

On Consumer Credits

The purpose of this law is protecting rights of consumers in the Republic of Armenia who are party to the consumer credit agreements, or willing to use consumer credit, development of credit system and establishment of unilateral rules, enhancement of financial intermediation and increasing of consumers' confidence towards financial system.

Chapter 1 General Provisions

Article 1. Subject of Regulation

1. This law regulates relations pertaining to credit agreements, peculiarities of the types of credit agreements and mandatory conditions, procedure and terms of calculation of annual actual interest rate, creditors' liability, rights of consumers under credit agreements and other relations pertaining to credit agreements.

Article 2. Main Concepts Used in Law

1. The following main concepts shall be used in this law:

1) **credit** – right of deferred payment of liability, loan, borrowing, financial leasing or any other agreement or arrangement, with the view of financing purchase of goods, services or works;

2) **creditor** – a bank, branch of a foreign bank, credit organization or pawnshop who extends a credit;

3) **credit agreement** – a transaction by which creditor extends, or agrees to extend a credit to consumer;

4) **supplier** – an individual or a legal entity who is a selling goods or providing services or carrying out works;

5) **Annual Percentage Rate or APR** – total cost of consumer credit, expressed in annual interest rate on the extended credit and calculated based on formula provided in Article 13, hereof;

6) **consumer** – individual receiving credit exclusively for ordering or purchase of goods (works, services) not related with entrepreneurial activities, for personal, family, house, or other consumption purposes;

7) **total cost of consumer credit** – all interest and other payments, which consumer shall pay (execute) for credit;

8) **overdraft** – amount provided by bank in form of credit for consumption purposes to banking, deposit or other account, or a promise to provide such amount, including through payment cards;

9) **credit agreement through credit card** – credit agreement, under which creditor extends to consumer on permanent terms a renewable, or non-renewable credit line of within a pre-agreed amount, irrespective of availability of banking, deposit, or other account, in order to finance consumer's purchases, other payments and demand for cash through credit card.

10) **Financial System Ombudsman** – person defined by the Republic of Armenia law “On Financial System Ombudsman”.

Article 3. Exempted Credit Agreements

1. Provisions of this law shall not apply to:

1) credit agreements, which do not provide for payment (execution) of interest or other compensation;

2) credit agreements up to one hundred thousand Drams and exceeding ten million Drams;

3) credit agreements, which are mainly made for acquisition of title over the land, existing or constructed building (construction) or apartment, or retention of such title;

4) credit agreements providing for extension of a credit for repair, reconstruction or refurbishing of a building (construction) or apartment.

5) lease contracts, except for the cases when the contract provides that the title over the object of lease shall be transferred to lessee. Provisions of this law shall not apply to lease contracts for the property indicated under clause 3, hereof.

Chapter 2

Credit Agreements

Article 4. Credit Agreements

1. Credit agreement shall be made in writing form.
2. Consumer shall receive an original copy of credit agreement.
3. Credit agreement shall at least include:
 - 1) annual percentage rate;
 - 2) procedure, conditions and term of revision (change) of annual percentage rate;
 - 3) in case of possibility, amount, number, frequency or time periods of repayments, interest payments and other mandatory payments by consumer, as well the total (full) amount of payments thereto;
 - 4) cost of insurance, valuation and other supporting services, provided the use of such supporting services is a prerequisite for signing credit agreement, or receiving the advertised annual percentage rate, and creditor is the beneficiary of those supporting services, or creditor defines the scope of persons, with whom consumer may sign agreement on provision of supporting services;
 - 5) penalty applied by creditor in case of a consumer's failure to fulfill his liabilities, or their improper fulfillment (fine, or any other penalty leading to deterioration of consumer's position), procedure and cases of its application;
 - 6) note on consumer rights, defined under Article 10, hereof;
 - 7) note on reflection period;
 - 8) notes on information, conditions, procedure and time periods by each type of credit agreement, established under this law and stipulated by the Central Bank of Armenia (hereafter referred as the Central Bank) statutory acts;
4. The Central Bank may by its statutory acts prescribe mandatory texts or samples, or minimum requirements for certain information disclosed within credit agreements.

5. Credit agreements shall be formulated in a comprehensive, literary Armenian language.

Article 5. Credit Agreements for Financing Purchase of Goods, Services and Works

1. In addition to conditions and information indicated under part 3, Article 4, hereof, credit agreements for financing purchase of goods, services and works shall provide for:

- 1) description of goods, services and works financed under credit agreements;
- 2) price of goods, services and works purchased under credit agreement, as well as price of those goods, services and works without credit (cash price);
- 3) amount of prepayment or other amount deposited as a security;
- 4) date, month, year and amount of installment payments and prepayments and other payments;
- 5) in case if the right of ownership over the goods is not transferred to the consumer at the moment of signing agreement, information about the owner of the goods, as well as procedure and conditions for the transfer of right of ownership to consumer;
- 6) description of security, in case of its availability;
- 7) where consumer is liable for depositing funds at special account for the whole period of credit agreement, information about the amount, time period, terms of use, etc. of deposited funds and other terms;
- 8) where conditions and information defined under clauses 3 and/or 4, hereof, cannot be defined while signing credit agreement, the latter shall provide information on terms and conditions of their establishment.

Article 6. Credit Card Credit Agreements

1. In addition to information indicated under part 3, Article 4, hereof, credit card credit agreements shall provide for:

- 1) maximum limit of credit provided through credit card;
 - 2) credit repayment conditions and procedure for their establishment;
2. Credit card may be provided to consumer only with his written consent.

Article 7. Agreements Providing for Overdraft or Considered as Basis for Overdraft

1. In addition to information indicated under part 3, Article 4, hereof, agreements providing for overdraft, or considered as basis for overdraft shall provide for:

- 1) overdraft limit;
- 2) reference on use of overdraft and repayment conditions;
- 3) terms, conditions and deadlines for terminating overdraft agreements.

Article 8. Other Credit Agreements Regulated by this Law

1. In addition to information indicated under part 3, Article 4, hereof, other credit agreements regulated by this law shall provide for:

- 1) maximum limit of credit provided;
- 2) description of security where available;
- 3) conditions on use and repayment of credit.

Chapter 3

Consumer Rights

Article 9. Consumer Right to Terminate Credit Agreement

1. Consumer shall be entitled to unilaterally terminate credit agreement without any substantiation within 7 days after its signing, unless a longer period is established by credit agreement (period of reflection). In that event, consumer shall pay interest to creditor for the use of credit, which shall be accrued at the annual percentage rate established under credit agreement. No other compensation can be required from consumer related to termination of credit agreement.

2. Consumer shall be entitled to unilaterally terminate credit agreement in accordance with provisions of Article 1, hereof, also in case where the sale and purchase agreement or agreement on provision of services or rendering work financed by credit has been terminated.

Article 10. Consumer Right of Early Fulfillment of Liabilities under Credit Agreement

1. Consumer shall be entitled to early (ahead of schedule) fulfillment (settlement) of liabilities under credit agreement, irrespective of the fact whether such right has been stipulated in the credit agreement or not.

2. In case of early fulfillment (settlement) of liabilities under credit agreement, total cost on credit of the consumer shall be reduced proportionally.

3. Agreement on limiting consumer's rights stipulated under parts 1 and 2 hereof, as well as on imposing liability stipulated under part 4, hereof, shall be invalid.

4. In case consumer exercises his rights stipulated under parts 1 and 2 hereof, creditor does not have a right to apply any penalty (fine or any other measure having negative impact on consumer's standing).

Article 11. Consequences of Transferring Creditor's Rights

1. In case creditor's rights are transferred to a third person, consumer shall be entitled to:

1) present to the new creditor all the objections, which it had against original creditor after the the moment of receiving notification about transfer of rights to the new creditor.

2) set off the cross liabilities, unless stipulated otherwise by the law.

Article 12. Consumer's Right to Present Claims to Creditor (Debtee)

1. A consumer may directly present to the creditor claims defined under the Republic of Armenia Law "On Protection of Consumer Rights", other laws and statutory acts, as well as the agreement, where:

1) consumer has signed a credit agreement for purchase of goods, services, or works with a person who is not considered a supplier; and

2) before signing the agreement defined in part 1, hereof, creditor and supplier signed an agreement by which creditor agreed to provide credit to the customers and counterparties of the given supplier, with the aim of purchase of goods, services and works from him, or while purchasing goods, services and works, consumer paid by credit card provided by the creditor; and

3) goods, services and works purchased through credit agreement, or by credit provided based on that credit agreement have not been received (provided), or have been received (provided) partially, or they do not comply with provisions established by law and/or transaction on purchase of goods, services, or works; and

4) consumer has bona fide tried to exercise his rights provided by law or contract and present claims, but the supplier has failed to perform his duties stipulated by law, or agreement in a due manner.

2. If the consumer is entitled to return goods to supplier and presents claim to creditor, in manner established under part 1 hereof, the latter may refuse to accept the goods, if:

1) packaging of goods has not been preserved; or

2) goods were used with violation of provisions established under laws, other statutory acts, or documents attached?? to goods.

Chapter 4

Calculation of Annual Percentage Rate

Article 13. Formula and Explanation for Calculation of Annual Percentage Rate

1. Annual Percentage Rates shall be calculated based on the following formula:

$$A = \sum_{n=1}^N \frac{K_n}{(1+i)^{\frac{D_n}{365}}}$$

Where:

i - Annual Percentage Rate (APR).

A – Credit amount (initial amount of credit provided to consumer by creditor).

n – number of the repayment directed to credit repayment

N - number of the last repayment directed to credit repayment

K_n - amount of the n -th repayment directed to credit repayment

D_n – time period between the day of credit extension and the day of making the n -th repayment directed to credit repayment, expressed in number of days

i – annual percentage rate, may be calculated when other data of equation are known from the credit agreement, or from elsewhere.

Article 14. Procedure of Calculation of Annual Percentage Rate

1. Annual percentage rate shall be calculated at the moment of signing credit agreement, assuming that credit agreement will remain effective during the agreed period, and the parties will fulfill the liabilities established thereof in due manner and within the agreed period.

2. In case if the credit agreement contains provisions, which allow changes or fluctuations in quantity or rate of interest and/or of other payments included in the total credit cost of consumer, and the changes thereto cannot be expressed in monetary terms, annual percentage rate shall be calculated assuming that interest and/or other payments included in the total credit cost of consumer would remain stable and would apply till the end of the period of credit agreement.

3. While calculating annual percentage rate, the following principles shall be applied wherever necessary:

1) if credit agreement does not establish the credit limit, maximum limit of the extended credit shall be equal to one million Drams;

2) if credit agreement provides that consumer may receive credit in parts, or may choose the moment for receiving credit, it should be assumed that the total amount of credit was extended to consumer at the moment of signing credit agreement;

3) if credit agreement does not establish credit repayment schedule, or provisions of credit agreement do not provide time periods and sources of repayment, credit repayment period shall be considered one year;

4) if credit agreement establishes more than one credit repayment dates, repayment of credit shall be done at the earliest repayment date established by credit contract, unless envisaged otherwise by credit agreement;

4. The Central Bank by its statutory acts may provide explanations and examples of annual percentage rate formula and calculation as defined under Article 13 of this law.

Article 15. Payments Not Included in the Total Cost of Consumer Credit

1. The following payments shall not be included in the total cost of consumer credit:

1) fines and other payments paid or to be paid for failure to fulfill or improper fulfillment of liabilities prescribed by law or credit agreement;

2) payments which has to be made by consumer irrespective of payment by credit or in cash for goods, services and works;

3) payments by consumer for transfers for credit repayment and interest payments, and for servicing the accounts opened for that purpose, except for the case when the consumer does not have a reasonable alternative and such payments exceed 1.5-fold average for such payments in the Republic of Armenia. The Central Bank shall announce the average amount of payments described in this clause in the form of statistical data;

4) payments established for membership, or subscription to organizations, unions, or other groups (except for those, whose founder or participant is the creditor), arising from agreements not arising from the credit agreement, even in case when the terms of the credit depend upon such membership or subscription.

5) payments for insurance, valuation and other supporting services, except for the cases when use of such services is a pre-condition for signing a credit agreement, or receiving the advertised annual percentage rate; and

a. creditor is the beneficiary of those services; or

b. creditor defines the scope of persons, with whom consumer may sign agreement on provision of supporting services.

Chapter 5

Advertising and Communication

Article 16. Advertising

1. Any advertising, announcement, proposal, offer or invitation to make an offer, which is made at place of activity of creditor, or on creditor's or other Internet site, or through electronic or print media or through other means of disseminating advertisement, announcement, proposal, or offer, and which contains a reference on the amount of interest, or any other payment or cost relating to extension of credit, shall include the amount of annual percentage rate, and where it is not possible to inform customers about the size of annual percentage rate in a reasonable manner, an example of calculation thereto shall be presented.

2. Any advertisement, announcement, proposal, offer, or invitation to make an offer carried out in the Republic of Armenia, or placed in Internet shall not be confusing, complicated, or misleading.

Article 17. Communication of Creditor and Consumer

1. Any communication between creditor and consumer, which relates to terms of credit agreement, or manner of communication between the parties, or establishment, change, or suspension of rights and obligations or responsibility of the parties, or relates to laws, statutory norms, or creditor's internal acts affecting credit agreement, shall be made in writing, through mail service, except for in cases indicated under part 3, hereof. At that, information indicated hereof shall be considered mandatory provided information.

2. Creditor shall in writing with a frequency established by it or by the credit agreement, but not less than on a thirty days basis, provide the consumer with information on consumer's liabilities arising from credit agreement, the grounds of such liabilities and repayments, including a comprehensive list of applicable and applied penalties for failure or improper fulfillment of consumer's liabilities (fine or any other measure having negative effect on consumer's standing), and cases and terms of their application, through mail service, except for the cases indicated under part 3, hereof.

3. By filing an application, including through electronic service, consumer may waive his right of receiving information established under parts 1 and 2, hereof, through mail service, requesting to receive mandatory provided information through electronic or other communication services, or at the premises of bank. Any provision limiting the right of consumer to receiving mandatory provided information through electronic or other communication services, or at the premises of bank shall be invalid. At that, creditor may not force consumer, including through creation of unfavorable situation for consumer, to waive his right of receiving mandatory provided information through mail service.

4. If mandatory information is provided at the premises of bank, bank shall maintain the unclaimed information in a hard copy form, or on an electronic data carrier for at least three years.

5. For the purpose of protecting consumer rights, the Central Bank may establish by its statutory acts procedure, terms, forms and the minimum requirements for the communication stipulated by this article.

Chapter 6

Protection of Consumer Rights, Supervision and Liability for Violating this Law

Article 18. Protection of Consumer Rights through Court, Arbitration and by Financial System Ombudsman

1. Consumer rights established by this law and other statutory acts shall be subject to protection through court, and in cases prescribed by law, through arbitration, as well as by Financial System Ombudsman.

2. Where consumer and creditor sign an arbitration agreement in relation to the credit agreement, creditor shall disclose sufficient information to consumer about rights and obligations of parties.

3. For the purpose of protecting consumer rights, the Central Bank may by its statutory norms establish the minimum requirements and/or sample formats for provision of information prescribed under part 2, hereof.

4. Creditor may not set the arbitration agreement as a precondition for signing the credit agreement.

Article 19. Creditor's Liability

1. Where in 365 days a creditor committed one violation of provisions of this law and statutory acts thereto, the Central Bank may impose fine in amount of one hundred thousand Drams.

2. Where in 365 days a creditor committed two violations of this law and statutory acts thereto, the Central Bank may impose fine in amount of three hundred thousand Drams.

3. Where in 365 days a creditor committed three and more violations of this law and statutory acts thereto, the Central Bank may impose fine in amount of five hundred thousand Drams.

4. Where a creditor disagrees with imposition of fine, or its size, the fine shall be levied by court, based on the claim of the Central Bank. The fine shall be transferred to the State budget as budget revenue.

5. Where creditor commits several violations of the same provision of this law and statutory acts established for the purposes of implementing this law, each violation shall be considered as a separate breach.

6. The Central Bank shall impose the penalties established by this law in accordance with procedure established by the Republic of Armenia law “On the Republic of Armenia Central Bank.”

Article 20. Creditor’s Liability Towards Consumer

1. Where creditor violates any of consumer rights established by this law, consumer is entitled to recourse immediately to court or Financial System Ombudsman or, in cases prescribed by law, apply to commercial arbitration. Where the fact of violating rights of a consumer has been established by the court or by decision of Financial System Ombudsman, three hundred thousand Drams shall be levied for consumer’s benefit. At that, the right of a consumer stipulated by this Article may not be viewed as a provision limiting or annulling the right of a consumer to claim compensation for incurred losses.

Article 21. Supervision over Fulfillment of Provisions of this Law

1. The Central Bank shall be responsible for the superviaion over fulfillment of provisions of this law.

Chapter 8 Transitional Provisions

Article 22. Transitional Provisions

1. This law shall enter into force in six months after promulgation, except for Article 12, which shall enter into force in five years after promulgation.

Provisions of this law shall not apply to credit agreements signed before its adoption, except for the cases where at least one of material provisions of the credit agreement signed before this law enters into force has been revised. In case of a revision of at least one of the material provisions of credit agreement, the whole credit agreement shall be brought into compliance with provisions of this law.

**Republic of Armenia
President**

S. Sarkissian