

**Republic of Armenia**

**Law on Covered Mortgage Bonds**

**Chapter 1  
General Provisions**

**Article 1. The Subject of Regulation of the Law**

This law shall regulate relations pertaining to covered mortgage bonds' issuance by banks and credit organizations, their turnover, redemption, control over activities of issuer, appointment of mortgage administrator and his activities.

**Article 2. Legal Regulation of Covered Mortgage Bonds**

1. Relations pertaining to issuance of covered mortgage bonds shall be regulated by this law, other statutory norms adopted on this basis, laws of the Republic of Armenia "On Banks and Banking Activities", "On Credit Organizations", "On Securities Market", "On Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies ", other laws and statutory acts.
2. Provisions of the law "On Asset Securitization and Asset Backed Securities" of the Republic of Armenia shall not apply to this law.

**Article 3. Main Concepts Used in this Law**

For the purpose of this Law the main concepts are:

**asset** - cash funds and (or) rights of claim towards them, and (or) other financial assets among the types of assets defined by the RA "Law on Accounting", which ensure or may ensure certain cash inflows;

**asset nominal value** – for mortgage loans - loan principle; for bonds – bond nominal value, for deposits – deposit amount, within limits registered in cover register;

**covered mortgage bond** – (hereafter referred as mortgage bond), publicly offered bond issued by bank or credit organization, which is secured with mortgage loan or other financial asset established by this law;

**coverage resources for covered mortgage bonds** – assets registered in cover register, in conformity with this law (hereafter referred as cover assets);

**person carrying out control over cover assets** (hereafter referred as cover pool monitor) – a person with adequate qualification, who imposes control in manner prescribed by this law over maintenance of cover register by issuer, and ensures adequacy of cover assets.

**cover register** – system established in conformity with this law for registration of cover assets by issuer;

**primary collateral** - collateral whose pledger has a preference right against other pledgers of the property, for satisfaction of claims within total value of collateralized property;

**net present value** – net present value of future cash-flows;

**issuer** – a bank, or a credit organization that issues mortgage bonds, in manner prescribed by this law;

**additional assets** – assets in the amount of the part exceeding at any moment net present value of coverage assets (net present value of all liabilities against mortgage bonds);

**mortgage loan** – loan covered by mortgage;

**mortgage administrator** – person appointed by the Central Bank, who carries out management of cover assets in the event of adjudging insolvency of issuer and/or, instituting insolvency proceedings against him, or in any other cases established by this law.

#### **Article 4. Use of Phrase “Covered Mortgage Bond”**

Bonds may employ the name “covered mortgage bond”, if they were issued in manner prescribed by this law.

### **Chapter 2 Requirements Relating to Activities on Issuance of Mortgage Bonds**

#### **Article 5. Cover Assets**

1. Mortgage bonds shall be backed with mortgage loan collateral (main cover).

2. In case of writing off assets from coverage resources prior to full execution of liabilities on mortgage bonds on grounds established by this law, issuer may replace them by other assets within 10 percent of the amount of uncovered liabilities on mortgage bonds (substitutive cover).

Substitutive cover exists of the following assets:

1) the Republic of Armenia Treasury Bills and bonds issued and/or guaranteed by international organizations, which have been rated by other countries or Central Banks defined by the Central Bank of the Republic of Armenia (hereafter referred as the Central Bank);

2) deposits held at commercial banks which have ratings complying to the requirements of the Central Bank;

3) other assets defined by the Central Bank statutory acts.

3. Issuer shall have the following additional assets on the amounts exceeding limits prescribed under part 2, Article 7, hereof: <sup>a</sup>

1) the Republic of Armenia Treasury Bills and bonds issued and/or guaranteed by international organizations, which have been respectively rated by other countries or Central Banks defined by the Central Bank of the Republic of Armenia;

2) deposits held at commercial banks which have ratings complying to the requirements of the Central Bank;

3) other assets defined by the Central Bank statutory acts.

4. Bonds indicated in the 1-st clauses of parts 2 and 3 hereof, shall be included in cover pool at up to 95 percent of their market value, but not exceeding their face value.

#### **Article 6. Mortgage Loans**

1. Mortgage loans may be included into main cover only if they meet following criteria:

1) the real estate subject to mortgage is located within the territory of the Republic of Armenia, or the subject of mortgage is a title to land development within the territory of the Republic of Armenia;

2) mortgage is primary collateral and may not serve as a subject of subsequent collateral;

3) amount of mortgage loan does not exceed 70 percent of the estimated market value of collateral (real estate), serving as a cover for liabilities against the mortgage loan thereof. At that, the mortgage loan shall be included in cover pool within the amount equal to the outstanding part of mortgage loan at the moment of bond issuance.

2. Valuation of real estate subject to mortgage indicated under part 1, hereof, shall be carried out in manner prescribed by the Republic of Armenia law “On Real Estate Valuation Activities”, by an evaluator having a license for real estate valuation, and performing at least 2 years in that area, not being involved in a process of a mortgage loan origination, and insured against his liability risk at least in the amount of five thousand-fold the minimum salary.

A revaluation of assets included in cover pool at the moment of mortgage bond issuance may occur only in case if a significant drop of prices was observed in the real estate market. Significant drop is considered a 10 percent, or more drop of prices on real estate subject to mortgage in the real estate market, as compared with the day of collateralization. In case of a significant drop of prices in the real estate market, cover pool monitor may demand that issuer shall carry out revaluation of coverage resources. Cover pool monitor shall regularly monitor real estate prices in manner prescribed by the Central Bank statutory acts.

3. Mortgage loans backed with collateral of land development title may be included into cover pool, if maturity of mortgage loan expires at least ten years before expiration of the land development title.

4. The value of mortgage loans backed with collateral of land development title shall not exceed 20 percent of the value of assets included in cover pool.

### **Article 7. Matching Cover**

1. The amount of outstanding liabilities on mortgage bonds shall be at any moment backed by adequate cover, whereupon:

1) total nominal value of assets within cover pool shall be at least equal to total nominal value of mortgage bonds;

2) receivable amounts on cover assets shall be at least equal to payable amounts against mortgage bonds;

3) net present value of cover assets shall at any moment exceed at least by 5 percent net present value of all liabilities on mortgage bonds;

2. The Central Bank by its statutory acts shall establish procedure and methods for calculation of net present value of cover assets and the liabilities thereof;

3. Issuer shall be prohibited from:

1) issuing mortgage bonds, if they are not backed by adequate cover established by this law;

2) manage cover assets.

### **Article 8. Cover Register**

1. Registration of cover assets shall be carried out by Issuer, through keeping a cover register. Procedure on keeping cover register, including procedure on submission to the Central Bank information contained in register, shall be prescribed by the Central Bank statutory acts.

2. Assets may be considered cover assets, if:

1) they comply with provisions established under Articles 5 and 6 hereof;

2) right of claim towards assets is not collateralized.

Coverage assets, as well as claims resulting from transactions with derivative securities, in cases established by this law, shall be subject to registration in cover register by each Issuer, with an agreement of cover pool monitor, provided in writing, and with the Central Bank permission. Registration of assets in cover register without the required agreement and permission shall be considered invalid.

3. Cover register shall contain the following information on cover assets:

1) for mortgage loans – date and number of loan agreement, principle amount, interest rate, currency of loan, maturity, schedule of amortization and servicing, outstanding amount of loan, loan/collateral ratio, subject of loan collateral, description of collateral, including place of location (address), and in case of collateral being a land development title, place of land, market value, other values in case if other values shall be valued pursuant to Republic of Armenia legislation, as well as other information, necessary for identification of the subject of collateral;

2) type, market value and nominal value of substitutive assets and additional assets;

3) types of contracted transactions with derivative securities, transaction amount, date of signing the contract and period of contract, as well as information on counterparty of transaction, defined by the Central Bank;

4) other information defined by the Central Bank statutory norms.

4. Asset shall be written off from cover register, in case of:

1) asset settlement, including early settlement;

2) classifying assets as 90 or more days overdue;

3) if after issuance asset is considered inadequate to provisions of this law.

Assets may be also written out from cover register in case if they exceed the prescribed value, and in case of satisfying provisions established by this law on assets remaining in cover register

Assets shall be written out from cover register only with the agreement of cover pool monitor, provided in writing, and with the Central Bank permission.

5. In case of writing off assets on grounds indicated in clauses 1-3 of part 4, hereof, Issuer shall substitute them by other assets, which meet the requirements prescribed by this law.

6. At the request of cover pool monitor, Issuer shall by the same day furnish the latter with information on proceeds received against assets registered in the register, as well as on any changes with respect to assets which may have significance for the owners of mortgage bonds.

## **Article 9. Cover Pool Monitor**

1. Any Issuer shall have a cover pool monitor. Based on service agreement with Issuer, cover pool monitor shall impose control over cover register, ensure compatibility of cover assets with liabilities on mortgage bond established by this law.

2. The following physical persons may serve as cover pool monitor:

1) a person who has not been convicted by court for committing a crime;

2) a person who has not been deprived by court of the right to hold a position in financial, banking, tax, custom, commercial, economic, or legal sectors;

3) a person who was not adjudged insolvent and does not have unpaid (not-relieved) liabilities;

4) a person whose qualities and skills comply with criteria of quality and/or professional adequacy established by the Central Bank.

5) a person who is not imprisoned, or who is not under search.

3. The Central Bank by its statutory acts shall establish cover pool monitor's evaluation procedure, and/or criteria of professional adequacy.

## **Article 10. Duties of Cover Pool Monitor**

1. While performing his duties, cover pool monitor shall act in interests of mortgage bond investors and exercise his powers and fulfill his liabilities towards investors in good faith (fiduciary liability).

In case of identifying cases of infringement of laws and other legal acts regulating issuance of mortgage bonds by Issuer, cover pool monitor shall notify the Central Bank thereof within one working day.

2. Cover pool monitor is at any moment competent to audit any references made by Issuer in his books, as well as request information relating to mortgage bonds and cover assets.

3. Cover pool monitor shall:

1) prior to issuance of mortgage bonds, certify adequacy of assets to provisions of this law and their adequacy to liabilities on mortgage bonds.

2) check that Issuer always maintains adequate cover assets, in conformity with provisions of this law and compatible with the liabilities on mortgage bonds;

3) immediately after registration of derivative securities in cover register, notify the persons who signed with Issuer agreement on operations with derivative securities;

4) enhance writing off of assets from cover register, if the remaining assets are sufficient to cover of liabilities on mortgage bonds, and also with the view to maintaining minimal level of additional assets;

5) keep documents relating to cover assets and disseminate them only in cases prescribed by law.

## **Article 11. Safekeeping of Documents on Cover Assets**

1. Original documents on cover assets shall be transferred to cover pool monitor for safekeeping till the full execution of mortgage liabilities by Issuer, or may be put into custody by Issuer, on condition that the latter may not administer the documents without cover pool monitor's consent.

2. Cover pool monitor shall give out documents on cover assets if:

1) pursuant to the Republic of Armenia legislation these documents are subject to submission to another person by Issuer;

2) giving out is necessary in order to materialize right of claim towards asset by Issuer.

3. In cases defined in part 2, hereof, Issuer, based on application in writing of a person, shall furnish the latter with the originals of documents on cover assets, within two working days.

## **Article 12. Collateralization of Cover Assets**

1. By force of this law, cover assets are the assets collateralized with the view to guaranteeing execution of liabilities on mortgage bonds, from the moment of the when the Central Bank registers the list of assets.

Collateralization of assets shall include without limitations collateralization of rights arising from claims on assets, as well as proceeds, payments and existing or future funds and receivables thereto. Such resources and payments may be the asset principles, interest, insurance receivables, receivable penalties and fines on assets, other payments, rights arising from collateral agreements, and outstanding payments to owners of mortgage bonds.

2. Registration of assets by the Central Bank is a state registration, and any other registration of a right of claim towards assets shall not be required.

3. The list of assets shall be submitted for the Central Bank registration in parallel to issuing prospectus on issuance of mortgage bonds.

The Central Bank shall register the list of assets within 20 working days, in case if a written confirmation by cover pool monitor of compliance of assets with provisions of this law is available.

4. Where any changes were made in the list of assets, cover pool monitor shall duly inform the Central Bank thereof, within one working day. The Central Bank shall register changes in the list of assets within five working days, if a written confirmation by cover pool monitor of compliance of assets with provisions of this law is available.

### **Article 13. Public Disclosure of Issuer's Activities**

1. Issuer shall prepare, submit to the Central Bank and place on its Internet site quarterly statements on issuance of mortgage bonds, in manner prescribed by this law, whereupon the form, procedure and time schedule for presentation and disclosure of the statements shall be prescribed by the Central Bank statutory acts. Quarterly statements shall contain:

1) outstanding amount of liabilities on mortgage bonds, cover assets by the amount of their nominal value, net present value of those assets, outstanding part of mortgage loans serving as cover assets, as well as loan amount/collateral subject ratio;

2) structure of outstanding mortgage bonds per type of maturity, as well as schedule of interest rate payments on cover assets by years;

3) types of derivative securities contracted by Issuer and total amount of transactions;

4) placement of cover assets:

a. by asset nominal values;

b. by place of location of real estate (provinces, cities, villages, communities);

c. by purpose of use of collateralized real estate;

d. by types of collateralized real estate: land plot and/or flat in a multi-flat building, and/or individual residence house, and/or a building not suitable for permanent residence, and/or manufacturing and/or trade premises;

5) payments on cover assets on a 90 day basis, by geographical areas indicated in sub-clause "b", clause 4, hereof;

6) sold real estate pertaining to cover assets during the reporting period, as well as number of real estate pending sale as of the end of the reporting period;

7) number of cases at the end of reporting period when Issuer took measures to sell collateral with the view to preventing losses;

8) number and amount of classified mortgage loans performing as cover assets;

9) cash amount of late repayments against classified mortgage loans pertaining to cover assets, during the reporting period;

10) other information prescribed by the Central Bank statutory acts.

2. Statements and information provided by Securitization Fund shall be comprehensive and true.

## **Chapter 3**

### **Issuance, Turnover and Repayment of Mortgage Bonds**

#### **Article 14. Prospectus**

1. Issuer shall publish Prospectus for issuance of mortgage bonds, which shall contain information subject to disclosure by the Republic of Armenia law “On Securities Market”, as well as the following information:

1) on loans pertaining to cover assets for mortgage bonds, including:

- a. loan servicing payments and loan interest rates;
- b. outstanding part of loan and time period remaining till final repayment of loans;
- c. classification of loans by each year of loan repayment, as of the last day of year and as of the last day of quarter preceding the mortgage bond issuance;
- d. types of loan collateral subjects, their valuated cost, loan/collateral rate (valuated cost) at the moment of loan extension and as of the last day of the quarter preceding mortgage bond issuance;

2) other information prescribed by the Central Bank statutory acts.

2. Registration of Prospectus as well as of any changes and supplements thereof shall be done in manner prescribed by the Republic of Armenia law “On Securities Market”.

#### **Article 15. Fulfillment of Liabilities on Mortgage Bonds**

1. Liabilities towards owners of mortgage bonds shall be fulfilled irrespective of the fulfillment of liabilities by the owners of cover assets.

2. Redemption of mortgage bonds, and, in prescribed cases, their early repayment shall be carried out in manner defined by Prospectus.

#### **Article 16. Maintenance of Bondholders’ Register**

1. Central Depository shall carry out functions of mortgage bondholders’ register maintenance and storage.

2. At the request of the Central Bank, Central Depository shall furnish the latter within two working days with information on owners of mortgage bonds.

## **Chapter 4**

### **Supervision of Issuer**

#### **Article 17. Control over Issuer**

1. The Central Bank shall be vested with right of supervising the issuance of mortgage bond and Issuer.

2. The Central Bank shall carry out supervision of issuance of mortgage bond and Issuer in conformity with this law and the Republic of Armenia laws “On the Republic of Armenia Law on Central Bank”, “On Banks and Banking Activities”, “On Credit Organizations”, “On Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies” and “On Securities Market.”

## **Chapter 5**

### **Mortgage Administrator and Management of Cover Assets**

#### **Article 18. Appointment and Dismissal of Mortgage Administrator**

1. From the moment of invalidating or revoking Issuer's license on banking, or credit organization activities, as well as from the moment of announcing Issuer insolvent by the Central Bank, or court verdict, the Central Bank shall appoint mortgage administrator for management of assets registered in cover register (hereafter referred as Administrator).

2. Decision of the Central Bank on appointment of the Administrator shall go into effect from the moment of adoption and shall be subject to public disclosure within two working days in a newspaper with at least two thousand copies and/or other means of mass media.

3. Administrator shall have the respective qualification certificate, issued by the Central Bank. Standards on Administrator qualification, terms of reference, and norms and conditions for allocation of certificates shall be established by the Central Bank.

4. Administrator and head and/or members of interim administration and/or liquidator and/or liquidation committee appointed pursuant to law "on Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies" shall be different persons.

5. Administrator shall manage cover assets in interests of investors of covered mortgage bonds (fiduciary responsibility). In case if Administrator fails to fulfill his responsibilities or fulfils them not satisfactorily, the Central Bank shall dismiss him from the position of Administrator and invalidate his certificate.

The aforementioned decision of the Central Bank shall be published within two working days in a newspaper with at least two thousand copies and/or other means of mass media.

The Central Bank decision may be appealed by Administrator in court, if it has been taken with violation of provisions established by this law. Appealing against the decision shall not invalidate it during the process of court hearings.

#### **Article 19. Fulfillment of Liabilities on Mortgage Bonds in Case of Issuer's Bankruptcy or Insolvency**

In case of Issuer's bankruptcy and/or insolvency management of cover assets and fulfillment of liabilities on mortgage bonds shall be carried out in manner prescribed by law "On Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies."

## **Chapter 6**

### **Law Infringements and Sanction Applied Against Them**

#### **Article 20. Law Infringements**

The Central Bank may apply sanctions on Issuer and his Managers, if:

- 1) rules of keeping cover register were violated, or information included in register was not true,
- 2) cover register includes assets, which do not correspond to provisions of this law;
- 3) the adequacy of cover assets established by this law and of their content has been violated;



- 4) norms, deadlines and public disclosure procedures on reports established by this law have been violated, and/or the reports contained untrue or inconsistent information;
- 5) Issuer did not disclose information subject to disclosure by this law;
- 6) Issuer carried out such activities, which to the Central Bank's point of view may endanger interests of owners of mortgage bonds;
- 7) Issuer failed to fulfill an assignment provided by the Central Bank in manner established by this law;
- 8) Provisions of this law, other statutory norms on its basis and internal statutory acts of Issuer have been violated.

### **Article 21. Sanctions Applied Against Law Infringements**

1. In cases prescribed under Article 20, hereof, the Central Bank shall be entitled to apply following sanctions on Issuer and his Manager:

- 1) warning;
- 2) fine;
- 3) revocation of Manager's license

2. The sanctions shall be imposed in compliance with provisions of the law "On the Central Bank of the Republic of Armenia."

3. Application of sanctions prescribed by this Article shall not exempt Issuer and his Manager from liability established by other laws, by-laws and agreements.

4. For each violation of laws or statutory norms by Issuer and/or his Manager, the Central Bank may simultaneously issue warning with an assignment to eliminate violations and/or order suspension of some transaction and activities, change of their conditions and/or apply fine to Issuer or his Manager and/or deprive Manager from his qualification certificate.

5. The Central Bank shall post in his Internet site the decision on imposing sanctions prescribed by this Article against Issuer or his Manager..

### **Article 22. Warning and Instruction to Eliminate Violations**

1. The warning identifies the committed violation and Issuer who made violation is notified about inadmissibility thereof.

2. The warning may include instruction to eliminate violation within deadlines established by the Central Bank, and/or prevent such violations in future, and/or suspension of certain transactions or activities or Issuer, change of their conditions. Fulfillment of the instruction shall be mandatory for person for whom the warning was issued.

3. The warning as a punitive measure may be issued in case of presence of any of grounds indicated under Article 20, hereof.

### **Article 23. The Fine**

1. The fine as a punitive measure may be applied in case of presence of any of grounds indicated under Article 20, hereof, if measures taken with view to supervise the existing situation (such as meetings with Issuer, correspondence, explanatory works) and/or application of sanctions prescribed under Article 21 hereof, did not result in elimination, or cannot eliminate the violations and/or grounds thereto. In such cases, decision on imposing fines shall:

a) substantiate that following implementation of supervision measures and/or application of sanctions prescribed under Article 21 hereof, taken with the view to improving existing situation, Issuer did not take adequate and effective steps for elimination of the violation;

b) application of the fine shall be adequate to nature of violation (violations) and shall not be based on discriminatory judgments.

2. Size of the fine applied against each violation of Issuer may not exceed 1 percent of his share capital.

3. Size of the fine shall not significantly worsen financial performance of Issuer.

4. Size of the fine applied on Issuer's Manager for each violation shall not exceed one thousand-fold of the minimum salary. The fine applied on Issuer's Manager shall be levied from his personal money.

5. The fine shall be levied pursuant to the Central Bank claim by court award, if Issuer or his Manager or the responsible person disagrees with application or size of the fine. In case of applying the fine on Issuer, money shall be levied from his correspondent account. The fine shall be allotted to the State Budget.

#### **Article 24. Deprivation of Issuer's Managers from Qualification Certificate**

1. Issuer's Managers shall be deprived from qualification certificate, if they:

1) during implementation of activities executed such mercenary activities, which disagreed with interests of owners of mortgage bonds;

2) manifested dishonest and improper conduct with respect to their duties, including their liabilities committed towards mortgage bond owners;

3) failed to fulfill the Central Bank assignment or neglected the Central Bank warning;

2. After the Central Bank decision on deprivation of Issuer's Manager from qualification certificate goes into effect, the authorities granted to Issuer's Manager by the Republic of Armenia legislation, Issuer's Charter and other internal documents shall be invalidated.

3. Deprivation of Issuer's Manager from qualification certificate shall be substantiated, adequate to nature of violation and not based on discriminatory judgments.

#### **Article 25. Liability of Cover Pool Monitor and Mortgage Administrator**

In case cover pool monitor and mortgage administrator fail to fulfill their duties prescribed by law or fulfill them improperly, the Central Bank may apply against them the same sanctions as against Issuer's Managers, as stipulated by this law.

### **Chapter 7 Transitional Provisions**

#### **Article 26. Going into Effect**

This law shall go into effect on the tenth day after promulgation.