

On Consumer Credits

The purpose of this law is protecting rights of consumers considered a party of the Republic of Armenia consumer credit agreements, or willing to enjoy consumer crediting, development of credit system and establishment of unilateral rules, enhancement of financial mediation 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 their types and mandatory conditions, procedure and provisions on calculation of annual actual interest rates, credit 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 for installment repayment of liability, loan, borrowing, financial leasing or any other agreement or arrangement, with the view to financing procurement of goods, services or works;

2) **crediting bank** – a bank, branch of a foreign bank, credit organization or pawnshop extending a credit;

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

4) **supplier** – an individual or a physical person selling goods or providing services or executing works;

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

6) **consumer** – a citizen receiving credit exclusively for ordering or procurement 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 rates and other payments, which consumer shall pay (execute) for credit;

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

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

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

Article 3. Credit Agreements Making Exception

1. Provisions of this law shall not apply on:

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

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

3) credit agreements, which are mainly signed with the view to acquisition or retaining title over land, building, which is constructed or under construction or apartment;

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

5) leasing contracts, except 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 on leasing contracts 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 a copy of credit agreement.
3. Credit agreement shall include, but not be limited by:
 - 1) annual percentage rate;
 - 2) procedure, conditions and deadlines for annual percentage rate revision;
 - 3) in case of possibility, amount, number, frequency or time periods of repayments, interest rate 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) sanctions applied by creditor in case of a consumer's failure to fulfill his liabilities, or their improper fulfillment (fine, or any other sanctions leading to deterioration of consumer's position) and norms of their application;
 - 6) note on consumer rights, defined under Article 10, hereof;
 - 7) indication of contemplation period;
 - 8) references to information, conditions, procedure and time periods by each type of credit agreement, established under this law and stipulated by the Republic of Armenian Central Bank (hereafter referred as the Central Bank) statutory acts;

4. The Central Bank may by its statutory acts prescribe mandatory texts or reference agreements, or the minimum requirements for certain information disclosed within credit agreements.

5. Provisions of credit agreements shall be formulated in a comprehensive, literary Armenian language.

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

1. In addition to conditions and references indicated under part 3, Article 4, hereof, credit agreements for financing procurement 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 procured under credit agreement, as well as price of those goods, services and works in absence of credit (cash price);
- 3) amount of prepayment or other coverage resources deposited for that purpose;
- 4) date, month, year and amount of installment payments and prepayments and other payments;
- 5) in case if consumer is not the owner of goods at the moment of signing agreement, information about the owners, as well as procedure and conditions for the transfer of right of ownership to consumer;
- 6) description of liability coverage resource, in case of its availability;
- 7) where consumer is liable for depositing funds at special account for the whole period of credit agreement, the above indicated credit agreement shall in addition contain information about the size, time periods, terms of use, etc. of deposited funds;
- 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 references indicated under part 3, Article 4, hereof, credit card credit agreements shall provide for:

- 1) ceiling of credit provided through credit card;
- 2) credit repayment conditions and procedure for their establishment.

2. Credit card may be provided to consumer only subject to consumer's agreement provided in writing.

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

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

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

Article 8. Other Credit Agreements Regulated by this Law

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

- 1) ceiling of credit provided;
- 2) description of liability coverage resource where available;
- 3) conditions on use and repayment of credit.

Chapter 3

Consumer Rights

Article 9. Consumer Right to Cancel Credit Agreement

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

2. Consumer shall be entitled to unilaterally cancel credit agreement in conformity with provisions of Article 1, hereof, also in case where credit agreement on financing trading activities, or provision of services and execution of works through a credit has been cancelled.

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

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

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

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

4. Where consumer exercises his rights stipulated under parts 1 and 2 hereof, creditor may not revert to sanctions (fine or any other measure having negative effect on consumer's standing).

Article 11. Consequences of Transferring Creditor's Rights

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

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

2) set off the overlapping liabilities, unless envisaged otherwise by law.

Article 12. Consumer's Right to Assert Claims to Creditor

1. A consumer may directly assert to 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 procurement of goods, services, or works with a person who is not considered a supplier;

2) before the signature of agreement defined in part 1, hereof, creditor and supplier signed an agreement by which creditor agreed to provide credit to the customers and counteragents of the given supplier, with the aim of procurement 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 procured through credit agreement, or by credit provided based on that credit have not been received (provided), or have been received (provided) partially, or if they do not comply with provisions established by law, or transaction on procurement of goods, services, or works; and

4) while consumer has tried to exercise the rights vested to him/her by law and assert claims in good faith, supplier has failed to perform duties stipulated by law or agreement in a due manner.

2. Where consumer is entitled to return goods to supplier and asserts a claim to supplier in manner established under part 1 hereof, the latter may decline from accepting goods, provided:

1) packaging of goods has been destroyed; 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 sum (initial size of credit provided to consumer by creditor).

n – number of the repayment directed to credit coverage

N - number of the last repayment directed to credit coverage

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

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

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

Article 14. Procedure on Calculation of Annual Percentage Rate

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

2. In the event when credit agreement contains provisions, which allow changes or fluctuations in quantity or size of percentage and/or of other payments included in the total credit cost of consumer, and the changes thereto cannot be expressed in cash terms, annual percentage point shall be calculated assuming that percentage 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 point, the following principles shall be applied wherever necessary:

1) if credit agreement does not establish the credit ceiling, ceiling of the extended credits 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 transferred 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 resources of repayment, credit repayment period shall be one year;

4) if credit agreement establishes more than one credit repayment periods, repayment of credit shall be done at the nearest repayment period 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 thereof, defined under Article 13 of this law.

Article 15. Payments Included in the Total Cost of Consumer Credit

1. The following payments shall be included in the total cost of consumer credit:

1) fines and other payments against failure or improper fulfillment of liabilities prescribed by law or credit agreement;

2) payments subject to execution by consumer irrespective of credit payment, or cash price payment on goods, services and works;

3) payments of consumer on transfers for credit repayment and interest payments, and for servicing the accounts opened for that purpose, except when consumer does not have a reasonable alternative and the payments exceed 1.5-fold average for such payments in the Republic of Armenia. The Central Bank shall announce the average size 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 those, whose founder or participant is the creditor), arising from agreements not considered part of it, even in case when terms of the credit are in relationship with such membership or subscription.

5) payments against insurance, valuation and other supporting services, except in 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 agreements on provision of supporting services.

Chapter 5

Advertisement and Correspondence

Article 16. Advertisement

1. Any advertisement, announcement, proposal, offer or invitation to make an offer, which is made at place of activity of creditor, on creditor's or other Internet site, through electronic or other printing source of advertisement, 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, whereas if it is not possible to inform customers about the size of annual percentage rate in due 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, norms of communication between the parties, rights and obligations of the parties, establishment, change or suspension of liability, or relates to laws, statutory norms or creditor's internal acts affecting credit agreement, shall be issued in writing, through mail service, except in cases indicated under part 3, hereof. Furthermore information indicated hereof shall be deemed subject to mandatory provision.

2. Creditor shall provide Customer in writing with information on consumer's liabilities deriving from credit agreement, the reasons for their occurrence and repayment, including a comprehensive list of applicable and applied sanctions against failure or improper fulfillment of consumer's liabilities (penalty or any other measure having negative effect on consumer's standing), cases and terms of their application, with a frequency established independently or through a credit agreement, but not less than on a thirty days basis, through mail service, except in cases indicated under part 3, hereof.

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

4. If information subject to mandatory provision is provided at the territory of a bank, the bank shall maintain unclaimed information in a hard copy form or on electronic medium for at least three years.

5. Pursuant to the purpose of protecting consumer rights, Central Bank may establish through its statutory acts procedure, terms, forms and minimum requirements for communication procedures.

Chapter 6

Protection of Consumer Rights, Supervision and Liability for Law Infringements

Article 18. Protection of Consumer Rights through Court, Arbitrage and by Financial System Mediator

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 arbitrage, by Financial System Mediator as well.

2. Where consumer and creditor sign an arbitrage agreement relating to credit agreement, creditor shall disclose sufficient information to consumer about rights and obligations of parties.

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

4. Creditor may not precondition signing of credit agreement by signing of arbitrage agreement.

Article 19. Creditor's Liability

1. Where in 365 days a creditor commits one violation of provisions of this law and statutory acts deriving from it, 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 deriving from it, 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 deriving from it, 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 through a court procedure based on the claim of the Central Bank. The fine shall be transferred to the State Budget as budgetary revenue.

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

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

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 Mediator or, in cases prescribed by law, apply to trade arbitration. Where the fact of violating rights of a consumer enjoying creditor’s services has been confirmed, three hundred thousand drams shall be levied for customer’s benefit by a court award, or by decision of Financial System Mediator. 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. Control over Compliance with Provisions of this Law

1. The Central Bank shall be responsible for control over compliance with 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 Article 12, which shall enter into force in five years after promulgation.

Provisions of this law shall not apply on credit agreements signed before its entering into force, except cases where at least one of significant provisions of the credit agreement signed before entering of this law into force has been revised. In case of a revision of at least one of provisions of credit agreement before entering of this law into force, the entire credit agreement shall be brought into compliance with provisions of this law.

Republic of Armenia
President

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