to counselor's courtesy, openness and businesslike tone, in order to gain trust it is important to instill a sense in client that counselor is competent, that they understand the subject matter and that they are ready to carry out an analysis and propose a solution.

One needs to know their audience and therefore counselor needs to adjust their approach to client, having regard for:

- In order to take a careful approach to client, one needs to be aware of client's level of education and try to assess their knowledge of financial/legal terminology so far and adjust terminology accordingly;
- Counselor needs to try to recognize if client does not understand potential solutions, terminology or importance of requested and strive to provide detailed explanations;
- Counselor needs to eliminate client's fear of being incapable to resolve the case because they do not understand the subject matter

9.2.5. Motivating Client to Collect Documents

It is possible for clients to become frightened or show disinterest if we make them face multitude of questions, required documents, office visits, in which case it needs to be constantly reiterated that all this is with the objective to try to help them solve their problem.

Client's potential sense or attempt that proposal only needs to be forwarded and that we will speak about fulfillment later needs to be eliminated. Client needs to be aware and reminded by counselor that a proposal is actually a commitment that client is ready to undertake and that client must not treat that commitment lightly in the process of restoring trust.

Number of clients usually show backlash when they are informed about the need to collect required documents and that is usually a turning point when there is a great risk of client's withdrawal from further assistance.

What is important is for a counselor to request the documents that they need and to know why they need those documents. That is when they can make a case and convince client that their request is warranted. One should not blindly insist on lists of documents if the concrete case indicates that such volume is not required to argumentatively examine client's problem.

10. ORGANIZATIONAL ASPECT OF COUNSELING

10.1. Collection and Careful Handling of Documents

For a successful counseling process, it is important to prepare and to follow specific steps. From the „U plusu“ Association's experience with financial counseling service delivery so far, record keeping on provided counseling services is an important segment that contributes to counseling process being efficient and service itself being as professional as possible.

As much as any counseling proceedings are specific, their course also depends on specific case. Counseling requires some preparations and from the experience of „U plusu“, those include:

- Briefing client on what kind of services we provide and classifying client into one of categories depending on problem described;
- Listening to client, making notes of their statements and requesting specific information from client;
- Entering information in database and assigning ordinal number to client;
- Defining case file/document keeping method and place.

Careful approach and good organization in document handling are important for:

- **Analysis:** good records facilitate case analysis management;
- **Competence:** it is important that documents are in order to provide good advice;
- **Argumentation:** we have to know at all times where proposal was sent;
- **Access:** keeping documents in one place facilitates document search;
- **Personal data protection:** it is important that potentially collected documents are kept in one place that is not accessible to anyone;
- **Requirements:** if counselor is required to report on counseling service delivery.

Seriousness in work means record keeping on contacts made, information collected and specific case notes. Simply put, counselor cannot be expected to recall every client with whom they spoke as well as description of their problem. That is why it is practical for records to include data of relevance to counseling process itself, especially considering that with some clients multiple contacts can be expected. The information and the notes on a case, i.e., a client, and all undertaken activities should be kept in specific records. As to what information this will be is up to a counselor to decide during client interview.

Once records have been established – database, any contact with a client after initial meeting is entered in it; date, what was discussed, what are the next steps, potential outcomes of client’s discussion with financial institution and what was done in the end. If meeting was scheduled with a client and they did not show up for it, counselor may contact client to find out why they did not show up, i.e., set up a new appointment for a meeting. If client was unsuccessfully contacted, this should be entered in the records.

10.2. Document Categorization and Case File Creation

Document processing includes the following phases:

- Case file creation,
- Case file keeping,
- Case file closure,
- Case file archiving.

Counselor has to review specific documents as part of counseling process, especially in more demanding cases. What these documents are depends on a specific counseling case, documents provided by client, what client insists on, etc.

As mentioned earlier, these may be the following documents:

- Central Credit Register extract,
- loan agreement,
- any documents indicating earlier communication with financial institution,
- different bills,
- • documents from potentially initiated legal action, etc.

Depending on the counseling case itself, counselor may assess what documents are required for them to review and what documents are desirable. Counselor may, if they so assess, draw up a list of reviewed documents.

List of Documents – Proposal

Manner of contact

Reason for contact

Date of contact

Date of case closure

No.	Name of document provided for review during counseling process by client	Counselor Initials and date
	CCR BF1 and BF2 statements	
	Documents related to client’s income and supporting persons’ income	
	Documents on potential irregularities	
	Utility bills	
	Copies of loan agreements, amortization schedules and credit card statements	
	Guarantee agreement	
	Financial statement – completed analysis	
	Other documents	
For archiving		
	Client communication documents	
	Updated client list	
	Counseling report	

Case File Title Page - Proposal

Client/case number	Date of contact	Manner of contact
--------------------	-----------------	-------------------

Surname _____

First name _____

Type of problem	
-----------------	--

Counselor

Keeping in mind the above proposal, counselor decides either on their own or in accordance with their employer’s internal acts what the layout of a title page will be and whether there will be one at all.

Also, if counselor decides to create a case file under employer’s procedures, the prepared case file may be placed in a folder (opened for each year). Case file may be put in a specific place in a binder according to client number from client database.

Case files may be kept in binders according to client numbers and year of contact. It would be desirable to provide electronic copies of the data from the documents. It is important for the data collected in counseling process and provided with client’s agreement to be kept in accordance with the Personal Data Protection Law.

It can be provided that cases are to be closed either once the counseling service has been completed or after the client does not comply with a specific agreement (e.g., to come back for another meeting, etc.). Case is ready for archiving once it has been closed.

10.3. Possible Manners of Document Archiving

Data and potential document archiving and recording are important prerequisites for success in work. An efficient manner of archiving helps us achieve:

- Quick and efficient insight in activities so far;
- High quality statistical overview of activities;
- Reduced possibility of document and data loss.

Archiving operations are regulated by internal acts based on norms provided by law. In a nutshell, they can be: classic and electronic.

Case archiving categories are possible, such as for example:

- Proposal rejected by either client or financial institution,
- Agreement reached,
- Agreement signed between client and financial institution (new amortization schedule),
- Client empowered to resolve their problem on their own,
- Client resolves their problem on their own,
- Client non-response,
- Different client questions answered.

Our suggestion is to write a report for archive for each case, summarizing it and allowing subsequent quick insight in it.

10.4. Personal Data Protection and Processing (What Are Personal Data, Personal Data Protection Requirement)

10.4.1. Personal Data Protection Agency

The Personal Protection Data Agency (hereinafter in this section: the Agency) was established under the Personal Data Protection Law (PDPL)³⁵ as a stand-alone administrative organization to ensure personal data protection.

Some of the tasks of the Agency are to:

- oversee implementation of the provisions of the Law,
- handle complaints filed by data subjects,
- provide advice and opinions on personal data protection,
- oversee transfer of personal data abroad from BiH,
- order blocking, erasure or destruction of personal data, etc.

The PDPL provides for the purpose of personal data protection, namely as: protection of personal life and other human rights and fundamental freedoms in collection, processing and use of personal data.

³⁵ - The PDPL, (Official Gazette of BiH, numbers 49/06 and 76/11)

It is important to note that the PDPL applies neither to personal data processed by natural persons exclusively for their private purposes nor in the case of accidentally collected personal data. The Law applies only to personal data processed by public authorities, natural persons and legal entities.

Personal data protection in BiH is ensured to every individual regardless of their nationality and residence, race, skin color, gender, sexual orientation, language, religion, political or any other convictions, national or social origins, means, education, social status or any other personal characteristics.

10.4.2. What Is Personal Data?

Personal data is any data or information relating to a natural person and based on which that person's identity is either identified or can be identified. Personal data based on which a person is unambiguously distinguished from other citizens (first name and surname, address of residence, date of birth, national identification number) – identification data.

Personal data include:

- health data
- citizen identification designations
- salary data
- pupil school grades, conduct
- bank accounts
- tax returns
- loan data
- passport number,
- personal identification card number, etc.

Special categories of data are any personal data revealing³⁶:

- racial origin,
- nationality,
- national or ethnic origin,
- political opinion or party affiliation,
- trade union affiliation,
- religious, philosophical or other belief,
- health,
- genetic code,
- sexual life,
- criminal conviction,
- biometric data (e.g., fingerprints).
-

Processing of special personal data is prohibited.

³⁶ – The PDPL, Article 3

10.4.3. When Personal Data May Be Processed?

Processing of personal data means any operation or set of operations performed upon data, whether automatic or not.

Personal data may be processed only if

- processing of personal data is provided for by law
- individual's consent is given for processing of their personal data.

The purpose of processing must also be provided by law, or, in the case of an individual's personal consent, the individual must be notified in advance of the purpose of processing.

Legal Annex

Counselor is often required in counseling process to have basic knowledge of legal framework and specific norms regulating relationship between financial service provider and financial consumer (and guarantor). Starting from the assumption that counselors providing debt counseling services to citizens are not necessarily lawyers by trade or have not had in their practice so far an opportunity to deal with the legal framework treating this area and to enhance contents and browsability of this Manual, this Annex provides a more detailed overview of a portion of the legal norms that may be helpful in counseling process itself. This Legal Annex has been envisaged as an insight in the most relevant laws to citizen or financial consumer debt counseling process, with a review of the rights and the obligations, i.e., the terms and conditions provided for specific situations such as withdrawal from an agreement, essential elements of a loan agreement, prepayment, guarantee, etc.

1. Financial Consumer Protection Law

1.1. Scope of Law

Before presenting specific provisions of these laws, it is important to note that they do not apply to all credit or loan relationships, i.e., that there are exemptions from their scope of application. The FBiH Financial Consumer Protection Law (hereinafter: the FCPL) provides in its Article 3 agreements to which the provisions of this Law do not apply, specifying that these are agreements on:

- loan in amount lower than BAM 400.00 and greater than BAM 150,000.00,
- leasing that do not provide for possibility for leasing recipient to acquire a title to lease object,
- loan through current account (authorized overdraft) with obligation to repay within 30 days,

- loan concluded in settlement proceedings before court or before some other authority provided for by law,
- free of charge deferral of existing outstanding loan debt payment,
- loan with no obligation to pay any charges and agreements under which loan must be repaid within three months,
- loan secured with lien on movable property, if consumer's liability is strictly limited to value of collateral,
- successive performance retail (consumer) finance agreements under which retailer undertakes to deliver particular type of goods to consumer, i.e., provide particular service, over a longer period of time, while consumer undertakes to pay a price for that in installments over period of time during which goods are delivered, i.e., service is provided,
- loan with claims secured on mortgage on real property or any other comparable real property security instrument, i.e., any other right to real property, except loan agreement whose purpose is to renovate existing buildings or increase their value,
- loan when loan is intended for acquisition or retention of a title to existing or planned real property/building,
- loan pertaining to loans approved to narrower public under legal provisions in general interest and at interest rates that are lower than those prevailing in market or are interest free or on any other terms that are more favorable to consumer than those prevailing in market and at interest rates that do not exceed those prevailing in market.

Therefore, for example, the provisions of this Law in the FBiH do not apply to loan agreements intended for acquisition or retention of a title and loans with claims secured on lien (mortgage) on real property, whereas this rule does not apply to agreements whose purpose is to renovate existing buildings or increase their value (hence without title acquisition or retention).

Article 98t of the RS Law on Banks specifies that its provisions do not apply to:

- loan agreements in amount lower than BAM 400.00 and greater than BAM 150,000.00,
- leasing agreements that do not provide for possibility for leasing recipient to acquire a title to lease object,
- loan agreements through current account (authorized overdraft) with obligation to repay within 30 days,
- loan agreements concluded in settlement proceedings before court or before some other authority provided for by law,
- free of charge existing outstanding loan debt payment deferral agreements,
- loan agreements with no obligation to pay any charges and agreements under which loan must be repaid within three months, with payment of only negligible total loan charges,
- loan agreements secured with lien on movable property, if consumer's liability is strictly limited to value of collateral.

Here, too, from the aspect of the experiences observed in debt counseling of citizens, it is important to note a key difference with regard to loans intended to finance acquisition or retention of a title and with lien on real property as loan security instrument. Therefore, purchasing real property or securing claims on real property is not a condition of possibility to apply newly established provisions in the Republika Srpska.

Scope of application of the provisions of these laws does not apply to all credit or loan relationships. This for example means that in the Federation of BiH the provisions of the Financial Consumer Protection Law do not apply to a contractual relationship such as a home loan taken out to purchase an apartment. This rule would also apply in the case of a loan intended for other purposes, but secured with lien on real property (mortgage) except for the purpose of renovating existing real property. On the other hand, as can be seen, there is a difference between the legislation of the Federation of BiH and the Republika Srpska, and therefore the provisions of the Law on Banks in the Republika Srpska also apply to for example home loans, i.e., loan intended to purchase real property or loan secured with lien on real property (mortgage). The lower and upper thresholds for amount of monetary value of loan are equal in both entities, and therefore the provisions of these laws may not be applied to a loan of BAM 380.

1.2. Advertising

The FBiH FCPL and the RS Law on Banks pay special attention to advertising of services and financial products, providing for a requirement for financial service providers to advertise themselves in a clear and a comprehensible manner and for advertisements not to contain inaccurate information. The objective is to avoid incomprehensibility and misleading potential consumer who may make a wrong decision (which he would not have made had information been accurate or comprehensible). A requirement is also provided for financial service providers to enact general operating requirements and comply with them.

General operating requirements provide for the standard operating requirements of a financial institution and communication with service consumers. Also provided for is a requirement to disclose and make available the general operating requirements through media, on the website of a financial institution or in a visible place in its official premises.

1.3 Information Sheet

The above referenced laws also address precontractual proceedings, where the emphasis is on competence and professionalism of financial service provider staff, but also on informing consumers of the terms and the type of a service, namely in the form of a standard information sheet. Article 15(2) of the FBiH FCPL, i.e., Article 98d of the RS

Law on Banks provides what this document needs to include: information on service type, amount, currency, terms of use, duration of agreement, interest rate, variability and elements underlying variable interest rate, effective interest rate, amount of loan installments, interest to be applied in case of arrears in repayment, amount of debt prepayment charge, etc.

As is visible from the above partial description of information sheet, loan consumer receives a lot of information in precontractual phase that may be relevant to their decision-making. It is desirable to advocate to citizens the need to carefully read information sheet to better understand whether a specific product or service meets their needs and eliminate the possibility to enter into a contractual relationship that would not be in their interests.

1.4. Assessment of Creditworthiness

The FBiH FCPL and the RS Law on Banks also provide for a requirement to assess creditworthiness of both loan beneficiaries and guarantors, i.e., any other person who is personally liable with their assets for fulfillment of beneficiary's contracted obligation. This assessment analyzes whether a specific person meets the requirements to be a beneficiary of a specific financial product, i.e., to participate in the legal relationship arising from a use of a financial service.

Financial service provider is required to inform beneficiary, guarantor or person personally liable with their assets for fulfillment of a loan obligation of assessment outcomes, except when such disclosure of information would be „explicitly forbidden under special imperative legislation or contrary to the objectives of public order“³⁷. It is also provided that the financial service provider is required to reassess a beneficiary's creditworthiness in the case of an increase in their obligation.

1.5. Guarantees

Guarantees are primarily treated under the Guarantor Protection Law in the FBiH. Still, the FBiH FCPL also treats guarantees, specifying in its Article 16: *„if the financial service provider is securing fulfillment of the beneficiary's obligations under their loan, microloan and/or leasing approval operations with a guarantee, they shall inform in the negotiation phase the guarantor of the guarantee object, the form of the guarantee that is required under the agreement, the scope of the guarantor's liability that is to be undertaken by making the guarantee statement, and it shall present to them all information, i.e., make available all essential elements of the agreement from which the rights and the obligations of the parties to the agreement are clearly visible, and, at their request and free of charge,*

³⁷ - The RS Law on Banks, Article 98; the FCPL, Article 16

furnish them with a draft agreement for review outside of the financial service provider's premises." Also, with regard to the above-mentioned creditworthiness assessment, a guarantor, if any, needs to be part of the assessment process.

In the case of the RS Law on Banks, in addition to the above-mentioned requirement as in the case of the cited provision of the FBiH FCPL, the following is also provided for guarantees: „the bank shall, prior to entry into a guarantee agreement, obtain a copy of an agreement granting guarantee entered into in writing between the beneficiary and the guarantors for whose contents the bank shall not be liable. The bank and the beneficiary may not alter the required elements of the agreement increasing the scope of the guarantor's liability without the guarantor's previous approval in writing"³⁸.

Therefore, a requirement of entry into an agreement between a loan beneficiary and a guarantor, which is to precede an agreement between the loan beneficiary and the financial service provider, is provided for in the RS.

1.6. Loan Agreement

The above referenced laws provide that service provision agreements are to be entered into either in written or electronic form. Each party to an agreement is entitled to a copy of the agreement. Article 17 of the FBiH FCPL provides for the essential elements of a loan agreement, namely:

- type of loan/microloan,
- period for which loan/microloan is approved,
- business names, names and addresses of parties to agreement,
- amount of loan/microloan approved and terms of drawdown of funds,
- for loans indexed in foreign currency – currency in which bank, i.e., microcredit organization indexes loan/microloan, type of currency exchange rate applied to approval and repayment of loan/microloan (Bosnia and Herzegovina Central Bank's bid or ask exchange rate or official middle exchange rate, or bank's bid or ask exchange rate), as well as date of calculation,
- amount of nominal interest rate, specifying whether it is fixed or variable, and, if it is variable, elements based on which it is to be determined (reference interest rate, consumer price index, etc.), their amounts at time of agreement, periods in which it is to be varied, as well as fixed element, if agreed upon,
- effective interest rate and total amount to be paid by beneficiary calculated on date of agreement,

³⁸ - The RS Law on Banks, Article 98j

- loan/microloan amortization schedule and beneficiary's right to throughout duration of agreement receive amortization schedule free of charge in case of its alteration, i.e., once a year if there has been no such alteration, and, if interest and charges are repaid without concurrent principal repayment, loan amortization schedule needs to include only repayment periods and terms for interest and charges,
- method applied to calculate interest rate (conform, proportional, etc.),
- penalty interest rate at time of agreement to be applied in case of arrears in settlement of obligations and rules for its adjustment, as well as all other default charges,
- notice of consequences in case of default, terms, procedure and consequences of notice of termination and/or termination of loan agreement under law regulating obligations, as well as notification of terms and method of assignment of claims in case of default on obligations,
- type and amount of all charges to be borne by loan/microloan beneficiary, specifying whether they are fixed or variable, and if they are variable, periods in which they are to be varied by bank, as well as type and amount of other charges (taxes, fees to competent authorities, etc.),
- types of security instruments, whether they can be substituted during loan/microloan repayment period, as well as terms for activation of such instruments in case of default on obligations,
- terms and manner of loan/microloan prepayment and amount of related charge,,
- right of beneficiary to withdraw from agreement, terms and manner of withdrawal,
- right of complaint and whether mediation proceedings can be initiated to settle dispute out of court,
- provision on requirement to use and pay fees for notary services where applicable.

Article 93z of the RS Law on Banks provides that loan, cash deposit, savings deposit, account opening and maintenance and authorized account overdraft agreements shall include the following essential elements:

- type of service,
- business names, names and addresses of parties to agreement,
- amount, currency designation and terms of use of service,
- period for which service is agreed upon,
- amount of nominal interest rate, specifying whether it is fixed or variable, and, if it is variable, elements based on which it is to be determined (reference interest rate, consumer price index, etc.),
- their amounts at time of agreement, periods in which it is to be varied, as well as fixed element, if agreed upon,
- effective interest rate and total amount to be paid by beneficiary, i.e., to be paid to them, calculated on date of agreement,
- method applied to calculate interest rate (conform, proportional, etc.),
- maintenance charges for one or multiple accounts in which credit and debit transactions

are to be recorded, unless such account opening is only an offered option, together with use charges for specific repayment means, both for credit and debit transactions, as well as all other fees and charges arising from agreement, specifying whether they are fixed or variable and terms on which they may be altered,

- penalty interest rate at time of agreement to be applied in case of arrears in settlement of obligations and rules for its adjustment, as well as all other default charges,
- notice of default consequences,
- consumer right protection procedure, use of out-of-court complaint and address of institution to which it is to be filed.

In spite of some differences in the provisions of these two laws, it is evident that legislators in both cases provided for clear disclosure of effective interest rate as a real loan cost and its distinction from nominal interest rate. They also provide for a requirement to specify whether interest rate is fixed or variable. Attention is also focused on the consequences of arrears in fulfillment of contractual obligation through a requirement to specify penalty interest, but also other charges claimed in the case of a default. It is also worth noting that right of complaint, i.e., out-of-court protection of consumer rights, is also a required part of an agreement, further contributing to understanding of mechanisms for out-of-court protection of consumer rights. A requirement for notification in writing, i.e., visible availability of information on the elements underlying interest rate variability is also provided for in the case of an agreed upon variable interest rate for a specific relationship. Attention is also given to the right of a beneficiary to be notified of their account balance, namely free of charge. Depending on the law in question and in relation to the type of a financial product itself, the notification methods and requirements and the time intervals have been provided for.

It needs to be noted that although the above-mentioned elements are required, the parties to an agreement may **agree to alter the required elements of an agreement** (except in the case of variable interest rate agreed upon under the provisions of these laws). In other words, if financial service provider wishes to alter any of the required elements of an agreement, **they have to obtain an approval from the beneficiary**. On the contrary, a unilateral alteration is not allowed.

When speaking about the prescribed required elements of different agreements, it needs to be noted that the legislator's approach took into account type of products themselves, specifying with regard to the required elements the elements for specific agreements in relation to the types of products (e.g., for revolving loan agreement or amortized loan agreement, current account overdraft, leasing, etc.).

1.7. Right to Withdrawal

One of the rights that has been introduced and that is available to financial consumers within the meaning of the FBiH FCPL and the RS Law on Banks is also the right to withdrawal from an agreement. This „cooling-off period“ gives a consumer an opportunity to withdraw from an agreement without having to state the reasons for withdrawal within a limited time period in spite of having entered into it with a financial service provider. The features of the right to withdrawal are the following:

The financial service provider may not make available approved loan funds to a beneficiary within 14-day period from the agreement date, unless requested explicitly by the beneficiary³⁹.

- Article 26 of the FBiH FCPL, i.e., Article 98nj of the RS Law on Banks provides that even in the case of loans secured on mortgage or whose object of the agreement is to either purchase or to finance a purchase of real property, there is a possibility to withdraw from an agreement, and while in the case of the FBiH FCPL non-use of funds is directly specified in the case of agreements secured on mortgage, i.e., intended to purchase or finance a purchase as a condition only in the case of agreements secured on mortgage, i.e., intended to purchase or finance a purchase of real property, the RS Law on Banks has generally specified non-use of funds as a condition of exercising the right of withdrawal. As a result, a requirement to repay the funds within 30 days from the day of the withdrawal has also been provided for in the case of the FBiH.
- While under the FBiH FCPL the right of a financial service provider to a charge of a fee in the case of a beneficiary's withdrawal has been limited to specific cases⁴⁰, Article 98nj of the RS Law on Banks provides for the right of a provider to a charge of a fee, i.e., that „in the case of the withdrawal of a beneficiary from a loan agreement, the bank has the right to a charge of the calculated loan application processing fee that may not exceed the fee in the case when the beneficiary does not withdraw from the loan. A bank is prohibited from contracting and charging from a beneficiary a fee as the withdrawal fee in the case of the beneficiary's withdrawal from a loan agreement “.
- Also, regardless of the law in question, a requirement has been provided for a beneficiary to notify the service provider in writing of their intent to withdraw, as well as that the notification date shall be deemed to be the withdrawal date.

A loan beneficiary has the right to withdraw from the agreement even after entering into it, but on certain specified conditions.

³⁹ - The FCPL, Article 26; the RS Law on Banks, Article 98nj
⁴⁰ - The FCPL, Article 16(5) and (7).

1.8. Prepayment

A beneficiary has the right to prepay debt (either partially or fully) at any time, before the set repayment period, and the financial service provider has the right to a charge of a reasonable fee in that case. Article 27 of the FCPL specifies how a fee in the case of prepayment is to be contracted:

- in case of loan prepayment, bank has right to objectively justifiable and agreed upon reimbursement of costs directly related to loan prepayment, provided that prepayment was made in period during which fixed nominal interest rate was applied, and, in case of loan agreement whose object is to purchase real property, if fixed or variable nominal interest rate was agreed upon and if amount of loan prepayment within period of one year exceeds BAM 20,000.00;
- fee from Paragraph (2) of this Article may be agreed upon up to the amount of the damages suffered as result of prepayment, but maximum up to 1% of amount of prepaid loan, and namely if period between prepayment and period for fulfillment of obligation from loan agreement exceeds one year. If this period is shorter than one year, fee may not exceed 0.5% of amount of prepaid loan;

In addition to the prepayment fee limits highlighted above (it is important to turn attention to the fact whether a fixed or a variable interest rate was agreed upon, which may be crucial when speaking about this fee), when the service provider may not request this fee has also been provided for (if repayment was made under an insurance agreement as a repayment guarantee, for loans where a variable interest rate was agreed upon except in the case of loans intended for purchase of real property, that the fee amount must in no case exceed the amount of interest that the beneficiary would have paid had there not been the prepayment, etc.).

Article 98o of the RS Law on Banks provides that „in the case of a loan prepayment, the bank has the right to an objectively justifiable and agreed upon reimbursement of costs directly related to loan prepayment, provided that the prepayment was made in the period during which a fixed interest rate was applied and if the amount of the loan prepayment in the period of one year exceeds the limit set by the Agency.”

Among other things with regard to the right of prepayment, both laws provide that “the loan prepayment fee must in no case exceed the amount of interest that would have been paid by the beneficiary during the time from the loan repayment date until the date when the loan should have been repaid under the agreement”⁴¹.

⁴¹ – The FCPL, Article 27(5); the RS Law on Banks, Article 98o

1.9. Protection of Rights

These laws also address the right of a beneficiary, a guarantor and any other person personally securing the obligation of a beneficiary to file a complaint to the service provider in the case when they believe that the financial service provider does not comply with the provisions of this Law, the agreement, the general operating requirements, the good business customs and the practice.⁴² The service provider is required to respond to it within 30 days from the day of the filing. It has also been provided that the financial service provider must organize their operations by enacting special internal procedures, allowing for complaints to be filed, as well as keep records on complaints received and resolved and notify the Banking Agency of those.

If the complainant is not satisfied with the response or if the service provider does not provide them with a response at all, they have the right to file a complaint to the competent Banking Agency, i.e., the Banking System Ombudsman (hereinafter: the Ombudsman) operating within the Agency. The Ombudsman will forward the complaint to the service provider requesting their response within eight days. Depending on the service provider's response and the Ombudsman's position on whether the provisions of this Law and the complainant's rights have been violated or not, the Ombudsman may propose initiation of mediation proceedings between the parties to resolve the dispute amicably⁴³ or they may forward it to the competent Agency's department for further proceedings (in the case that they believe that the provisions have been violated for which offence penalties are provided).

A requirement for a financial service provider to cooperate with the Ombudsman has also been provided for to ensure faster and fairer resolution of disputes under complaints.

A loan beneficiary, a guarantor and any other person personally securing the obligation of a beneficiary has the right to file a complaint to the financial institution when they believe that the financial service provider does not comply with the provisions of this Law, but also to the Banking System Ombudsman if they are not satisfied with the financial institution's response or if they have not received one within 30 days.

Finally, given their volume, it would be good to reiterate the main characteristics of these laws, which may be relevant to help in debt counseling of citizens:

⁴² - The FCPL, Article 41; the RS Law on Banks, Article 98⁶

⁴³ - For more on amicable dispute resolution proceedings before the Banking System Ombudsman, see the section on this institution

- financial service provider's general operating requirements must be publicly available as general act, as well as clearly and comprehensibly presented to average consumer;
- financial service provider is required to inform consumer in negotiation phase of terms and all important characteristics of service through information sheet;
- draft agreement to be provided to beneficiary and other participants (e.g., guarantor);
- financial service provider is required to assess creditworthiness of beneficiary, guarantor and any other person personally securing fulfillment of obligation;
- mutual information sharing among participants of legal transaction on assessment of individual creditworthiness of participants, with obtained approval;
- required elements of agreement have been provided for;
- right of withdrawal from agreement within 14 days;
- if fulfillment of loan beneficiary's obligation is secured with guarantee, financial service provider shall inform in negotiation phase guarantor of guarantee object, form of guarantee required under agreement, scope of guarantor's liability to be undertaken by making guarantee statement, and it shall present to them all information, i.e., make available all essential elements of agreement from which rights and obligations of parties to agreement are clearly visible, and, at their request and free of charge, furnish them with draft agreement for review outside of bank's premises;
- right of prepayment;
- out-of-court protection of rights – complaint.

2. FBiH Guarantor Protection Law

2.1. Creditworthiness and Loan File

In loan approval process and prior to loan approval itself, financial service provider is required to:

- verify creditworthiness of loan beneficiary, guarantor and any other person personally securing fulfillment of beneficiary's obligation, namely by verifying data based on documents collected from public registers, institutions, database;
- data subject's approval is required for above-mentioned verification;
- Article 5 of this Law provides for requirement for creditor, i.e., financial service provider, to mutually inform all participants in specific relationship of collected creditworthiness verification related data and documents, with requirement to obtain written approvals of participants for mutual information sharing, and if any person does not agree to informing others of data relating to them, financial service provider is required to inform other participants of denied approval;
- this Law also requires loan officer to create loan file with approved loan related documents prior to signature of agreement. Data on creditworthiness of principal debtor, guarantor and any other person personally securing fulfillment of obligation must be an integral part of loan file;

- Article 6 of the GPL provides for what loan file needs to include:
- loan application signed by applicant, specifying purpose for which loan is to be used;
- extract from register of legal entities for loan applicant if they are legal entity;
- original loan agreement;
- most recent financial statement, including balance sheet, profit and loss statement, cash flow statement, etc., signed by responsible person if loan applicant in question is legal entity;
- certificate of employment and salary or annual income of loan applicant if loan applicant in question is natural person;
- documents relating to verification and assessment of debtor's financial standing and their ability to repay loan under agreed upon terms, with analysis performed and/or validated by creditor's responsible staff, verifying that debtor's cash flows are adequate for loan repayment;
- decision of relevant creditor's body on loan approval, including periods, interest and other terms under which loan was approved;
- documents verifying purpose of loan;
- if applicant is agent of another person – copy of document verifying this;
- documents relating to loan secured on collateral or with guarantee;
- where possible, documents specifying monetary amount for which assets financed by loan are insured with relevant institution;
- for loan approved for construction, reconstruction or adaptation of real property, documents on costs of works (bill of quantities for works), reports on inspections performed by creditor or documents on acceptance of building verifying completion of works;
- in case of amendments to loan agreement upon loan approval, documents verifying and defining these amendments;
- documents supporting and verifying full or partial loan repayment and including source (manner) of loan repayment (payments by debtor or realization of collateral);
- documents on financial standing of guarantor for extended loan;
- documents with measures taken by creditor against delinquent debtor;
- all correspondence and documents on contacts between creditor and debtor subsequent to loan agreement.

2.2. Loan Agreement

A loan agreement includes the mutual rights and obligations of both the loan beneficiary and the financial service provider and the guarantor, who also signs the agreement. The FBiH GPL also provides for the required elements of a loan agreement, specifying in Article 7 that these shall be:

- type of loan/microloan;
- period for which loan/microloan is approved;
- business names, names and addresses of parties to agreement;

- amount of loan/microloan approved and terms of drawdown of funds;
- for loans indexed in foreign currency – currency in which bank, i.e., microcredit organization indexes loan/microloan, type of currency exchange rate applied to approval and repayment of loan/microloan (Bosnia and Herzegovina Central Bank’s bid or ask exchange rate or official middle exchange rate, or creditor’s bid or ask exchange rate), as well as date of calculation;
- amount of nominal interest rate, specifying whether it is fixed or variable, and, if it is variable, elements based on which it is to be determined (reference interest rate, consumer price index, etc.), their amounts at time of agreement, periods in which it is to be varied, as well as fixed element, if agreed upon;
- effective interest rate and total amount to be paid by beneficiary calculated on date of agreement;
- loan/microloan amortization schedule and beneficiary’s right to throughout duration of agreement receive amortization schedule free of charge in case of its alteration, i.e., once a year if there has been no new alteration
- if interest and charges are repaid without concurrent principal repayment, loan amortization schedule needs to include only repayment periods and terms for interest and charges;
- method applied to calculate interest rate (conform, proportional, etc.);
- statutory penalty interest rate at time of agreement to be applied in case of arrears in settlement of obligations and rules for its adjustment, as well as all other default charges,
- notice of consequences in case of default, terms, procedure and consequences of notice of termination and/or termination of loan agreement under Law on Obligations, as well as notification of terms and method of assignment of claims in case of default on obligations,
- provision under which creditor secured recovery of their claims against principal debtor through loan security instrument provided for by law;
- provision under which creditor is competent and obliged to recover loan funds, in case of arrears, using all principal debtor’s loan security instruments;
- provision under which creditor, in connection with provision from preceding Paragraph, needs to exhaust all legal remedies against principal debtor in recovery of their claims before laying claim against guarantor;
- provision under which guarantor shall not repay loan until such time when creditor has taken all actions fro preceding Paragraph of this Article, but if it comes to loan repayment by guarantor, installment amount must not exceed one third of regular income of each guarantor severally and all guarantors jointly;
- type and amount of all charges to be borne by loan/microloan beneficiary, specifying whether they are fixed or variable, and if they are variable, periods in which they are to be varied by creditor, as well as type and amount of other charges (taxes, fees to competent authorities, etc.);

- types of security instruments, whether they can be substituted during loan/microloan repayment period, as well as terms for activation of such instruments in case of default on obligations;
- terms and manner of loan/microloan prepayment and amount of related charges;
- right of beneficiary to withdraw from agreement, terms and manner of withdrawal;
- right of complaint and whether mediation proceedings can be initiated to settle dispute out of court.

If we recall the required elements of a loan agreement provided for by the FCPL in the FBIH, we can notice that this provision of the FBIH GPL includes amendments with regard to the required elements. These are primarily the ones relating to the position of a guarantor, i.e., a requirement for financial service provider to primarily strive to recover their claims from a loan beneficiary, and to in such efforts exhaust available security instruments as well as legal remedies. Also, conditioning and limiting of a guarantor's liability is also evident from the required element relating to a provision in an agreement in which the amount of a loan installment repaid by a guarantor is limited in such manner that if it comes to repayment, the amount of an installment paid by guarantor must not exceed one third of regular income of each guarantor severally and all guarantors jointly. It is also evident that substitution of the security instruments is allowed and that this possibility needs to be agreed upon by the contract.

2.3. Guarantor's Rights

The right of a guarantor to withdraw from an agreement within 7 days from the agreement date without having to state the reasons for their withdrawal and with a written notification of the withdrawal has also been provided for as an essential element.⁴⁴

Similarly as in the case of the FCPL, the GPL also provides that **a creditor (financial service provider) is required to inform a guarantor in the negotiation phase** of the guarantee object, the agreement itself, the scope of the guarantor's liability to be undertaken by making the guarantee statement, etc. It has also been provided **that the creditor and the loan beneficiary may not alter on their own the required elements of a loan agreement to increase the scope of the guarantor's liability**, without the guarantor's approval. It has also been provided that a guarantor may request to be provided **a draft loan agreement** for review outside of the official financial service provider's premises.⁴⁵

It needs to be noted that this Law in the FBIH also limits the cases in which a guarantee may be taken as a security instrument specifying:

- only person who **has full legal capacity and who is not under 18 and over 65 years of age** may undertake as guarantor.⁴⁶
- that for approval of loans whose **amount exceeds BAM 20,000.00 and whose repayment period is longer than three years, category of guarantor for natural persons is repealed.**⁴⁷

⁴⁴ - The Guarantor Protection Law, hereinafter: the GPL, Article 8

⁴⁵ - The GPL, Article 9

⁴⁶ - The GPL, Article 11

⁴⁷ - The GPL, Article 15

- does not allow use of guarantee if **lien on principal debtor's real property (mortgage) has been taken** as security instrument, i.e., when **any collateral is loan security instrument**.⁴⁸

In addition to the aforementioned provision requiring a creditor to primarily strive to recover the debt from the loan beneficiary, the novelty is also that it has been provided that an agreement shall also specify the provisions preventing the principal debtor (loan beneficiary) from transferring their assets to a third party throughout the duration of an agreement, and that an agreement shall specify the procedure in the case of the principal debtor leaving BiH before the settlement of the obligation. In the case of violation of these provisions, the guarantor may not be requested to fulfill the obligation until such time when the assets have been restored through court. However, the option has been left in this case for **a guarantor to decide on their own to undertake to the creditor to settle the debt**.⁴⁹

2.4. Right of Complaint

Like a principal debtor, a guarantor too has the right to file a complaint to the creditor, who is again obliged to respond to it within 30 days.⁵⁰ In the case that a guarantor is not satisfied with the response, i.e., has not received one at all, they have the right to send their complaint to the FBiH Banking Agency's Banking System Ombudsman for further proceedings, which may also entail proceedings under criminal provisions of this Law and criminal provisions of other laws regulating operations of banks and microcredit organizations.⁵¹ The Banking System Ombudsman's proceedings are discussed at greater length in a special section of this Manual.

In addition to a complaint, in specific situations a guarantor may file a written request to the Banking Agency for **mediation to resolve the dispute out of court**.

2.5. Release from Guarantee

The Guarantor Protection Law also allows for a guarantor to be released from an obligation under specific terms. Once it has been established that the reasons specified in the law itself have been met, the guarantee obligation shall cease with enactment of a decision by the FBiH Banking Agency or a competent court ruling.⁵²

Article 30 of the FBiH GPL provides for the reasons when a guarantor is to be released from a guarantee:

- creditor has not on their call upon maturity of claims exhausted all security instruments provided for agreement to recover their claims from principal debtor;
- guarantor did not receive agreement from creditor immediately upon its signature;
- it is established that loan was approved to credit-unworthy client, which has caused deceit of guarantor;

⁴⁸ - The GPL, Article 29

⁴⁹ - The GPL, Article 17

⁵⁰ - See the FCPL, Article 41

⁵¹ - The GPL, Article 24

⁵² - The GPL, Article 30

- guarantor did not attend act of signing of agreement;
- loan was approved based on falsified documents of either principal debtor or guarantor. In this case guarantor may file criminal charges for criminal offence of fraud;
- it is established that guarantor is illiterate person, yet there is no guarantor's clear fingerprint on agreement verified by two witnesses or court, i.e., another authority;
- loan was extended contrary to established legislation in the Federation of Bosnia and Herzegovina;
- guarantor has been misled due to fraudulent action and due to defects in consent;
- proceedings to enforce recovery against principal debtor have not been initiated, and yet conditions for them are in place.

A decision of the FBiH Banking Agency on requirements and manner of handling a guarantor's request for release from a guarantee obligation⁵³ provides that the proceedings shall be initiated with a guarantor's request filed to the Banking System Ombudsman (hereinafter: the Ombudsman). It also provides for what such a request needs to include (basic information on guarantor, legal basis for release, guarantee agreement, etc.). When required, the Ombudsman may request the guarantor to provide additional documents. The Ombudsman shall notify the creditor of the guarantor's request within eight days from the day of the delivery of the request or its supplementation, and the creditor shall respond to it within fifteen days. The Ombudsman shall review the creditor's response within eight days from its delivery or potentially request additional documents if deemed necessary. Within fifteen days from the day of the delivery of the creditor's response or the day of the delivery of the additionally requested documents by the creditor or even if they have not been provided by the creditor, the Ombudsman shall issue a written recommendation on the guarantor's request and forward it to the FBiH Banking Agency (hereinafter in this section: the Agency), proposing how to further proceed with the guarantor's request. The Agency shall enact a decision on the recommendations received from the Ombudsman. No appeal is allowed against the Ombudsman's decision, but it may be avoided before a competent court within 30 days from the day of its delivery.

The Guarantor Protection Law was enacted in FBiH (this law does not exist in RS) and as can be seen it has significantly limited who, when and on what terms may be a guarantor, introducing other novelties too such as the right of a guarantor to withdraw from an agreement, the obligation of a creditor to exhaust all options for debt recovery from a debtor before calling a guarantor to fulfill the obligation (required element of a loan agreement), the right to a release from a guarantee, the limitations with regard to the amount of an installment that may be repaid by a guarantor, the age of a guarantor, etc.

⁵³ - „Official Gazette of FBiH”, number: 23/14

3. BiH Consumer Protection Law

Loan beneficiaries often invoke the norms of this Law not knowing its purview for a simple reason that this Law included for the first time in national legislation more detailed provisions on consumer loans.

Article 54 of the Consumer Protection Law therefore provides that consumer must be informed (in writing) of all contractual provisions before signature of an agreement in itself, specifying that such information needs to include the following:

a) generally for all loan agreements:

- net loan amount,
- total loan costs,
- loan prepayment terms,
- agreement termination terms, including those when consumer is in arrears with repayment,
- annual loan interest calculated on an annual basis,
- terms for annual interest rate variations,
- insurance costs for existing debt or any other insurance signed in relation to loan,
- collateral that has to be given.

b) for finance agreements for purchase of goods or services providing for repayment in installments:

- total purchase price,
- installment amount,
- amount and number of installments, amortization schedule including interest rate and other charges,
- real annual interest rate,
- insurance costs related to loan agreement,
- provision on retention of title or on any collateral that has been given.

With regard to the right to terminate an agreement, this Law, unlike the FBiH Financial Consumer Protection Law and the RS Law on Banks (which leave it up to the parties to an agreement to define the procedure by contract), provides when a consumer, i.e., a service provider has the right to terminate an agreement.⁵⁴ The characteristic of this Law is that it also provides that a promissory note as one of the most common security instruments may not be a security instrument for consumer loans⁵⁵ leading to different interpretations in practice.

⁵⁴ – Consumer has the right to terminate an agreement within 15 days from the agreement date provided that they notify the financial service provider of this intention. On the other hand, the situation is also specified in which the financial service provider has the right of termination, as it is provided that they may terminate an agreement due to default by the consumer and provided that:

a) consumer is in arrears with payment of at least two consecutive loan installments, either fully or partially, but amounting to no less than one eighth of the overall loan amount or the overall amount of all installments; and
b) creditor has met the requirement to notify the consumer in writing that they would, in the case of arrears in repayment by the consumer, request repayment of the full outstanding amount, leaving the consumer the deadline of 15 days to do it, with consumer not responding to this notice. Consumer has to be given an opportunity to amicably resolve the dispute.

⁵⁵ – The CPL, Article 62(2)

3.1. Protection of Consumer Rights Stakeholders

Protection of consumer rights stakeholders⁵⁶ under this Law are:

- BiH Ministry of Foreign Trade and Economic Relations,
- BiH Consumer Protection Ombudsman,
- BiH Consumer Protection Council,
- BiH Competition Council,
- Competent entity and BiH Brcko District authorities,
- Competition and Consumer Protection Offices in the Federation of BiH and the RS,
- Consumer associations,
- Educational institutions and media,
- Inspectorates and other authorities under law.

This Law also established the institution of BiH Consumer Protection Ombudsman whose competences are discussed at a greater length in the section on competent institutions. The BiH Consumer Protection Ombudsman was established with the aim of promotion and sound and efficient implementation of consumer protection policy in BiH.⁵⁷ The headquarters of the institution of BiH Consumer Protection Ombudsman are in Mostar.

The Law on Amendments to the BiH Consumer Protection Law provides that consumer loan agreements must not include a provision on the indexed foreign currency except in Euros.⁵⁸

A Consumer Protection Law was also enacted in the Republika Srpska in 2014, providing for the basic consumer rights when buying goods and services, consumer health and safety protection, fair business practices, etc. This Law does not treat the segment of financial consumer protection.

⁵⁶ - The CPL, Article 98

⁵⁷ - The CPL, Article 100

⁵⁸ - The Law on Amendments to BiH Consumer Protection Law, Article 52a, (Official Gazette of BiH, number 88/15).

MAIN DEFINITIONS

ANNUITY

Annuity is an amount of money with which credit or loan is repaid in a specific time period. Annuity includes both a portion of debt and related interest and it is distributed so that loan is fully repaid on its maturity.

CENTRAL CREDIT REGISTER (CCR)

Central Credit Register is a register of all loans issued by financial institutions in BiH, which is kept by the BiH Central Bank. It shows all credit or loan debts and guarantees with details of loans.

DEBIT CARD

Debit card is a representative of a current bank account. The funds that are available in the account are spent using the debit card.

MATURITY

Maturity is the day when a loan, loan installment, debt security or any other liability matures and needs to be paid.

ACCRUED INTEREST

Accrued interest is accumulated interest, due to be paid by a specific accounting period or day.

DEBTOR

Debtor is a person who is under obligation to a creditor to fulfill an obligation defined under an agreement between a creditor and a debtor.

EFFECTIVE INTEREST RATE

Effective interest rate (EIR) is an interest rate showing how much a loan really costs a client, i.e., what is total cost of a loan. Effective interest rate includes nominal interest rate and all loan charges.

PRINCIPAL

Principal is amount of money borrowed from a financial institution.

PRINCIPAL DEBTOR

Principal debtor is a person originally undertaking an obligation (debtor) to a creditor. They may be joined by other persons in different manners (guarantee), but other debtors' obligations depend on fulfillment of principal debtor's obligation.

MORTGAGE

Mortgage is a security instrument in banking practice, while in mortgage law it is defined as disposal with a specific share (interest) in a real estate or other property serving as a security for repayment of debt.

LOAN SECURITY INSTRUMENTS

Loan security instruments are claim recovery means that are available to a bank either when client stops repaying a loan or they repay it irregularly. The most common security instruments are: approval of attachment of earnings, approval of attachment of bank accounts, mortgage, promissory note, guarantors and life and property insurance policies.

ENFORCEMENT DEBTOR

Enforcement debtor is a person against whom claim is enforced.

BAILIFF

Bailiff is a court officer undertaking different immediate activities in enforcement proceedings on an order of a court.

GUARANTEE

Guarantee is an agreement whereby a third party, guarantor, undertakes to a creditor to fulfill a principal debtor's obligation if they default on it. Guarantor's obligation is accessory, meaning that it exists only if a valid principal debtor's obligation exists.

INTEREST

Interest is a fee for the use of replaceable movables lent, most commonly money. Amount of this fee is measured against principal amount and duration of its use.

INTEREST RATE

Interest rate is one hundredth of a price expressed for borrowed capital. Interest rate varies and depends on duration of recovery security and claim security.

LOAN

Loan is a specific sum of money that is lent by a financial organization (bank, etc.) as a creditor (lender) to a person (debtor, borrower), with the debtor's obligation to repay it to the creditor within an agreed period and pay a related fee – interest.

CREDIT CARD

Credit card is a non-cash instrument of payment operations serving also as a convenient means of short-term consumer lending. The basis for issuance of a card is funds in an account as coverage, approved loan or card beneficiary's creditworthiness.

CREDITWORTHINESS

Creditworthiness is a characteristic of a debtor underlying creditor's assessment of whether an approved loan will be repaid to them under an agreement.

PROMISSORY NOTE

Promissory note is a security whereby its issuer undertakes to its beneficiary (financial institution) to pay the amount indicated in it. Promissory note provides a guarantee against all assets owned by its issuer.

INSOLVENCY

Insolvency is inability to pay accrued liabilities within their due dates. In the case of some arrears in payment of accrued liabilities we are speaking about temporary insolvency, whereas permanent insolvency is characterized by a complete discontinuance in payments in the case of an impending bankruptcy of a business.

NOMINAL INTEREST RATE

Nominal interest rate is a net interest rate. It underlies calculation of installment amounts and it does not represent the final cost of a loan.

MORTGAGE INSURANCE

Mortgage insurance protects mortgage creditor against a loss of principal and interest in the case that the mortgage does not pass either partially or fully in a sale. It facilitates recovery of money for a creditor, because mortgage creditor bears no risk once mortgage insurance has been taken out.

CONSUMER LOAN

Consumer loan is a term covering various and widely spread consumer lending to citizens or households.

CREDITOR

Creditor in a an obligatory relationship is a party authorized to request counterparty (debtor) to hand them over a thing or do something or abstain from doing something that they would otherwise be entitled to do or to omit something. This is a two-sided obligatory relationship, meaning that both parties (each in relation to another) have both claim and debt.

VERDICT

Verdict is a court decision on main request and auxiliary claims.

OVERINDEBTEDNESS

In general, a person is considered overindebted when they are objectively unable to repay debt. In other words, when their income, after essential living expenses, is no longer sufficient to duly repay loan for a longer period.

ASSESSMENT OF CREDITWORTHINESS

Assessment of creditworthiness is an assessment of the ability and the willingness of a person to fulfill undertaken obligations. It is based on tracking the solidity of a loan applicant, their assets, level of their current indebtedness, analysis of quality of program for which they wish to borrow, ability to realize such program, etc.

REVOLVING LOAN

Revolving loan has neither an agreed upon repayment period nor a fixed monthly installment. The authorized funds may be used, the debt may be repaid and new borrowing may be undertaken throughout the entire loan duration. Credit cards are a type of a revolving loan.

INTEREST RATE RISK

Interest rate risk is a threat from an unexpected variation in the value of a debt due to a variation in the value of nominal interest rates.

ENFORCEMENT DECISION

Enforcement decision is a decision whereby an enforcement proposal is accepted either fully or partially or enforcement is mandated ex officio.

APPROVAL OF ATTACHMENT OF EARNINGS

Approval of attachment of earnings is a certified document whereby a debtor agrees to attachment of a portion of their earnings to be paid directly to a creditor in the manner specified in such document, in order for a creditor to recover their claim. Such document has a legal effect of an enforcement decision.

COSIGNER

Cosigner is either a legal entity or a natural person liable for recovery of all creditor's claims the same as a principal debtor.

CURRENT ACCOUNT

Current account is an account opened with a bank to have both earnings paid to it and make payments out of it.

ENFORCEMENT CREDITOR

Enforcement creditor is a person who has initiated proceedings to enforce a claim, as well as a person on whose behalf such proceedings have been initiated ex officio.

STANDING ORDER

Standing order serves to pay liabilities or make payments from a client's account for an account of another bank account with a different commercial bank. Utility bills, loan installments, child kindergarten charges, rent or other monthly payment liabilities may be paid with a standing order.

LOAN COSTS

Loan costs are overall costs debited by a creditor (lender) from debtor (loan beneficiary), and they include interest, fee and auxiliary charges (e.g., loan application processing fee).

DEFENDANT

Defendant is a party under procedural law against whom civil action is commenced.

PLAINTIFF

Plaintiff is a party under procedural law who commences civil action.

LOAN AGREEMENT

Loan agreement includes the mutual rights and obligations of the parties to the agreement in a loan relationship.

CURRENCY CLAUSE

Currency clause is tying of loan repayment to exchange rate against a foreign currency. Variation in the exchange rate of the given currency means variation in the loan installment.

COLLATERAL

Collateral is a form of security for creditor's claims. Under a collateral agreement, a debtor or a third party (collateral debtor) undertakes to hand over to creditor (collateral creditor) typically a movable thing to which there is a title, in order to be able to recover their claim from its value before other creditors if their claim is not paid to them on maturity. At the same time, (creditor) collateral creditor undertakes to look after the thing handed over to them and return it undamaged after the cessation of claims.

PENALTY INTEREST

If a person is in arrears with the repayment of a loan, penalty interest accrues against them and they pay it as an additional price (penalty) for either being in arrears or defaulting on an installment. Regular interest also accrues at the same time and they are required to pay both interests.

FREE COUNSELING

1. BIJELJINA

Bijeljina City Administration
Tuesdays and Fridays 13:00-15:00 hrs
Tel.: +387 55 233 450
Bijeljina Center for Social Work Tuesdays
and Fridays 13:00-15:00 hrs
Tel.: +387 55 201 090

2. BOSANSKI PETROVAC

Bosanski Petrovac Municipality
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 37 883 600

3. BRATUNAC

Bratunac Municipality
Wednesdays and Fridays 12:00-15:00 hrs
Tel.: +387 56 411 085

4. BROD

Brod Municipality
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 53 610 169

5. CAZIN

Cazin Municipality
Tuesdays and Thursdays 8:00-10:00 hrs
Tel.: +387 37 515 300

6. CAJNICE

Cajnice Municipality
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 58 315 404

7. GRADACAC

Gradacac Municipality
Mondays and Fridays 10:00-12:00 hrs
Tel.: +387 35 369 750

8. KAKANJ

Kakanj Municipality
Tuesdays and Thursdays 13:30-15:30 hrs
Tel.: +387 32 771 800
Kakanj Center for Social Work
Tuesdays and Thursdays 13:30-15:30 hrs
Tel.: +387 32 553 076

9. KISELJAK

Kiseljak Municipality
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 30 877 800

10. KRESEVO

Kresevo Municipality
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 30 806 602

11. MILICI

Milici Municipality
Tuesdays and Thursdays 13:00 - 15:00
hrs Tel.: +387 56 745 521

12. MRKONJIC GRAD

Mrkonjic Grad Municipality
Wednesdays and Fridays 12:00-15:00 hrs
Tel.: +387 50 220 950; 080 05 01 01

13. NEVESINJE

Nevesinje Municipality
Wednesdays and Fridays 12:00-14:00 hrs
Tel.: +387 59 601 011

14. NOVI TRAVNIK

Novi Travnik Municipality Tuesdays
14:00-16:00 hrs Thursdays 15:00-17:00 hrs
Tel.: +387 30 795 632
+387 30 795 609
+387 30 795 619

15. PETROVO

Petrovo Municipality
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 53 262 703

16. POSUSJE

Posusje Municipality
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 39 681 035

17. PRNJAVOR

Prnjavor Municipality
Wednesdays 07:00-15:00 hrs
Tel.: +387 32 878 314

18. SREBRENICA

Srebrenica Municipality
Mondays and Fridays 12:00-15:00 hrs
Tel.: +387 56 445 500

19. STARI GRAD SARAJEVO

Stari Grad Sarajevo Municipality
Mondays and Wednesdays 13:00-15:00 hrs
Tel.: +387 33 282 484

20. SAMAC

Samac Municipality
Wednesdays and Fridays 12:00-14:00 hrs
Tel.: +387 56 232 200

21. TESLIC

Teslic Municipality
Tuesdays and Thursdays 15:00-17:00 hrs
Tel.: +387 53 411 529

22. TREBINJE

City of Trebinje

23. TUZLA

Tuzla City Administration
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 35 307 380

Tuzla Center for Social Work

Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 35 369 032

24. VISOKO

Visoko Municipality
Mondays, Wednesdays and Fridays
13:00-15:00 hrs Tel.: +387 732 500

25. VLASENICA

Vlasenica Municipality
Wednesdays and Fridays 13:00-15:00 hrs
Tel.: +387 56 734 710

26. ZAVIDOVICI

Zavidovici Municipality
Tuesdays and Thursdays 13:00-15:00 hrs
Tel.: +387 32 878 314

27. ZVORNIK

Zvornik City Administrations
Tuesdays and Thursdays 13:30-15:30 hrs
Tel.: +387 56 232 200

USEFUL CONTACTS

FBiH Banking Agency / Banking System Ombudsman

Address: Zmaja od Bosne 47b, 71000 Sarajevo, Bosnia and Herzegovina

Telephone: + 387 (0)33 721 4 00, Fax: + 387 (0)33 66 88 11

E - mail: agencija@fba.ba Web site: www.fba.ba

RS Banking Agency / Banking System Ombudsman

Address: Vase Pelagica 11a, 78000 Banja Luka

Telephone: +387 (0)51 218 111; 218 112; Fax:+ 387 (0)51 216 665; 218 029

E-mail: office@abrs.ba, agbankrs@inecco.net Web site: www.abrs.ba

Insurance Deposit Agency of Bosnia and Herzegovina

Address: Vase Pelagica 11a, 78000 Banja Luka

Telephone: +387 (0)51 223 440, Fax: +387 (0)51 223 452

E-mail: aod@bih.net.ba Web site: www.aod.ba

Central Bank of Bosnia and Herzegovina

Address: Marsala Tita 25, 71000 Sarajevo

Telephone: +387 (0)33 278 107, Fax: +387 (0)33 278 293

E-mail: bankarstvo@cbbh.ba Web site: www.cbbh.ba

East Sarajevo Free Legal Aid Center

Address: Dobrobosanska 14, 71123 East Sarajevo

Telephone: +387 (0)57 310 451, 310 450

E-mail: centaris@teol.net

Web site: www.mpr-centar.org

Zenica-Doboj Cantonal Legal Aid Office

Address: Kocevaska cikma 1, 72000 Zenica

Telephone: + 387 (0)32 460 760, 460 761

E-mail: kzpp@zdk.ba

Ministry of Finance of the Federation of BiH

Address: Mehmeda Spahe 5, 71000 Sarajevo

Telephone: +387 (0)33 253 400

E-mail: info@fmf.gov.ba

Web site: www.fmf.gov.ba

RS Ministry of Finance

Address: Trg Republike Srpske 1, 78000 Banja Luka

Telephone: + 387 (0)51 339 768, 339 645

E-mail: mf@mf.vladars.net

Consumer Protection Ombudsman in Bosnia and Herzegovina

Address: Kralja Petra Kresimira IV 8/A, 88000 Mostar

Telephone: + 387 (0)36 311 212, 311 210

Web site: www.ozp.gov.ba

Sarajevo Canton Legal Aid Office

Address: Branilaca Sarajeva 21, 71000 Sarajevo

Telephone: + 387 (0)33 275 660, 275 661

E-mail: zbpp@zbpp.ks.gov.ba

Tuzla Canton Legal Aid Office

Address: Dzafer Mahala 51, 75000 Tuzla

Telephone: + 387 (0)35 307 864, 307-866

E-mail: kzppp@tk.kim.ba



Consolidated Financial Statement
Six months period ended
2021
30 June
2020

	2021	2020
Revenue	64,122,896	55,208,766
Cost of sales (including depreciation)	(9,100,100)	(8,200,000)
Operating profit	55,022,796	47,008,766
Finance income	125,000	125,000
Finance expense	(125,000)	(125,000)
Share of profit of associates	100,000	100,000
Income tax expense	(1,000,000)	(1,000,000)
Profit before income tax	54,022,796	46,108,766
Income tax expense	(1,000,000)	(1,000,000)
Profit after income tax	53,022,796	45,108,766

Product Type	Percentage
Product Type 1	17%
Product Type 2	6%
Product Type 3	3%
Product Type 4	8%
Product Type 5	9%
Product Type 6	5%
Product Type 7	4%
Product Type 8	2%
Product Type 9	1%
Product Type 10	1%