

(Unofficial translation, amendments up to 645/2006 included)

Act on Mortgage Credit Banks

23.12.1999/1240

Chapter 1

General provisions

Section 1

Definition of a mortgage credit bank

A mortgage credit bank is a credit institution in the form of a limited company referred to in section 2 of the Act on Credit Institutions (1607/1993), the purpose of which is to grant mortgage credits and public-sector credits referred to in this Act as well as to issue bonds with mortgage collateral and bonds with public-sector collateral as referred to in this Act.

Section 2

Other definitions

For the purposes of this Act:

1) a *mortgage credit* shall mean a credit the collateral of which is a share in a housing corporation or a real-estate corporation as referred to in sections 1 and 2 of the Act on Housing Companies (809/1991) or a mortgageable object referred to in chapter 16, section 1 or in chapter 19, section 1 of the Land Law Code (540/1995) or a comparable apartment or real estate situated in another State belonging to the European Economic Area; the provisions of this Act on a share in a housing company shall correspondingly apply to the right-of-occupancy referred to in the Right-of-Occupancy Housing Act (650/1990);

1 a) a *housing loan* shall mean a mortgage credit the collateral of which is a mortgage on residential property or on shares and participations comparable thereto in a housing corporation referred to in section 1 of the Act on Housing Companies or on a right of occupancy as well as a corresponding collateral comparable to those listed above situated in another State belonging to the European Economic Area; residential property shall in this paragraph mean a real estate or a part thereof intended mainly for residential purposes; (31.1.2003/78)

2) a *public-sector credit* shall mean a credit which has been granted to a public-sector organisation referred to in section 76, Group I of the Act on Credit Institutions or which is fully collateralised by a guarantee of an organisation governed by public law or a claim on such organisation;

3) a *bond with mortgage collateral* shall mean a bond collateralised by a mortgage credit entered in the register referred to in section 10;

4) a *bond with public-sector collateral* shall mean a bond collateralised by a public-sector credit entered in the register referred to in section 10;

5) *Ministry* shall mean the Ministry of Finance unless otherwise provided for by Decree.

Section 3

Applicable legislation

(21.7.2006/645)

Unless otherwise provided for in this Act, a mortgage credit bank shall be governed by the Limited-Liability Companies Act (624/2006), the Act on Commercial Banks and other Credit Institutions in the Form of a Limited Company (1501/2001) and the Act on Credit Institutions.

Section 4

Supervision

Compliance with this Act and with provisions issued thereunder by the authorities shall be supervised by the Financial Supervision Authority.

Section 5

Sole right to issue bonds with mortgage collateral and bonds with public-sector collateral

Only a mortgage credit bank may issue bonds collateralised by a mortgage credit referred to in section 2, paragraph 1 of this Act or a public-sector credit referred to in paragraph 2. Only a mortgage credit bank may use the terms bond with mortgage collateral or bond with public-sector collateral to indicate the bonds issued by it.

Section 6

Trading name

Only a mortgage credit bank may use the term mortgage credit bank in its trading name or otherwise to indicate its activity.

Section 6 a

(28.12.2001/1506)

Merger, division and conveyance of business operations

A mortgage credit bank may merge only in another mortgage credit bank. Upon a division and conveyance of business operations, the mortgage credit bank may transfer its assets referred to in section 2, paragraphs 3 and 4 only to another mortgage credit bank.

Chapter 2

Operation of a mortgage credit bank

Section 7

Permitted business operations

As its business, a mortgage credit bank may only grant mortgage credits and public-sector credits as well as carry on operations closely related to such business. A mortgage credit bank may not own other real estate, shares and participations than those whose holding is necessary for the business of the mortgage credit bank.

The funds of a mortgage credit bank may, in addition to that provided for in subsection 1, only be invested in claims referred to in section 76, Groups I and II of the Act on Credit Institutions as well as in other securities referred to in chapter 1, section 2, subsection 1, paragraph 2 of the Securities Markets Act (495/1989) that are listed securities or market securities referred to in chapter 1, section 3 of the said Act as well as in comparable foreign securities.

Notwithstanding subsections 1 and 2, a mortgage credit bank may own real estate as well as shares and participations in a housing company or a real-estate corporation which have come to the possession of the mortgage credit bank as collateral for an unpaid claim.

Section 8

Requirements of a mortgage credit and its collateral

A mortgage credit granted by a mortgage credit bank may not exceed three-fifths of the current value of the shares or real estate placed as collateral. The current value shall be evaluated in accordance with good real estate evaluation practice before the credit is granted. The Ministry may issue further provisions on the evaluation of the current value.

Notwithstanding subsection 1, a mortgage credit bank may additionally grant a mortgage credit the amount of which may, however, not exceed the current value of the shares or real estate placed as collateral evaluated in accordance with

subsection 1. The total amount of mortgage credits referred to in this subsection may not exceed one-sixth of the total amount of all the mortgage credits granted.

Section 9

Collateral of a bond

(31.1.2003/78)

The total book value of the assets entered in the register referred to in section 10 as collateral for bonds with mortgage collateral issued by a mortgage credit bank shall continuously exceed the total book value of the bonds issued for which the assets are placed as collateral. The same shall apply to the ratio between the bonds with public-sector collateral and the assets placed as their collateral. When calculating the ratio referred to in this subsection, the credits referred to in section 8 (2) shall not be included.

At least 90 per cent of the book value of the credits entered in the register referred to in section 10 as collateral for a bond with mortgage collateral shall be housing loans or, under the conditions provided for in section 13, supplementary collateral referred to therein unless otherwise provided for in the terms of the bond.

Bonds with mortgage collateral shall be equally collateralised by all mortgage credits and supplementary collateral entered in the register referred to in section 10 and bonds with public-sector collateral shall be collateralised by all public-sector credits and supplementary collateral entered as collateral for bonds with public-sector collateral unless the collateral has been entered in the register as collateral for special bonds.

A mortgage credit bank may not convey or pledge mortgage credits or public-sector credits without the permission of the Financial Supervision Authority. A conveyance or pledge violating the prohibition shall be void. The credit document shall bear an entry to the effect that the credit has been given as collateral for a bond.

Section 9 a
Asset and liability risk management
(31.1.2003/78)

A mortgage credit bank shall continuously ensure that the remaining average maturity of bonds with mortgage collateral is shorter than the remaining average maturity of the assets placed as their collateral and entered in the register referred to in section 10.

A mortgage bank shall further continuously ensure that the total amount of interest received from the assets placed as collateral for bonds with mortgage collateral and entered in the register referred to in section 10 shall, during the period of any 12 months, exceed the total amount of interest payable on the bonds with mortgage credit during the same period. Upon application of this subsection, also derivatives contracts concluded for the purpose of hedging the bonds with mortgage collateral and assets placed as their collateral shall be taken into account.

Only a collateral which is in the same currency as the bond may be entered in the register referred to in section 10 as collateral for a bond with mortgage collateral. Upon application of this subsection, also derivatives contracts concluded for the purpose of hedging the bonds with mortgage collateral and assets placed as their collateral shall be taken into account.

The provisions of this section on a bond with mortgage collateral shall correspondingly be applied to a bond with public-sector collateral.

The Financial Supervision Authority shall issue further provisions on the application of this section.

The Act of 31.1.2003/78 entered into force on 15.2.2003. A mortgage credit bank shall fulfil the requirements of this Act at the latest within one year from the entry into force of the Act.

Section 10
Register of bonds

A mortgage credit bank shall keep a register of collateralised bonds issued by it as well as of their collateral. Separate registers shall be kept of bonds with mortgage collateral and of bonds with public-sector collateral.

The following shall be entered in the register for each issue of bonds:

- 1) the nominal value and the outstanding capital of the bonds;
- 2) the interest rate or reference rate of the bonds;
- 3) the re-payment time of the bonds;
- 4) number of bond participations;
- 5) denomination of the bond participations;

6) the total nominal value and the outstanding capital of mortgage credits or public-sector credits collateralising the bonds; if the total book value of the credits is less than the nominal value, the book value shall also be entered;

7) the issuer, the amount in money and the term of validity of the supplementary collateral referred to in section 13 collateralising the bonds.

The following shall be entered in the register for every mortgage credit and public-sector credit granted by a mortgage credit bank as well as for its collateral:

- 1) the credit number by which the credit can be individualised;
- 2) the nominal value and the outstanding capital of the credit;
- 3) the current value of the shares or real estate placed as collateral evaluated at the time of the granting of the credit as well as, if the current value has been re-evaluated, the current value based on such re-evaluation;
- 4) the re-payment time of the credit;
- 5) the interest rate or reference rate of the credit ; as well as
- 6) whether the credit is a credit referred to in section 8, subsection 2.

If credits referred to in subsection 3 collateralise special bonds, the register shall additionally indicate the bond forming the object for the collaterals.

Section 10 a

(21.12.2000/1244)

Derivatives contracts concluded by a mortgage credit bank

Derivatives contracts concluded for hedging against risks relating to bonds with mortgage collateral and bonds with public sector collateral or to funds placed as their collateral shall be entered in the register of bonds referred to in sec-

tion 10 in compliance with the provisions of section 11. The register shall indicate at least the following information on each derivatives contract:

- 1) the number by which the contract can be individualised;
- 2) the underlying bond or collateral of the derivative contract;
- 3) the type of contract;
- 4) the counterparty;
- 5) the date of commencement and termination; as well as
- 6) the amount in the contract currency.

Section 11

Provisions on the maintenance of the register

A mortgage credit bank shall enter the information referred to in section 10 in the register no later than on the first banking day following the issue of the bonds and the granting of the mortgage credit or public-sector credit to be placed as collateral or the acquisition of a supplementary collateral. Any changes in the information shall be entered in the register without delay. Information on a mortgage credit and a public-sector credit as well as on a supplementary collateral entered in the register may only be changed in situations provided for in subsection 2.

A mortgage credit or a public-sector credit shall be deleted from the register when it has been fully paid or where it is likely that the credit cannot be collected. A mortgage credit or a public-sector credit or a supplementary collateral may additionally be deleted from the register or assigned as collateral for another bond if it is replaced by another mortgage credit or public-sector credit or supplementary collateral with at least the same nominal value or if the value of the mortgage credits or public-sector credits and the amount of the supplementary collateral collateralising the bond in question clearly exceeds the remaining capital of the bond.

A record shall be made of the entries in the register which cannot subsequently be changed.

Section 12

Changes in a mortgage credit or public-sector credit

The pledging and registration of a mortgage credit or public-sector credit as collateral for bonds shall not prevent the mortgage credit bank from agreeing with the debtor of such credit on the premature payment of the credit or on the making of changes in the terms of the credit deemed customary or on the replacing of the collateral with another collateral of equal value, nor shall it otherwise restrict the rights of the mortgage credit bank as creditor.

Section 13

Supplementary collateral

Bonds or other debt obligations issued by the State, a municipality or another public-sector organisation referred in section 76, Group I of the Act on Credit Institutions or another credit institution than one belonging to the same consolidation group as the mortgage credit bank or a given as for its own debt by such public-sector organisation or credit institution may temporarily be used as collateral for bonds issued by a mortgage credit bank provided that:

- 1) mortgage credits or public-sector credits have not yet been granted or registered as collateral for the bonds; or that
- 2) the amount of the mortgage credits or public-sector credits placed as collateral is not, due to the re-payment of credits, sufficient to cover the amount of the bonds.

The amount of collateral referred to in subsection 1 may not exceed one-fifth of the total amount of all the collateral entered in the register of bonds. The Financial Supervision Authority may, on application by a mortgage credit bank, for a special reason, grant an exemption from this restriction for a set period.
(21.12.2000/1244)

Section 14

Supervision by the Financial Supervision Authority

(27.6.2003/594)

A mortgage credit bank shall submit the information in the register referred to in section 10 to the Financial Supervision Authority once a month. If the collateral of bonds does not fulfil the requirements provided for in this Act, the Financial Supervision Authority shall set a time limit within which the mortgage credit bank shall acquire more collateral in accordance with the law. If a mortgage credit bank cannot fulfil the requirements relating to collateral within the time limit set, the Financial Supervision Authority shall withdraw the licence of the mortgage credit bank.

Section 15

Annual accounts and interim report

The annual accounts of a mortgage credit bank shall indicate, in addition to that provided for in chapter 4 of the Act on Credit Institutions, the amounts of mortgage credits and public-sector credits granted as well as the amounts of bonds with mortgage collateral or public law collateral issued as well as the basis for the valuation of the collateral for the mortgage credits.

The provisions of section 41 of the Act on Credit Institutions on an interim report of a deposit bank shall apply to the interim report of a mortgage credit bank.

Chapter 3

Enforcement

Section 16

Prohibition on execution and precautionary measures

A mortgage credit or public-sector credit or supplementary collateral placed as collateral for bonds with mortgage collateral or public law collateral entered

in the register referred to in section 10 may not be taken in execution for a debt of a mortgage credit bank nor may precautionary measures be directed at it.

17 §

Position of bonds with mortgage collateral and public-sector collateral in the event of liquidation and bankruptcy of a mortgage credit bank

(21.12.2000/1244)

The holder of a bond with mortgage collateral shall, notwithstanding the liquidation and bankruptcy of a mortgage credit bank, have the right to receive payment, before other claims, for the entire loan period of the bond in accordance with the contract terms from the funds entered as collateral for the bond in accordance with section 10. The funds accruing from collateral for bonds after the commencement of liquidation or bankruptcy shall be entered in the register of bonds. The collateral for bonds shall also be governed, where applicable, by the provisions of sections 11 and 16, subsections 2 and 3 of this section as well as of section 17 a on funds placed as collateral for a bond. The provisions of chapter 12, section 17 of the Bankruptcy Act (120/2004) shall be applied to proving a claim based on a bond with mortgage collateral upon the bankruptcy of a mortgage credit bank. (20.2.2004/132)

The creditors of bonds with mortgage collateral shall have equal priority to receive payment out of a mortgage credit entered in the register referred to in section 10 as collateral for bonds.

The provisions of this section on a bond with mortgage collateral and a mortgage credit shall correspondingly apply to a bond with public-sector collateral and a public-sector credit.

Section 17 a

Management of collateral during liquidation and bankruptcy

(21.12.2001/1244)

After a mortgage bank has been placed in liquidation or declared bankrupt, the Financial Supervision Authority shall, without delay, appoint an attorney in accordance with section 23, subsection 2 of the Act on the Financial Supervision Au-

thority (587/2003) to supervise the interests of the holders of bonds with mortgage collateral and public-sector collateral issued by the mortgage credit bank and to exercise, on their behalf, the right to be heard. The attorney shall especially supervise the management of the funds placed as collateral for bonds and their conversion into cash as well as the contractual payments to be made to the holders of the bonds. The person to be appointed as an attorney shall have sufficient knowledge of financing and legal issues with regard to the nature and scope of the duties. Unless otherwise provided for below, the provisions of section 23, subsection 2 of the Financial Supervision Authority shall be applied to the attorney. (27.6.2003/594)

A bankruptcy trustee shall, on demand of an attorney referred to in subsection 1 or by his permission, conclude derivatives contracts necessary for hedging against risks relating to bonds with mortgage collateral and public-sector collateral and the funds placed as their collateral as well as, where necessary, sell a sufficient amount of collateral for the bond in order to fulfil the obligations relating to the bond. In addition, the trustee may, by permission of the attorney, transfer the liability for a bond as well as the funds placed as its collateral to another mortgage credit bank referred to in this Act or to a foreign mortgage credit bank which is subject to supervision corresponding to that of this Act unless otherwise provided by the terms of the bond. The trustee may convey the collateral for a bond only after he has obtained the permission of the Financial Supervision Authority referred to in section 9, subsection 3.

The provisions of the Bankruptcy Act on the covering of costs incurred by the management of a bankrupt's estate shall be applied, where applicable, to the covering of the costs incurred by the activities of the attorney referred to in this section as well as by the acts referred to in subsection 2.

Section 17 b
(21.12. 2000/1244)

Position of derivatives contracts in liquidation or bankruptcy of a mortgage credit bank

The obligations resulting from a derivatives contract referred to in section 10 a shall be fulfilled towards the mortgage credit bank in accordance with the contract terms notwithstanding a bankruptcy or liquidation unless otherwise provided by

the terms of the derivatives contract. The provisions of section 17, subsection 1 on the collateral for a bond shall be applied to the funds accrued by the mortgage credit bank on the basis of the derivatives contracts referred to in this section after the commencement of the liquidation or bankruptcy proceedings.

Chapter 4

Provisions on liability for damages and punishment

Section 18

Liability for damages

(21.7.2006/645)

The liability for damages of a shareholder of a mortgage credit bank, a member of its Supervisory Board and Board of Directors as well as its Managing Director shall be governed by the Act on Credit Institutions and the liability for damages of an auditor by the Audit Act (936/1994). The bringing of an action for damages on behalf of a mortgage credit bank shall be governed by the provisions of chapter 22, sections 6 - 8 of the Limited-Liability Companies Act.

Section 19

Mortgage credit bank crime

Anyone who

1) is engaged in an activity referred to in section 1 without an authorization;

2) in violation of section 5 uses the terms bond with mortgage collateral or bond with public-sector collateral for the bonds issued by it or in violation of section 6 uses the terms mortgage credit bank in its trading name or otherwise to indicate its activity;

3) issues bonds referred to in this Act without complying with the provisions of section 9, subsection 1 on the collateral of such bonds or

4) makes an incorrect entry in the register referred to in section 10 or neglects to make an entry

shall, unless the act is minor or subject to a more severe punishment elsewhere in the law, be sentenced for *a mortgage credit bank crime* to a fine or to imprisonment not exceeding six months.

Chapter 5

Provisions on entry into force and transitional provisions

Section 20

Entry into force

This Act shall enter into force on 1 January 2000.

Section 21

Transitional provisions

The provisions of this Act shall not apply to bonds referred to in sections 109 -111 of the Act on Credit Institutions issued prior to the entry into force of this Act.

A mortgage credit bank which under an authorization issued in accordance with the Act on Credit Institutions at the time of the entry into force of this Act is engaged in an activity referred to in this Act shall, within six months from the entry into force of this Act, make the amendments to its Articles of Association required in accordance with this Act and submit the amended Articles of Association to the Financial Supervision Authority or cease its activity violating this Act within one year from the entry into force of this Act.

Measures necessary for the implementation of this Act may be undertaken prior to its entry into force.

21.7.2006/645

This Act enters into force on 1 September 2006.

Damages based on an act or neglect that has taken place prior to the entry into force of this Act shall be governed by the provisions in force upon the entry into force of this Act.

GP 109/2005

Finance Committee Report 7/2006

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