

Developments in project financing Legal newsletter

Report on the joint business breakfast of
Deloitte Legal Szarvas, Erdős and Partners Law Firm
and the Loan Market Association



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Deloitte Legal Szarvas, Erdős and Partners Law Firm, a member of Deloitte Legal's international network, is providing its clients with a monthly newsletter on the most recent changes and newly adopted regulations in economic law and the most notable legal cases.

On 17 March 2015 Deloitte Legal Szarvas, Erdős and Partners Law Firm held a joint business breakfast with the Loan Market Association ("LMA") entitled "Developments in project financing in Hungary and abroad". [In this current issue of our newsletter series, you may read a summary of the event.](#) The Loan Market Association is a professional organisation formed in London in 1996 with the purpose and goal of developing standardised financing contracts and documents to be used in the loan market on an international level. Its members include leading banks, law firms and advisory firms, and today the sample contracts developed by the organisation are used in nearly all significant international and domestic financing transactions. This joint business breakfast with Deloitte Legal Law Firm was LMA's first event organised in Hungary.

Opening speech

The event was opened by **András Fülöp, Partner-in-Charge of the Advisory service line of Deloitte Co. Ltd. and the FSI team of Deloitte Central Europe**, who underlined that, based on Deloitte's surveys, **growth is expected in the area of project financing after the crisis of recent years**, and **both supply and demand for financing in the field of real estate project financing are improving.**

Nicholas Voisey, LMA

Following this introductory speech, **Nicholas Voisey, Director of LMA**, provided a **brief description of LMA and the sample financing contracts developed by LMA** which are widely used in Hungary.

Nicholas Voisey explained that the **lessons learned after the subprime mortgage crisis were that both the financing entity and the agent may become insolvent, and that borrowers must be allowed to repurchase their debt from the financing entity if required.** Based on these lessons, **LMA added a number of provisions to its sample contracts after the crisis.**

The Director of LMA explained the **financing arrangements of real estate development projects and presented the structure of the loan documentation for real estate financing and the key points of negotiation.** To wrap up his speech, Nicholas Voisey spoke about **expectations for the future, pointing out that the pricing of financing arrangements are declining, whereas the LTV (loan-to-value) ratio is rising.**

Dr. Gábor Erdős, Deloitte Legal

Following the speech of LMA's expert, **dr. Gábor Erdős, attorney at Deloitte Legal Law Firm**, discussed the **practical issues that have been arising in connection with securities provided as part of project financing arrangements since the entry into force of the new Civil Code.**

Dr. Gábor Erdős underlined that while the **provisions regulating certain documents relating to financing** (loan contracts, surety agreements and guarantee contracts) are found in the section on contract law within the new Civil Code and, as a result, are fundamentally **non-binding**, the **provisions on lien contracts used as security** are found in the section on substantive law within the new Civil Code and, as a result, **include both binding and non-binding regulations**, which means that there is limited room for derogation from the provisions of the new Civil Code regarding lien contracts.

Deloitte Legal's attorney spoke about the **practical issues involving various securities that have arisen during the one year that has passed since the entry into force of the new Civil Code.** Amongst others, he pointed out **that it might be more beneficial for banks to establish a deposit over bank account receivables**, that the **concepts of the prohibition of alienation and encumbrance and liens defined by description quickly became widespread** among financing arrangements, and the **new regulations on establishing a lien on receivables are much more practical than the previous rules.** In connection with the relationships between creditors, he described the industry practice relating to the concept of **security agents**, and pointed out the newly introduced option of **transferring contracts in connection with the transfer of receivables.**

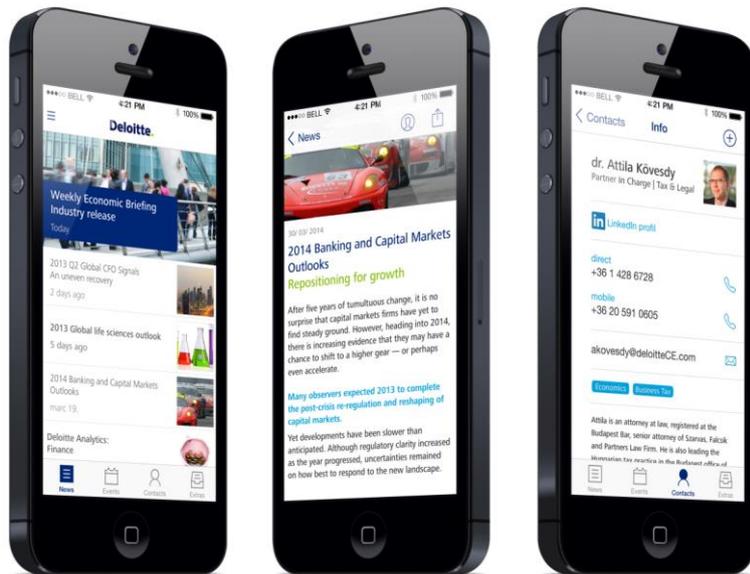
In terms of **expected future trends**, dr. Gábor Erdős explained that **there have been press news that a team at the Ministry of Justice is examining whether the new Civil Code needs to be amended** on a smaller or larger scale in view of the requests received during the past year in connection with the practical implications of the new Civil Code.

Dr. Viktor Máté, notary public

To conclude the business breakfast, **notary public Dr. Viktor Máté** summarised the **lessons learned from the collateral registry introduced last year.**

The notary public pointed out that **although the new Civil Code allows parties to amend the contract concluded by them prior to 15 March 2014 so that it is governed by the new Civil Code in its entirety, caution must be exercised when doing so.** If the parties wish to exercise this right, then they must request that the collaterals established on the basis of the new Civil Code be entered in the collateral registry, unless they are registered elsewhere. However, the financing entity may lose its position in the hierarchy of creditors relating to the collateral established under the old Civil Code since it may drop down in the hierarchy of creditors as a result of the new registration. In addition, Dr. Viktor Máté explained that the **long-term objective of notaries public is to align the contents of the previous registry maintained by notaries public ("ZONY") and the collateral registry.**

As a completion of the event, **Nicholas Voisey held a course during the afternoon on syndicated loans** at the office of Deloitte Legal Law Firm to those who were interested in additional details about LMA standard financing documents.



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