



THERE IS A VERY HIGH RATIO OF REAL ESTATE OWNED BY INDIVIDUALS IN HUNGARY COMPARED WITH THE COUNTRIES OF WESTERN EUROPE



Hungary: Personal bankruptcy law

There is a very high ratio of real estate owned by individuals in Hungary compared with the countries of Western Europe, but most of the owners are indebted because of mortgage loans.

Nowadays a lot of these mortgage loans are unpaid. By estimation approx. 1244 billion HUF is the total debt of the population to the banks. Furthermore there is another 100 billion HUF debt to the public utilities.

The legal consequence of the permanent insolvency is eventually the official real estate auction and the eviction. For solving it the legislative body incorporates the insolvency law for indebted individuals or families. The act will enter into force on 1 September 2015.

The procedure is in fact a debt restructuring. The aim of it is to pay the debts and to re-establish the liquidity of the debtors. As personal bankruptcy is a new element in the Hungarian insolvency law it is

available for individuals who are unable to pay their mortgage loans for 90 days, but they have properties and, with help, they are able to keep the mortgaged real estates. This is a special feature of the law that is aimed to ensure the debtor's right to occupancy.

The bankruptcy trustees will be employed by the regional Government Offices and they will be supported by a special legal-financial-psychological team. They can be a lawyer, an economic specialist or a social worker.

The main provisions of the law are:

1. It is the debtor's choice.
2. In the first year it will be only available for the debtors who took a mortgage loan, then for all the others.
3. The debt amounts to from 2 to 60 million HUF.
4. The debt installment was not paid for 90 days and it amounts to at least 500,000 HUF.
5. The debtor shall owe only to a limited number of creditors according to the law, but at least one has to be a mortgagee.

6. The debt shall represent between the 100% and 200% of the debtor's properties.
7. Under personal bankruptcy proceedings, the debtor will pay smaller amounts than usual and at the end a portion of the debt will be waved, so that he will pay only about 95 % of the total amount owed.
8. The procedure will take five to maximum seven years and it will only be allowed once.
9. With the permission of the bank, the property in question could be considered apart from the other assets.

The goal is that after a successful bankruptcy the debtor can settle his debt in a short time and could keep his property. At the same time, for creditors it is more interesting to count on the recovery of the debt as the law guarantees a minimum recovery.

Thus, the Government expects to reduce the amount of unpaid debts and the number of new debtors.



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