



Pursuant to Article 23, paragraph 1; Article 35, paragraph 1.1; and Article 65, paragraph 1 of the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No. 77/16 August 2010), and Articles 1, 44 and 85 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (Official Gazette of the Republic of Kosovo, No. 11/11 May 2012), the Board of the Central Bank of the Republic of Kosovo at the meeting held on 26 February 2015, approved the following:

REGULATION ON MORTGAGE LENDING

CHAPTER I General Provision

Article 1 Purpose and Scope

1. The purpose of this Regulation is to establish the minimum requirements and standards for mortgage lending secured by immovable properties (hereinafter, “mortgage loans”). This includes the application process, underwriting, funding and servicing of mortgage loans.
2. This Regulation applies to all crediting financial institutions licensed by the CBK to operate in Kosovo (hereinafter referred to as “FIs”).
3. This regulation is issued in accordance with the Law No. 03/L-154 on Property and Other Real Rights, and other applicable laws at time of issuance.

Article 2 Definitions

For the purpose of the implementation of this regulation, the definitions used in Article 3 of the Law Nr.04/L-093 on Banks, Microfinance Institutions and Non Bank Financial Institutions (hereinafter: Law on Banks), and the definitions in the Regulations: the Regulation on Credit Risk Management, the Regulation on Bank Capital Adequacy, the Regulation on Effective Interest Rate and Disclosure Requirements, and the Regulation on Appraisal of Immovable Properties, shall have the same meaning as the definitions used in this Regulation and/or with the following definitions, ed used for the purpose of this Regulation.

1. **Acceleration Clause:** The clause in a mortgage loan agreement that permits a creditor to require a debtor to repay the outstanding balance of the residential mortgage loan immediately, if the debtor does not meet certain requirements in the mortgage loan agreement.
2. **Amortization:** The process whereby a mortgage loan payment consists of a portion applied to pay interest on a mortgage loan and the remainder applied to pay down the unpaid principal balance of a mortgage loan. Over time, the interest portion decreases as the loan balance decreases, and the amount applied to principal increases until the loan is paid off (amortized) with the last monthly payment at the term of the mortgage loan.
3. **Applicant:** Natural or legal person applying for a mortgage loan.
4. **Balloon Mortgage:** A mortgage loan that requires the principal balance to be paid at a specific point in time prior to or at maturity that differs from a standard amortization schedule. For example, a loan may be amortized as if it would be paid over a thirty-year period, but requires that at the end of the tenth year the entire remaining balance must be paid.
5. **Basis Points:** A basis point is one-one hundredth of a percent (0.01%). For example, 100 basis points equals one percent (1.00%).
6. **Borrower:** The natural or legal person who borrows money with a mortgage loan. See also mortgagor and debtor.
7. **Business Organization:** Any of the business organization types established in Kosovo in accordance with the Law on Business Organizations.
8. **Cadastral:** The land information system containing records of interests in real estate (e.g. property rights, restrictions and responsibilities). It includes a geometric description of land parcels linked to other records describing the nature of the interests, the ownership or control of those interests, and often the value of the parcel and its improvements. Reference to Cadastral in this regulation is related to the cadastral records maintained by the Kosovo Cadastral Agency.
9. **Disbursement Fee:** A fee charged by a FI to a borrower to pledge resources to enter into the mortgage loan agreement with the borrower. The exact amount charged will vary. The FI incurs costs due to the administrative and clerical tasks that are associated with the loan. A disbursement fee may be periodic, as a tool used by the FI to partially defer those costs into periodic payments. The fee is based on a percentage of the amount of the mortgage. This fee may also be referred to as a commitment fee, administrative fee or management fee.

10. **Cure:** A debtor cures a defaulted or delinquent loan by paying all past due payments and fees, thus becoming current and making regular payments on the loan going forward.
11. **Default:** The failure of a borrower to comply with the terms of a mortgage agreement. This can be due to not paying the loan on time or due to violating one of the terms of the mortgage agreement.
12. **Down Payment:** The amount of money paid by a borrower when buying an immovable property that represents the difference between the purchase price and the amount of the mortgage. For example, the borrower made a down payment of € 20,000 to get an € 80,000 mortgage on a flat he was buying for € 100,000.
13. **Delinquent:** Refers to a payment on a mortgage loan, which has not been made by the due date.
14. **Encumber:** The act of placing a lien or a charge such as a mortgage on immovable property. An encumbrance is only legal if it is listed in the Cadastre.
15. **Encumbrance:** Anything that affects ownership rights to a property, such as mortgages, leases, easements or restrictions.
16. **Equity:** The difference between an immovable property's fair market value and the outstanding balance of all liens on the property.
17. **First Mortgage:** The mortgage that is in first place among all loans recorded in the Cadastre against an immovable property. Priority of the lien refers to the date on which the mortgage agreement is recorded in the Cadastre.
18. **Fixed-Rate Mortgage:** A mortgage loan for which the interest rate does not change during the entire term of the loan.
19. **Foreclosure:** The legal process by which a creditor may sell immovable property, which is mortgaged as security for a mortgage loan, to pay all outstanding balances and charges on a defaulted mortgage loan.
20. **Hazard Insurance:** A form of insurance that protects the insured immovable property against physical damage such as theft, fire and other natural disasters.

21. **Immovable Property:** A specific part of the land surface, which has boundaries or boundaries can be set. Immovable properties include land, natural objects affixed to the land, business buildings, residential buildings, and parts of the buildings (apartments) as separate units of residential buildings, or mineral wealth.
22. **Lender:** The FI that provides the funds to the borrower through a mortgage loan. See also mortgagee and creditor.
23. **LPORR:** Law No. 03/L-154 on Property and Other Real Rights
24. **Mortgage Loan:** Any loan secured by immovable property that is pledged as collateral which allows the mortgage creditor to initiate foreclosure proceedings for the purpose of satisfying the obligation of the mortgage creditor under the terms and conditions on the mortgage loan.
25. **Mortgagor Life Insurance:** Life insurance on a mortgagor, who is a natural person that may be required by a FI. The insurance value is typically for the mortgage amount outstanding over the term of the loan or period required by the FI.
26. **Mortgage Term:** The length of time that a mortgage is scheduled to exist and the debtor is obligated to pay the creditor. For example, a 30-year mortgage term is 30 years.
27. **Mortgagee:** The FI that lends money secured by pledged immovable property to the mortgagor. See also lender and creditor.
28. **Mortgagor:** The natural or legal person who pledges immovable property as security for the repayment of a mortgage loan. See also borrower and debtor.
29. **Creditor:** The FI that lends money secured by pledged immovable property to the debtor. See also lender and mortgagee.
30. **Debtor:** The natural or legal person who pledges immovable property as security for the repayment of a mortgage loan. See also borrower and mortgagor.
31. **Owner:** The natural or legal person identified in the immovable property rights register of the Cadastre as the verified owner of the immovable property or the person purchasing the property from the current verified owner to become the new owner, after receiving the funds from the mortgage loan to complete the purchase transaction.
32. **Owner-occupied:** The owner of the immovable property, who is a natural person, occupies all or a portion of the immovable property as his primary residence.

33. **Qualifying income:** Stable, recurring, documented components of household income from acceptable sources used to evaluate a potential borrower's capacity to meet financial obligations when making the mortgage lending decision.
34. **Second Mortgage:** A mortgage loan that is second in priority to claims against the immovable property based upon the timing of filing of lien against an immovable property in the Cadastre. There can be third mortgages and more.
35. **Unit:** Separately owned and occupied elements or independent space of a building used for a dwelling, commercial or other usage. The unit is separately registered in the Cadastre.
36. **Variable-Rate Mortgage (VRM):** A mortgage loan with an interest rate and monthly payment that change periodically over the life of the loan based on changes in a specified index, which is publically available and beyond the control of the FI.
37. **A residential property** is an immovable property that is used primarily (at least 50% of the interior space) for the purpose of habitation by a natural person. The immovable property may be a unit in a collective or multi-unit building (like a condominium) or a separate building that may contain up to four separate units.
38. **A commercial property** is the immovable property for which more than fifty percent (50%) of the interior floor area is used by business organizations and/or is leased to others regardless of purpose. For the purposes of this regulation, commercial property includes but is not limited to office buildings, industrial property, medical centers, hotels, malls, retail stores, collective buildings, warehouses, and garages.

CHAPTER II
Mortgage Loans

Article 3
Mortgage Loan Requirements

1. A mortgage loan shall be classified as either a residential mortgage loan or a commercial mortgage loan for purposes of this regulation.
2. **A residential mortgage loan** is a loan secured by a residential immovable property (as defined in Article 2 of this Regulation).
3. **A commercial mortgage loan** is a loan secured by an immovable property that is made to a business organization or secured by commercial property (as defined in Article 2 of this Regulation). For the purpose of this Regulation, the cases below are also considered as commercial mortgages:
 - 3.1. A trade association mortgage loan is classified as a commercial mortgage loan.
 - 3.2. Agricultural mortgage loans are classified as commercial mortgage loans.
 - 3.3. Construction loans are classified as commercial mortgage loans during the period of construction even if the loan is for a residential property.
 - 3.4. Mortgage loans on residential property that do not meet the definition for a residential mortgage loan (as defined in Article 2) are classified as commercial mortgage loans for the purpose of this Regulation and the risk weights determined with the regulation on capital adequacy.
4. A mortgage loan requires a written mortgage loan agreement and a mortgage agreement.
5. A mortgage loan agreement is a written agreement between the creditor and debtor that provides the specific terms and conditions of the loan. The requirements for the mortgage loan agreement are described in Article 5.
6. A mortgage agreement is a written agreement between the owner of an immovable property, who is the debtor and where applicable, the guarantor and the FI, or the creditor, which determines the immovable property as security for a mortgage loan.
 - 6.1. A third party guarantor can be part of the mortgage agreement using separate immovable property owned by the guarantor as security for the mortgage loan (See Article 9).
 - 6.2. The specifics of the mortgage agreement are described in Article 4.
7. Only the owner of the immovable property can encumber the immovable property:

- 7.1. A person using the mortgage loan to purchase the immovable property must be the owner of the immovable property or will become the owner of the immovable property through the purchase of the immovable property with the proceeds of the mortgage loan except in the case of a guarantor residential mortgage loan (see Article 9).
- 7.2. If a joint owner of an immovable property being mortgaged is not listed as a co-borrower in the mortgage agreement, the FI must obtain the joint owner's written consent to the loan and a waiver of any rights to contest the mortgage loan and any actions by the creditor to collect on the mortgage loan.
- 7.3. In the case where the borrower's spouse is not a co-borrower in the mortgage agreement, the FI must obtain the spouse's written consent to the loan and a waiver of all rights arising from any relevant legislation in force.
8. If the interest rate on the mortgage loan is fixed, the rate shall not change except in the circumstances involving restructuring the loan due to delinquent payments as detailed in the mortgage loan agreement.
9. If the interest rate on the mortgage loan has a variable rate, the variable rate must be clearly defined in the mortgage loan agreement using the following terms.
 - 9.1. The **index** is a publically available rate approved by the CBK that is not within the control of the FI.
 - 9.2. The **margin** is the additional interest added to the index that represents the FI's cost, risks and profit. The stated margin in the agreement shall not change for the life of the loan.
 - 9.3. The sum of the margin and the index rounded off to the nearest one-hundredth percent (0.01%) shall be the interest rate charged on the mortgage loan for the designated period.
 - 9.4. The interest rate adjustment frequency is at the discretion of the FI but must be clearly described in the mortgage loan agreement.
10. For a guarantor residential mortgage loan (described in Article 8), the mortgage loan may be secured with a mortgage on an immovable property owned by the Guarantor which is not the immovable property being purchased.
11. If the owner of the immovable property does not own the land underneath the building or unit and the land are leased from a third party, a residential mortgage loan can be made on the building or unit only if the term of the land lease exceeds the term of the mortgage loan.
12. The mortgage loan must be denominated in euros or other currency, officially authorized for use by the CBK. FI's may issue mortgages in another currency only if the currency of the mortgage loan is in the currency of the debtor's qualifying income.

13. The amount of the mortgage loan shall not exceed one hundred percent (100%) of the appraised value of the immoveable property used as collateral for the mortgage loan. If it is a guarantor residential loan the mortgage loan shall not exceed one hundred percent (100%) of the lesser of the appraised value of the immoveable property financed or the immoveable property used as collateral for the guarantor residential mortgage loan.

Article 4

Mortgage Agreement

1. A mortgage is created by written agreement entered between the owner of the property and the creditor, which is registered in the property rights register and which represents an interest in immovable property in exchange for a loan, which gives the creditor the right to initiate foreclosure proceedings against the debtor for such immovable property, for the purpose of satisfying sufficiently the loan secured by the mortgage, which is past due.
2. The mortgage agreement used by a FI must be in writing and contain at least the following:
 - 2.1. name and address of the debtor and mortgagor (where appropriate the guarantor);
 - 2.2. the form of ownership and relevant percentage ownership of joint owners pursuant to the Certificate of Ownership;
 - 2.3. name and address of the creditor including contact information for complaints handling;
 - 2.4. the exact description of the immovable property which is to be encumbered, containing its location, full address or other essential information regarding location and identifying cadastral numbers;
 - 2.5. purpose of the loan per Article 6 of this Regulation;
 - 2.6. the principal amount of the claim secured by the mortgage agreement;
 - 2.7. the interest rate being charged and in the case of a variable rate also a full description of circumstances under which the rate may be changed and the reference to a relevant index;
 - 2.8. the effective interest rate;
 - 2.9. all other fees and charges payable by the borrower, including costs of mandatory ancillary services such as insurance, if known at the time of signing the mortgage agreement, or the notification for these necessary services which also bear their cost.
 - 2.10. the total amount payable by the borrower;
 - 2.11. the term of the mortgage including first payment date and maturity date;
 - 2.12. reference to the mortgage loan agreement and the payment credit structure for the loan including methods for amortization and adjusting interest rates;

- 2.13. the security interests of the creditor that the debtor must conform to, like, keeping property insurance, paying property taxes, maintaining the value of the property, and restricting both use and sale of the property,
- 2.14. interests, penalties or charges paid in the case of default (including a definition of default).
- 2.15. a warning written in capital bold letters stating that in the case of late payments or violation of the security interests or other conditions in the mortgage agreement, the mortgagee may declare the mortgagor in default and initiate proceedings which might result in the loss of ownership over the mortgaged immovable property and in eviction from it, as follows:

AT ANY TIME THAT MONIES HEREBY SECURED BECOME PAYABLE AND THE MORTGAGOR FAILS TO MAKE TIMELY PAYMENT HEREBY, MORTGAGOR ACKNOWLEDGES THAT HE SHALL BE IN DEFAULT OR SHALL BE IN BREACH OF THIS AGREEMENT. IF THE MORTGAGOR IS IN BREACH OF THIS AGREEMENT, THE MORTGAGEE SHALL HAVE A RIGHT TO FORECLOSE ON THE MORTGAGE WITH THE INTENT TO TAKE POSSESSION AND SELL THE MORTGAGED PROPERTY TO RECOVER ALL MONIES OWNED BY MORTGAGOR.

- 2.16. in the case of a Guarantor Mortgage the above warning is modified as follows:

AT ANY TIME THAT MONIES HEREBY SECURED BECOME PAYABLE AND THE MORTGAGOR AND GUARANTOR FAIL TO MAKE TIMELY PAYMENT HEREBY, MORTGAGOR AND GUARANTOR ACKNOWLEDGE THAT THEY SHALL BE IN DEFAULT OR SHALL BE IN BREACH OF THIS AGREEMENT. IF THE MORTGAGOR AND GUARANTOR ARE IN BREACH OF THIS AGREEMENT, THE MORTGAGEE SHALL HAVE A RIGHT TO FORECLOSE ON THE MORTGAGE WITH THE INTENT TO TAKE POSSESSION AND SELL THE MORTGAGED PROPERTY TO RECOVER ALL MONIES OWNED BY MORTGAGOR AND GUARANTOR.

- 2.17. identifying all interested parties and reference riders describing any and all waivers of interest in the immovable property being mortgaged,
- 2.18. all riders relevant to the mortgage loan agreement;
- 2.19. the date the agreement was signed; and the signatures of the mortgagee, the mortgagor and, where appropriate, the guarantor; and
- 2.20. Certification of the signatures in accordance with the rules applicable to other legal agreements over immovable property.

Article 5

Mortgage Loan Agreement

1. The mortgage loan agreement is a written agreement which is signed by all parties involved in the mortgage loan transaction describing the loan made by the FI to the debtor. It must contain the following minimal characteristics in addition to the elements required by the Regulation on Effective Interest Rates and Disclosure Requirements:
 - 1.1. a principal amount due,
 - 1.2. a term or maturity date,
 - 1.3. an interest rate and a description on how and when the interest rate may change,
 - 1.4. payment terms describing structure of the payments that will ensure the loan is paid off at maturity,
 - 1.5. effective interest rate,
 - 1.6. place and form of payment,
 - 1.7. early repayment rights and related costs,
 - 1.8. details of what happens in event of a delinquency,
 - 1.9. an acceleration clause,
 - 1.10. an extinction clause,
 - 1.11. an amortization schedule that must be signed by the debtor and, in the case of a guarantor loan, also by the guarantor.
2. The CBK may issue Instructions on requirements for a mortgage loan agreement for further details.

Chapter III
Residential Mortgage Loans

Article 6
Permissible Residential Mortgage Loan Purposes

1. Mortgage loans on residential, immovable property can only be made with natural persons for the following purposes:
 - 1.1. to purchase immovable property for occupancy as a residence (Purchase).
 - 1.2. to refinance an existing mortgage on a residential immovable property (Refinance).
 - 1.3. to finance the value (equity) of a residential immovable property (Home Equity). The value may arise from appreciation in value of the property, through payment of an existing mortgage, inheritance, or other means. The proceeds of the loan are used according to the debtor's needs (tuition, furniture purchase, other) and the FIs policies.
 - 1.4. to finance renovation of a residential immovable property (Home Renovation).
 - 1.5 to finance the construction of residential immovable property (construction) by a natural person. A construction loan cannot be used for the construction of a unit in a multi-unit building.
2. Aggregate mortgages and maximum amount mortgages, as defined in the LPORR, shall not be originated by a FI. If a qualified residential mortgage loan becomes an aggregate mortgage through action of law, it shall be reclassified as a non-qualified residential mortgage loan.

Article 7
Qualifying Residential Mortgage Loans

1. **The qualifying, residential mortgage** (hereinafter: **QRM**) **loan** shall be on residential, immovable property with the following additional requirements:
 - 1.1. The immovable property for a QRM loan shall be owner-occupied.
 - 1.2. The QRM loan will have a fixed rate or variable rate.
 - 1.3. The QRM loan will have a fixed term.
 - 1.4. The QRM loan will be a monthly pay, self-amortizing loan.
 - 1.5. The QRM loan must be a first lien on the immovable property being financed.
 - 1.6. The LTI ratio shall not exceed fifty percent (50%) for a QRM. (See Article 17)
 - 1.7. The DTI ratio shall not exceed sixty percent (60%) for a QRM. (See Article 17)
 - 1.8. The mortgage interest rate, term and amortization methods for a QRM loan cannot change except pursuant to the requirements for a variable rate mortgage or cases of loan restructuring.
2. **The QRM loan:**

- 2.1. Cannot have a loan-to-value ratio greater than eighty percent (80%) (see Article 20, point 1 (b)),
 - 2.2. Cannot have negative amortization,
 - 2.3. Cannot have a balloon payment,
 - 2.4. Cannot have an interest-only period and
 - 2.5. Cannot allow for deferment of principal except in cases of a loan restructuring or forbearance to resolve a delinquency.
- 3. The QRM loan can only be used for the following purposes:**
- 3.1. to purchase immovable property for occupancy as a residence (Purchase).
 - 3.2. to refinance an existing mortgage on a residential immovable property (Refinance).
 - 3.3. to finance renovation of a residential immovable property (Home Renovation).
 - 3.4. to finance according to immovable property value, if the loan (equity of immovability) is a first lien.
- 4. If the QRM loan has a variable rate, the mortgage loan agreement must specify exactly how interest rates change.**
- 4.1. The QRM loan interest rate must be determined by adding a fixed margin to a recognizable interest rate index as approved by the CBK.
 - 4.2. The QRM loan interest rate must be adjusted (changed) on a regular, fixed schedule (i.e., monthly, annually or other schedule).
 - 4.3. When the QRM loan interest rate changes, the monthly payment shall be recalculated so that the loan is fully amortizing over the remaining term of the mortgage.
 - 4.4. The variable mortgage rate for a QRM loan cannot increase or decrease by more than 200 basis points per year regardless of the adjustment period and cannot increase or decrease by more than 600 basis points over the term of the mortgage loan.
 - 4.5. The creditor must have made a reasonable determination that the borrower can repay the loan using the maximum possible interest rate in the first five years.
5. The QRM loan must conform to the specific underwriting guidelines described in Chapter V of this Regulation.
6. Any residential mortgage loan that does not fulfill all of the criteria determined within this Article is a Non-Qualifying Residential Mortgage Loan.

Article 8

Guarantor Mortgage Loans

1. **The Guarantor Mortgage (GM)** is a loan to a natural or legal person to purchase an immovable property that is not secured by the purchased property but by the guarantor's immovable property.
2. A mortgage guarantor shall agree to meet all of the terms of the GM loan if the debtor fails to fulfill the terms of the loan.
 - 2.1. The mortgage guarantor shall be affiliated with the debtor as defined in the FI's policies.
 - 2.2. The mortgage guarantor pledges his immovable property (not the property being financed) as collateral for the GM loan.
 - 2.3. The mortgage guarantor shall also be a party of the transaction for the GM agreement.
3. If a person signs a mortgage loan agreement to guarantee only the mortgage monthly payments for the debtor, he is not considered a guarantor for the purposes of this regulation.
4. The FI shall file the mortgage agreement on the guarantor's immovable property with the Cadastre as collateral for the GM loan.
5. When the certificate of ownership for the property financed with a GM loan comes into the debtor's possession, he shall notify the FI and give the FI the certificate.
 - 5.1. The FI shall record a new mortgage agreement using the financed immovable property as collateral with the Cadastre as a first lien.
 - 5.2. The FI shall release the mortgage on the Guarantor's immovable property and release him from his guarantor obligations.
 - 5.3. The FI shall send an extinction notice to the guarantor.
6. Any GM that is not used for the purchase of a residential immovable property and is not secured with a guarantor's residential immovable property, for the purpose of classifications determined with the article 10 of this regulation and the risk weights assigned with the regulation on capital adequacy, is considered a commercial mortgage loan.

Article 9
Guarantor Residential Mortgage Loans (GRM)

1. A Guarantor Residential Mortgage (GRM) Loan is a GM loan that finances the purchase of residential immovable property, secured with a mortgage on the guarantor's residential immovable property.
 - 1.1. The immovable property being purchased shall be owner-occupied by the debtor.
 - 1.2. The GRM loan can only be used to purchase immovable property for occupancy as a residence (Purchase) by the debtor.
 - 1.3. If a GRM loan meets all of the requirements of a QRM loan except it does not have a first lien on the immovable property financed by the mortgage loan, but has a first lien on the guarantor's residential immovable property, it shall be considered a qualifying GRM loan.
 - 1.4. If a new mortgage agreement encumbering the immovable property financed with the qualifying GRM loan is not filed as a first lien within five (5) years of origination, a qualifying GRM loan shall be reclassified as a non-qualifying GRM loan.

2. When the certificate of ownership is obtained and the steps in paragraph 5 of the Article 8 are completed a qualifying GRM loan shall be reclassified as a QRM loan.

Article 10
Classification of Mortgage Loans

1. Mortgage loans shall be classified at origination of the loan based upon whether they meet the requirements specified in this regulation.

2. Mortgage loans shall be classified as either:
 - 2.1. Qualifying residential mortgage loan,
 - 2.2. Non-qualifying residential mortgage loan,
 - 2.3. Qualifying guarantor residential mortgage loan,
 - 2.4. Non-qualifying guarantor residential mortgage loan,

- 2.5. Commercial mortgage loan.
3. All residential mortgage loans shall be classified as qualifying or non-qualifying residential mortgage loans.
 4. All guarantor residential mortgage loans shall be classified as qualifying or non-qualifying GRM loans.
 5. For the purpose of this regulation, all mortgage loans, , will be classified as commercial mortgage loans, as per following:
 - 5.1. Commercial mortgage loans,
 - 5.2. trade association mortgage loans,
 - 5.3. construction mortgage loans,
 - 5.4. agricultural mortgage loans,
 - 5.5. any mortgage loan that does not meet the requirements of a residential mortgage loan or guarantor residential mortgage loan, and
 - 5.6. All GM loans not for the purchase of residential property shall be classified as commercial mortgage loans.
 6. Loans for the construction of residential immovable property shall be classified as commercial mortgage loans until completion of the immovable property.
 - 6.1. If the construction loan is converted into a residential mortgage loan, it will be classified according to the requirements specified in this regulation upon conversion.
 7. If the mortgage loan (the equity of immovability) is a first lien, it shall be classified as a residential mortgage loan, qualifying or non-qualifying, depending on its characteristics according to this regulation. If the loan (the equity of immovability) home equity loan is not a first lien, it shall be classified as a non-qualifying residential mortgage loan and the loan-to-value ratio used to determine the risk weighting shall be calculated using the combined value of all mortgage loans on the respective immovable property.
 8. The risk weightings for mortgage loans are based on classification of the mortgage loan according to this Article, and the Loan-To-Value Ratio (as defined in Article 20). The risk weightings are specified in Article 5 of the Regulation on Bank Capital Adequacy based on the classifications determined with this regulation.

Article 11
Mortgage Lending Policies and Documentation

1. The FI must establish in writing specific policies including but not limited to the following sections:
 - 1.1. Client acquisition,
 - 1.2. Application and verification of application,
 - 1.3. Appraisal process, including the mortgage appraisal
 - 1.4. Underwriting guidelines,
 - 1.5. Lending decision (approval process),
 - 1.6. Funding,
 - 1.7. Complaint handling,
 - 1.8. Regular servicing,
 - 1.9. Special servicing,
 - 1.10. Foreclosure, and
 - 1.11. Extinction of the mortgage.

2. FIs shall maintain a comprehensive mortgage loan files for each mortgage loan. These files shall be maintained according to the FI's records maintenance policy but shall contain;
 - 2.1. Original application and signed disclosures,
 - 2.2. Documentation on verification of the application information ,
 - 2.3. Credit report,
 - 2.4. Appraisal of the immovable property,
 - 2.5. Documentation of underwriting decision including suitability assessment,
 - 2.6. Mortgage Agreement,
 - 2.7. Mortgage Loan Agreement,
 - 2.8. A copy of a sale-purchase agreement,
 - 2.9. Payment amortization plan,
 - 2.10. Pre-Contractual Disclosure Document,
 - 2.11. All correspondence during the life of the loan,
 - 2.12. Details of occurrences of default, foreclosure and any restructurings, and
 - 2.13. Extinction notice.

Chapter IV
Mortgage Application Process

Article 12
Client Acquisition

1. All advertising of mortgage products must conform to the Regulation on Effective Interest Rate and Disclosure Requirements and other regulatory provisions in force.
2. FIs shall not offer misleading or incomplete information on their mortgage loan offerings, the mortgage lending process or rates and fees for their mortgage loan offerings.
3. When the FI offers a particular mortgage loan product or a quote on a mortgage loan to a potential debtor, a CBK Key Facts Statement as defined in CBK instructions must accompany the offer.
4. Only employees of a FI may offer residential mortgage loans on behalf of the FI to natural persons.

Article 13
Loan Application

1. The FI will arrange for the potential debtor to complete a formal loan application, in order to gather all information necessary to determine if the mortgage represents an acceptable risk to the FI and a suitable burden to the prospective debtor.
2. The loan application form shall include the applicant's signature attesting the accuracy of the information on the application, permitting the FI to verify the information that the applicant has provided, and promising to inform the FI on the update of the form if any pertinent information changes.
3. The FI shall collect all documentation needed to verify the accuracy of the application from the prospective debtor.
4. The FI shall provide the prospective debtor with any disclosures required by the CBK.

5. The FI shall collect all necessary documentation to verify ownership including a sale/purchase agreement and ownership certificate.

Article 14

Verification of Loan Application

1. The FI shall verify the information provided by the borrower in the mortgage application and document such verification with Cadastral Agency for the purpose of crediting.
2. The FI shall verify the documentation of ownership of the immovable property for their underwriting purposes.
 - 2.1. With the exception of GRM loans, the borrower must be the owner of the immovable property used as collateral for a residential mortgage loan or must be using the mortgage proceeds to become the owner.
 - 2.2. If the loan is a GRM loan, the guarantor must be the owner of the mortgaged property and the mortgage debtor must be using the proceeds of the mortgage loan to become the owner of the financed property.
3. If a borrower provides misleading or false information on his application for a mortgage loan or fails to inform the bank about any significant change in status on his mortgage application during the application process, the FI may immediately reject the loan.
4. If the debtor receives the loan based upon false or misleading information, the FI may declare the mortgage loan in default upon discovery of the false or misleading information subject to applicable law.

Chapter V

Mortgage Underwriting Process

Article 15

Underwriting Definition

1. Underwriting is the process of evaluating a loan application to determine the risk involved for the creditor. It involves an analysis of the borrower's ability and willingness to repay the debt and the value of the immovable property compared to the loan amount.

2. The FI shall establish a clear set of requirements that the applicant must meet before the FI approves the applicant for the mortgage loan. The FI shall document through its loan underwriting process that it has concluded that:
 - 2.1. The borrower has the **capacity** or sufficient income to satisfy the payment obligations of the mortgage;
 - 2.2. The borrower demonstrates **creditworthiness** or a predisposition to meet financial obligations; and
 - 2.3. The **collateral** has a realizable value that is sufficient to serve as security in the event that the mortgage loan goes into default.
3. The FI shall define the underwriting requirements for residential mortgages separate from those for commercial mortgages.

Article 16 **Qualifying Income for a Residential Mortgage Loan**

1. **Qualifying income** is the documented income, calculated on a monthly basis, which is available to pay for monthly housing, debt and living expenses.
2. When calculating qualifying income the FI :
 - 2.1. May include only documented income from a potential borrower listed on the application as part of the household's total income.
 - 2.2. Must ignore any portion of the applicant's income that appears to come from a one-time event unless the borrower can prove that he receives the income on a regular basis.
 - 2.3. May include income from self-employment if verification from financial records or other means is possible,
 - 2.4. May include income from remittances if consistency of payment is documented. The verified remittances can only be included at fifty percent (50%) of the lowest remittance amount in the previous 12 months.
 - 2.5. May include other sources of verifiable income like investments in securities.
 - 2.6. Other income may be included if it is documented and consistent.
3. The FI must verify the amount and sources of funds that the borrower will have available to pay for the down payment and closing costs.

- 3.1. For a QRM mortgage, the co-financing payment must be in the form of a deposit at a recognized FI or verified with receipt and bank record showing payment of down payment to seller.
- 3.2. For non-qualifying residential mortgages, the co-financing payment can take other forms of self-financing.
- 3.3. The FI shall have the borrower provide a written statement certifying that the funds for co-financing payment have not been borrowed.
- 3.4. If the borrower's co-financing comes from donation:
 - 3.4.1. Only the donations from relatives, employers, government agencies or NGOs are permissible.
 - 3.4.2. The gift donor must provide a letter certifying that the borrower has no obligation to repay the funds.

Article 17

Determining Credit Capacity for a Residential Mortgage Loan

1. The FI must demonstrate that the borrower meets a maximum allowable **payment – to – income ratio (hereinafter: PTI)**, which expresses how large the borrower's monthly housing costs will be as a percent of the monthly income.
 - 1.1. The total monthly housing costs include principal and interest payments on the mortgage loan plus property taxes and hazard insurance (pro-rated monthly). The monthly housing expenses are divided by the monthly qualifying income to calculate the ratio.
 - 1.2. The LTI ratio shall not exceed fifty percent (50%) for a QRM loan or sixty percent (60%) for any residential mortgage.
2. The FI must also demonstrate that the borrower meets a maximum allowable **debt – to – income ratio (hereinafter: DTI)**, which expresses how large the borrower's monthly financial obligations will be as a percent of the monthly qualifying income.
 - 2.1. The total debt includes obligations including housing expenses, as defined above, plus other monthly debt payments like car loans, leases and credit card payments. The total of these monthly financial expenses are divided by the monthly qualifying income to calculate the ratio.
 - 2.2. The DTI ratio shall not exceed sixty percent (60%) for a QRM loan or seventy percent (70%) for any residential mortgage.
3. For the commercial mortgages, the FI shall use sound and consistent policies to assess the credit capacity of the borrower in compliance with the FI's credit policies and the CBK Regulations.

4. The income ratios reports described above provide key guidance to a FI on determining a potential debtor's credit capacity, however these are the maximum limits accepted, but not recommendations by the CBK. FIs are expected to use sound credit standards for making underwriting decisions.

Article 18 **Assessing Creditworthiness**

1. The FI will evaluate the creditworthiness of the borrower based on the borrower previous experiences in meeting financial obligations.
2. The FI shall obtain the borrower's credit report from the Kosovo Credit Registry to use in assessing the creditworthiness of the borrower.
3. When the credit report is insufficient to assess the borrower's creditworthiness, the FI must use other documented and verified sources to assess the borrower's creditworthiness.
4. Applying all available information, the FI will arrive at a summary creditworthiness assessment for the borrower and rate the borrower on a scale including acceptable and unacceptable.

Article 19 **Immovable Property Appraisal**

1. The FI shall obtain an appraisal of immovable property used as collateral pursuant to the CBK Regulation on Appraisal of Real Estate.
2. For GM loans, the FI shall obtain appraisals on both the purchased immovable property and the guarantor's immovable property, which is serving as the collateral.
3. For the appraisal of immovable property, in order to determine the value of collateral, the FI may use the tax base of the real property established by the Municipalities in accordance with Law on the Taxes on Immovable Property in the Republic of Kosovo.

Article 20
Assessing Collateral

1. The FI shall determine the **loan-to-value ratio (LTV)** for the proposed mortgage. Calculate the LTV ratio by dividing: (a) the amount of the mortgage loan by (b) the *lesser* of the purchase price, or the official appraised value of the property. The LTV is determined at origination of the mortgage loan.
2. The LTV on QRM loans shall not exceed eighty percent (80%).
3. The LTV on qualifying GRM loans shall not exceed eighty percent (80%) of the lesser amount of the appraised value of the property being purchased or the sale price of the property being purchased, and it shall not exceed eighty percent (80%) of the appraised value of the guarantor's property being used as security instrument for the mortgage loan.

Article 21
Lending Decision (The process of approval)

1. The lending decision shall be made by a committee within the FI, which shall be documented in the loan applicant's file.
2. A record of each mortgage lending decision shall be maintained in the FIs records.
3. If the debtor has been approved, the debtor must be notified by the FI via a pre-contractual document (see section 5 of this Article) which shall also be retained in the debtor's file.
4. Debtors who are not approved for a loan shall be notified in writing and the denial letter shall be retained in the debtor's application file.
5. The **Pre-Contractual Document** shall be prepared and provided to the debtor as evidence of approval of the loan.
 - 5.1. This document shall conform to requirements for the European Standard Information Sheet.
 - 5.2. This document also enumerates the amounts of money exchanged at closing; who will be responsible for providing what money; and how those monies are to be applied.
 - 5.3. Instructions from the CBK shall detail the form for the Pre-Contractual Document.
 - 5.4. The FI shall obtain written documentation of timing of receipt of the Pre-Contractual Document by the debtor.

5.5. All instructions that need to be provided to the debtor shall be incorporated in this document particularly regarding payments for property taxes and property insurance.

6. In the case of **residential mortgage loans** the FI shall allow to the Debtor not less than four (4) calendar days and not more than ten (10) calendar days to assess the implications of the credit decision and choose to enter into the credit arrangement with the FI. The minimum limit of four (4) calendar days does not limit loan agreements within a shorter period, in cases when the debtor agrees with the terms and conditions of the loan even earlier.

Chapter VI Mortgage Settlement Process

Article 22 Insurance

1. If the value of the mortgage loan exceeds fifty thousand euros (€50,000), the FI shall require the debtor to obtain and maintain property hazard insurance, with an insurance company licensed to operate in Kosovo, in an amount not less than the amount of the mortgage. The debtor may obtain a larger amount of property insurance subject to the insurance company's policies and procedures.
2. The FI may require the debtor for a mortgage loan to obtain and maintain mortgagor life insurance or some other form of payment protection plan to provide better protection to the FI to allow the debtor to meet the FI's underwriting guidelines. The amount of required insurance shall be no greater than to provide protection for the amount of the mortgage loan at any point in time.
3. Debtors shall be given the option to choose between insurance products offered through licensed insurance brokers, insurance agencies, or insurance companies.

Article 23 Disbursement Fee

1. The FI may charge a fee for making a mortgage loan called a disbursement fee to recover the costs and risk of lending.

2. The disbursement fee mortgage loans shall not exceed two percent (2%) of the principal amount of the relevant mortgage loan.

Article 24 Disbursement

1. The FI shall give the borrower a list of the documents that the FI will prepare and the borrower will be required to execute before disbursement.
2. The FI shall verify that the property seller provides evidence that any outstanding liens against the property have been cleared.
3. The FI shall verify that the mortgage agreement is registered in the immovable property rights register at the Cadastre before disbursing funds.
4. The FI shall provide the debtor with final, executed copies of all documents, including the mortgage agreement, the mortgage loan agreement, and any other relevant contractual obligations of the debtor and where appropriate, the guarantor.
5. The disbursement of loan proceeds by the FI to the borrower will be in accordance with the regulations in force for disbursement of loan proceeds.
6. If the debtor uses any part of the proceeds of the mortgage loan for a purpose other than the purpose in the mortgage application, the FI may declare the mortgage loan in default pursuant to applicable law.

Chapter VII Mortgage Servicing

Article 25 Notifications to Debtor

1. All notifications to the debtor shall be made through one or any combination of the following means:
 - 1.1. Direct mail ,
 - 1.2. Notice of assigned payments, included in statement of account,
 - 1.3. Phone calls,
 - 1.4. SMS,
 - 1.5. E-mails, or
 - 1.6. Other reasonable method agreed to in the mortgage loan agreement.
2. The FI may allow the debtor to avoid the payment notification regime by written request from the debtor.

Article 26
“Escrow” Transitional Account

1. Instead of requiring the debtor to separately pay for property insurance, property taxes, and other fees required under the mortgage agreement, the FI may establish an escrow account to collect and pay those fees on behalf of the debtor.
2. An escrow account is an account linked to a mortgage loan used to collect fees from the debtor to pay expenses required under the mortgage agreement.
3. The escrow account can take one of three forms:
 - 3.1. The account can be an advance escrow account wherein the debtor is required to prepay a portion of the expected expenses at settlement and then the debtor pays a portion of the expenses every month. The FI uses those collected funds to pay the property insurance, property taxes and other fees when due.
 - 3.1.1. The amount paid at settlement and monthly should be sufficient to pay the anticipated expenses associated with the mortgage agreement.
 - 3.1.2. The FI shall pay the insurance premium, property taxes and other expenses on a timely basis on behalf of the debtor.
 - 3.1.3. The account must be reconciled annually to ensure that the debtor’s contribution is sufficient to pay the anticipated expenses. The debtor may be required to pay more or less depending on the requirements to pay all of the expenses within the year.
 - 3.1.4. The balance of the escrow account shall earn interest for the debtor at the FI’s prevailing deposit rate.
 - 3.2. The account can be an arrears escrow account wherein the FI advances (loans) the payment of the premiums for property insurance, the property taxes or other expenses to the debtor to pay the property insurance, property taxes and other fees when due. The monies advanced shall be considered a loan to the debtor.

- 3.2.1. The debtor repays the cost of these advances on a pro-rata monthly basis.
- 3.2.2. The account must be reconciled annually to ensure that the debtor's contribution is sufficient to pay the fees paid by the FI. The debtor may be required by the FI to pay more or less depending on the requirements to pay all of the expenses within the year.
- 3.2.3. The balance of the escrow account shall earn interest for the FI at the rate of the mortgage loan.
- 3.3. The account may be a current escrow account where the FI arranges with the insurance company and/or the municipality or other service provider to pay the insurance premium, property taxes or other fee on a monthly basis.
 - 3.3.1. The debtor pays the cost of the expenses to the FI as necessary.
 - 3.3.2. The account must be reconciled annually to ensure that the debtor's contribution is sufficient to pay the required expenses. The debtor may be required to pay more or less depending on the requirements to pay all of the expenses within the year.
 - 3.3.3. There is no interest charged or earned by the FI or the Debtor on the payments. There may be a slight service charge.
- 3.4. The fees may be paid by any combination of the above account options.

Article 27
Standard Mortgage Loan Servicing

- 1. Loan servicing comprises the tasks a FI performs to protect a mortgage investment, including collecting monthly payments from creditors and dealing with delinquencies – including but not limited to foreclosure.
- 2. The FI shall maintain accounting records and procedures to ensure that mortgage loan payments are applied to the correct loan, and that the payment is allocated accurately between interest, principal, default interest charges or other fees.

3. The FI shall ensure that the debtor is aware of his obligations to make timely payments of the mortgage loan in accordance with the mortgage loan agreement.
4. An **early repayment** occurs when a debtor pays more principal than is scheduled to be paid.
 - 4.1. A FI shall not limit the full repayment of a **residential mortgage loan**.
 - 4.1.1. If the debtor requests it, the FI shall allow a debtor to make partial early repayments of the principal amount of the residential mortgage loan.
 - 4.1.2. The partial early repayment may be made in one lump sum or equally over a twelve (12) month period. Every twelve (12) month period must be requested separately.
 - 4.2. FIs may charge the debtor an early repayment penalty fee on a residential mortgage loan determined as follows:
 - 4.2.1. For the first year of the loan, the FI may charge up to five percent (5%) of the amount of the early repayment of principal.
 - 4.2.2. For the second year of the loan, the FI may charge up to four percent (4%) of the amount of the early repayment of principal.
 - 4.2.3. For the third year of the loan, the FI may charge up to three percent (3%) of the amount of the early repayment of principal.
 - 4.2.4. For the fourth year of the loan, the FI may charge up to two percent (2%) of the amount of the early repayment amount of principal.
 - 4.2.5. For the fifth year of the loan, the FI may charge up to one percent (1%) of the amount of the early repayment amount of principal.
 - 4.2.6. There shall be no penalty assessed after the fifth year of the loan.
 - 4.2.7. There shall be no penalty assessed if there is a full repayment of the residential mortgage loan due to the sale of the immovable property.
 - 4.2.8. The fee shall be charged on the date of repayment or at the time a partial early repayment schedule is completed.
 - 4.2.9. The FI shall provide the debtor with a written explanation of the calculation of the early repayment fee within ten (10) working days of when the early repayment fee is charged.
 - 4.2.10. Early repayments will not alter the monthly payment unless:
 - 4.2.10.1. the amortization is reset on a variable rate mortgage or the loan is restructured.
 - 4.2.10.2. The debtor requests and the FI agrees to a new amortization plan after a partial early repayment.
5. FIs may allow for a grace period, not more than 21 calendar days, during which time the mortgage payment is past due but not considered late for the purpose of applying default interest.

6. Payments received after they are due may be subject to a default interest charge and a change in interest rate pursuant to FI Policies and existing law.
7. The FI may attempt to collect the delinquent payment(s) from the debtor or the guarantor (where applicable) and/or develop a loan restructuring plan that will bring the residential mortgage loan current any time after the payment is past due but no later than after it is thirty-one (31)days past due.
8. FIs shall notify a debtor when payments are past due **no later** than the following schedule using notices pursuant to CBK Instructions:
 - 8.1. **Fifteen (15) days past due** – The first delinquent notice shall be sent when the loan is no later than 15 days past due with a reminder that default interest charges will begin to accrue according to the schedule specified in the mortgage loan agreement and the interest rate may be increased on the entire loan.
 - 8.2. **Thirty-One (31) days past due** – FI shall send a second delinquent notice when the loan is no later than 31 days past due with a warning about the risks and consequences of foreclosure. If it is a guarantor mortgage, the guarantor shall be notified.
 - 8.3. **Sixty-One (61) days past due** -- Send third delinquent notice when the loan is no later than 61 days past due, pointing out that the debtor violated the terms of the mortgage and foreclosure is a real possibility.
 - 8.4. **Ninety –one (91) days past due** – Send demand letter for payment in full to the debtor under the terms of the mortgage agreement and the acceleration clause of the mortgage loan agreement stating that foreclosure proceedings will begin immediately unless the loan delinquency is cured.
 - 8.5. **One Hundred and Eighty-One (181) days past due** – If not already in process, the FI shall notify the borrower that the FI is instituting foreclosure proceedings.
9. The FI shall document the results of each significant interaction with a delinquent debtor.
10. FI may begin foreclosure proceedings at any time if FI determines that the debtor is unable to cure the delinquency in the near future.
 - 10.1. Before beginning any foreclosure proceedings, the FI must issue a written demand for payment in full to the debtor under the terms of the mortgage agreement and the acceleration clause of the mortgage loan agreement.
 - 10.2. The FI shall begin foreclosure proceedings no later than after 181 days past due unless the FI and the debtor are in mediation or arbitration proceedings. If mediation and/or arbitration does not resolve the delinquency, foreclosure proceeding must begin as soon as possible.
 - 10.3. The FI may choose not to foreclose on a mortgage if the determination is made and documented that there is no economic benefit of a foreclosure to the FI.

11. The FI may re-inspect the property periodically until the mortgage is either brought current or foreclosure is completed. The FI may undertake and pay for any reasonable and appropriate action to protect the FI's interest in the property and its rights under the mortgage agreement.

Article 28

Loan Restructuring

1. The FI may use any loan restructuring or workout plans or a combination of plans consistent with CBK regulations and applicable law to work out the defaulted debtor's mortgage loan if it documents the rationale for helping the debtor avoid foreclosure.
2. The following are currently CBK approved options for pursuing a restructuring or workout. The FI may use one or a combination of options to cure the defaulted mortgage loan.
 - 2.1. **Supplementary Payment Plan.** The FI may offer a debtor the option to make a series of supplementary payments along with the regular monthly payments until the loan is current.
 - 2.2. **Loan Restructuring.** The FI may amend one of the terms and conditions of the loan, such as the maturity or the interest rate charged to make the payment more suitable to the debtor.
 - 2.3. **Forbearance.** The FI may reduce or suspend a delinquent debtor's payment obligation for a fixed period not to exceed twelve (12) months, and then to reinstate the full monthly payment obligation. The FI has the right to demand full repayment of the missed payment amounts plus penalties and other relevant charges.
 - 2.4. **Grants or Subsidies.** In some cases a third party such as an employer or a nongovernmental organization may grant funds to make up for a debtor's missed mortgage payments. FIs may permit funds from such sources to be used as a part of a restructuring plan.

- 2.5. **Sale on Behalf of Lender.** AFI may permit a debtor in default of his loan to sell the collateral property and transfer the proceeds to the lender, in order to satisfy the debtor's remaining obligation under the loan. The FI may reserve the right of refusal of such a sale.
- 2.6. **Datio in Solutum.** A debtor conveys to the FI all his interests in an immovable property to satisfy a loan for which it is serving as collateral. Also called a deed-in-lieu-of-foreclosure, this legal instrument immediately releases the debtor from his indebtedness associated with the defaulted loan and it allows the debtor to avoid the public notoriety of a foreclosure proceeding. The FI can reduce the time and expense that it would face by enforcing its collateral through foreclosure.
3. If the FI determines it is a more expedient and/or financially advantageous, the FI may pursue **mediation or arbitration** to resolve the default.
4. Mortgages loans that are modified or restructured shall be treated according to CBK regulations on Credit Risk Management. The mortgage loan shall be reevaluated for loan classification after the restructuring is completed.

Chapter VIII Foreclosure

Article 29 Enforcement of the Mortgage Loan

1. The FI will attribute to the loan account all expenses associated with managing the default, including but not limited to attorneys' fees, property inspections, and appraisal or valuation fees.
2. FI shall place a memorandum in the loan file documenting the activity that has taken place leading up to the decision to foreclose.
3. The FI may proceed with the foreclosure process according to applicable Law.
4. In the event that the property is sold to a bidder other than the FI, the FI shall apply the proceeds after the closing of that sale as follows:
 - 4.1. The FI applies the monies from the sale of the collateral as a recovered credit, and the FI closes out the mortgage file.
 - 4.2. The FI applies the proceeds first to fees and expenses, then default interest charges, then to unpaid interest and finally to unpaid principal.

5. If the net proceeds of the sale of the immovable property are not sufficient to cover all of the FI's mortgage loan principal amount, delinquent interest, default interest plus applicable fees and expenses, the FI shall write off the unpaid balance pursuant to laws and regulations in force.
 - 5.1. The FI may sue the debtor for the remaining monies subject to relevant law.
 - 5.2. The reasons for such a suit shall be documented for the loan file.

Article 30 Extinction of Loan

1. When a mortgage loan can be extinguished under the LPORR, the FI shall extinguish the mortgage loan through preparation of an extinction notice for the debtor. The extinction notice shall disclose that the mortgage loan is fully paid and the debtor has no further obligation to the creditor.
2. The extinction notice shall be delivered to the debtor via written notification and a copy placed in the loan file. The FI shall notify the debtor that he is responsible for removing the encumbrance from the Cadastre.
3. The FI shall record the mortgage loan as extinguished in the Credit Registry of Kosovo.
4. The mortgage loan shall be removed from the FI's payment system.
5. When a GM loan converts to a mortgage loan (for example, a qualifying GRM loan converting to a QRM loan), an extinction notice for the guarantor's mortgage agreement is delivered to the guarantor.
6. The extinction notice shall be further defined in the CBK Instructions for the implementation of this regulation.

Chapter IX Final Provisions

Article 31 Reporting to CBK

All FI's shall separately report quarterly to the CBK on their mortgage production and outstanding portfolio in a manner as specified by the CBK.

Article 32
Enforcement, Remedial Measures and Civil Penalties

FIs found to be in violation of this Regulation shall be subject to remedial measures and penalties as determined by the CBK.

Article 33
Transitory Provisions

1. This regulation applies to all residential mortgage loans originated by FIs after this regulation enters into force.
2. Whereas, for mortgage loans originated before this Regulation enters into force, at the latest before January 01, 2016, the FIs shall:
 - 2.1 . Apply Chapters, VII and VIII of this Regulation after entering into force, unless the mortgage agreement specifies different actions by the FI;
 - b). Classify them according to the Article 10 of this Regulation and assign risk weightings based upon the LTV of the loan at origination, and the requirements determined with the regulation on capital adequacy.
3. If the reclassification of all mortgage loans originated before the entry into force of this Regulation results in the need for any FI to add additional capital, the timing of the addition of that new capital will be determined on a case by case basis by the BQK in consultation with the FI.

Article 34
Instructions

The CBK shall issue instructions as necessary to implement this regulation.

Article 35
Entry in to Force

This Regulation enters into force on October 01, 2015.

The Chairman of the Central Bank of the Republic of Kosovo Board