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Guide on the Central Bank of Malta Directive 18: “On Moratoria on Credit Facilities in Exceptional Circumstances”

In the following guide, readers will find additional information and guidance on the Legal Notice 142 (L.N. 142) and Central Bank of Malta (‘CBM’) Directive no 18 (‘the Directive’) published on 13 April 2020, both of which regulate the temporary suspension of debt repayments on credit facilities advanced by credit and financial institutions to borrowers prior to 13th April 2020.

➤ **Why has Directive 18 been issued by the Central Bank of Malta?**

The COVID-19 outbreak is formally recognised as a serious disturbance to the Maltese economy, which as a consequence also seriously threatens financial stability in Malta.

On 13 April 2020, the Minister responsible for Public Health (‘the Minister’), with the concurrence and in consultation with the Minister for Finance and Financial Services, issued Legal Notice 142 of 2020 (LN), which sets a moratorium – in exceptional circumstances – on the credit facilities advanced by credit and financial institutions.

This LN allows a temporary moratorium to be applied by credit and financial institutions on credit facilities, to support economically vulnerable persons who have been materially affected by the exceptional circumstances brought about by COVID-19.

The pandemic is expected to give rise to temporary financial hardship on affected borrowers who will likely face liquidity shortages and difficulties in honouring their financial and other commitments in a timely manner. Such financial difficulties will in turn also impact lenders. This LN delegates legal powers to the Central Bank of Malta to issue a Directive which would specifically regulate this moratorium. In this regard, the Central Bank of Malta has issued Directive 18, following consultation with the Malta Financial Services Authority and the Malta Bankers’ Association.

➤ **What is a moratorium?**

A moratorium is a *temporary* suspension of a borrower’s repayment obligations. Therefore, borrowers qualifying for this moratorium will be permitted to postpone to a later date their obligations in relation to their capital and/or interest repayments.

➤ **For how long will this moratorium apply and can it be extended?**

The moratorium is initially set for six months from the date of approval of the borrower's application by his/her credit or financial institution. However, the initial six-month moratorium period can be further extended by the Minister responsible for Public Health if deemed necessary.

➤ **How much time do I have to apply?**

Borrowers have until 30 June 2020 to apply. This application period could be extended by the Minister. Credit and financial institutions shall make a decision on the application for the moratorium within 10 working days from the application date. The moratorium comes into effect from the date that the application has been approved.

➤ **Who is eligible for the moratorium?**

The moratorium applies to all retail and non-retail clients of credit and financial institutions, which include:

- Non-financial corporations
- Micro, small and medium, and large enterprises
- Self-employed
- Persons in employment
- Persons who were employed before the start of the moratorium period but became unemployed during the period of the moratorium
- Households

Furthermore, applicants need to have been regular in their repayment obligations – in other words not have been in arrears – prior to 1 March 2020. Applicants should also not have been offered any suspension unrelated to the COVID-19 outbreak by the credit and financial institution before this date.

Applicants also need to demonstrate to the credit and financial institution that their ability to pay has been materially impacted by the COVID-19 outbreak, in such a way that the borrower cannot adhere to the repayment commitments of the capital and/or interest in part or in full.

➤ **What types of loans are covered by this Directive?**

The definition of a credit facility under the Directive is wide ranging. The following is a list of examples of eligible facilities:

- Mortgages
- Business and commercial loans
- Buy-to-let loans

- Personal loans
- Bullet loans
- Overdrafts
- Bills of exchange (including endorsed *pour aval*),
- Promissory notes
- Guarantees
- Indemnities
- Acceptances

On the other hand, the Directive excludes credit facilities advanced to other credit or financial institutions.

➤ **Does the moratorium cover credit card payments?**

Credit cards are being excluded from this Directive. Credit cards are a type of revolving credit, meaning that when monthly payments are skipped, the balance drawn would incur more interest in the subsequent months.

➤ **Do I need to apply for this moratorium and how can I apply in that case?**

Yes, if you would like to avail yourself of this moratorium, you have to apply. In other words, this moratorium does not apply automatically. You can contact your credit or financial institution for further details on how to apply for this moratorium, and on what documentation will be required from your end.

➤ **What form of evidence should I provide with my application to prove that my repaying capacity has been materially impaired?**

Your credit or financial institution has its own internal practices and procedures for clients' assessments. For this reason, it is up to your credit or financial institution to inform you what evidence it needs to process your application. These are typically listed in the application process and may include:

- Payslips for the previous three months
- FS3 forms
- Employment contract
- VAT returns (for businesses)
- Latest financial reporting statements and accounts (for businesses)
- Latest bank statements
- Dismissal letters where applicable
- Order of closure of business and/or operations

➤ **Will I be subject to any additional charges if I make use of the moratorium?**

As stipulated in the Directive, no penalties or restructuring/administrative fees shall apply to successful applicants for this moratorium.

➤ **Will interest still be charged during the moratorium, and – if yes – will it keep increasing (compounding)?**

A moratorium is a temporary suspension of the borrower's repayment obligations. Therefore, the obligations of capital and accrued interest are NOT being cancelled but rather postponed for payment at a later date. During the duration of the moratorium, you can choose to pay neither your principal nor the interest accrued. In this case, the interest accrued during the moratorium will still be due, but it will not attract additional interest. In other words, there will be no compounding of interest during this period; however, your interest due will be suspended and paid at a later stage.

➤ **How will my payment schedule be affected after the moratorium period?**

Your credit or financial institution will be re-computing your repayments schedule to incorporate the normal resumption of the capital and interest repayments, as well as the interest accrued but that has been deferred during the moratorium period. As mentioned in the reply to the previous question, you should be aware that the interest deferred during the moratorium, although charged and therefore still due, will not attract further interest. In other words, you will not incur interest on the interest that has been deferred during the moratorium period (no compounding).

In practice, your repayment schedule will be extended further in time so that – as far as possible – to minimise the increase in your monthly repayments after the moratorium period. This will be done by re-computing your payment schedule to incorporate also the deferred payments of interest accruing during the moratorium, which will in turn be spread evenly throughout the modified term of the loan. Various options are available for borrowers, so you are advised to seek your-credit or financial institution's guidance.

In case of household or non-commercial loans, such as mortgages or other personal loans, whose term already extends up to retirement age, the deferred repayments due will be spread evenly throughout the remaining term of the loan. This is to limit as much as possible any increase in the modified repayment schedule post-moratorium.

Be aware that the extension of the loan duration may result in a requirement to extend other ancillary services or coverage, such as, for example, the term of the borrower(s)' life insurance policy. The additional costs related to these required extensions will be borne by the borrower.

➤ **Can I apply for a moratorium for more than one loan?**

You can apply for a moratorium on more than one loan, provided they are in line with the eligibility criteria of the Directive.

➤ **Can my application be refused?**

Yes. This Directive sets out clear eligibility criteria that, if not met, will result in an application being turned down. It is up to the credit or financial institution to assess and decide on your application. On their part, credit and financial institutions have an obligation at law to adhere to the provisions of this Directive and hence safeguard the rights of eligible applicants. The CBM may also impose sanctions on credit and financial institutions that are found to be in breach of the Directive.

➤ **Can I apply for a temporary reduction in my payment instead of a postponement of the full payment amounts?**

Should you wish to do so, you are being given the flexibility to opt for reduced monthly payments during the moratorium instead of postponing the entire amount. Customers may also opt to keep paying their interest payments. The borrower should note that this option is completely voluntary and the Directive gives those eligible the right to a full deferral of both capital and interest repayments throughout the duration of the moratorium.

➤ **Several banks have already announced payment reliefs to their customers. What if I am already making use of a moratorium offered by my bank?**

If you are already benefitting from a moratorium and you are satisfied with the terms offered, you need not apply again under the terms of this Directive. On the other hand, should you wish to fall in line with the terms set out in the Directive, you may seek a new agreement with your credit or financial institution, and in the event of an agreement, a new application would need to be filed.

➤ **What if my loan matures during the moratorium period?**

Any form of repayment is being postponed until the moratorium is lifted, and this applies also to those loans maturing within the moratorium period. However, as mentioned above, an application has to be submitted by the borrower and accepted by the credit or financial institution.

➤ **If I apply for a new loan during the moratorium period, will it be subject to the moratorium?**

No. The moratorium is only available for loans sanctioned before the publication of L.N. 142 i.e. 13 April 2020. Credit or financial institutions may grant new loans to their customers, but these will be subject to the standard bank policy and procedures and any extraordinary measures taken by Government in this regard.