

Tax & Legal Alert

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We have moved!

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Maximum interest rates on foreign currency loans

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The National Bank of Ukraine (NBU) has amended the Regulation for Foreign Currency Loan Registration. The most important change is that there will now be a twice yearly announcement of maximum allowable interest rates on foreign currency loans. The new rules come into effect on 19 October 2007.

Maximum interest rates will be now established by the NBU every six months and should be announced prior to the first business day of March and September. It is expected that new maximum rates for the period from 19 October 2007 to 31 March 2008 will be announced by mid September 2007. According to the amended rules, the maximum interest rate (including all fees, commissions, fines, etc.) is to be determined by the NBU as follows:

- a) for loans in foreign currencies of the first category (e.g., USD, EUR, SFR, GBP, CAD, etc.) – as the weighted average yield on the Ukraine's state bonds in USD during the last two quarters plus 2% p.a.
- b) for loans in other foreign currencies – as the weighted average interest rate on the local loans in relevant currency during the last two quarters.

The new maximum interest rates will not affect the interest rates on loans

registered before the effective date (19 October 2007), except as noted below.

The interest rate specified in an existing loan registration certificate will continue to apply to the loan throughout the entire term, regardless of whether the NBU subsequently changes the maximum interest rate. However, if the registration certificate needs to be amended (e.g., to increase the principal amount of the loan or extend the final repayment date), the NBU will not register the amendment if the interest rate under the agreement exceeds the maximum rate in effect at the time of the amendment. In such cases the current interest rate will apply.

The servicing bank is expected to reject loan payment that exceeds the cumulative total amount calculated per the maximum interest rates set in the NBU registration certificate for that loan agreement. For example, the borrower may not be able to pay fines or fees if the cumulative total of actual payments under loan agreement exceeds the total allowable amount calculated based on the maximum interest rates.

(Resolution of the National Bank of Ukraine #235, 22 June 2007 registered by the Ministry of Justice of Ukraine on 20 July 2007)