



Legal Alert

3 April 2020

Weinhold Legal

Legislative bills for changes in legal regulations for repayment of loans and property rents

In order to mitigate the effects of the coronavirus pandemic on 1 April 2020, the Government of the Czech Republic passed several legislative bills, which should bring changes, inter alia, in the following areas:

- ▶ Repayment of loans;
- ▶ Rental of commercial real estate;
- ▶ Rental of residential real estate.

The Government of the Czech Republic requests that these bills **be discussed** by the Parliament of the Czech Republic in an **abbreviated hearing** in the context of a legislative emergency. We expect the Chamber of Deputies to put these bills on its agenda on 7 April 2020.

According to the current wording, the legislative bills (if passed) should come into force on the **day of its publication**.

Repayment of loans

General loans arrangements

The legislative bill on certain repayment measures in connection with the COVID-19 pandemic is to postpone the time taken for debtor's cash debts from the loan agreement for loans drawn (in the case of loans contracted in connection with real estate, it is sufficient that they have been contracted) before 26 March 2020 (in the case of entrepreneurs, however,

this is only the principal of the loan - see below) namely the length of the so-called **time fence**. The time fence shall begin on the first day of the calendar month following the date on which the credit recipient notifies the credit provider that he/she wishes to use the time fence (suspension of the performance). The end of the time fence should then be at the choice of the credit recipient on either 31 October 2020 or 31 July 2020.

For the duration of the time fence, however, **the credit provider will continue to be entitled to interest** in the amount specified in the loan agreement and for consumers this interest is further limited to a maximum repo rate announced by the Czech National Bank increased by 8 percentage points (i.e. the upper limit for the interest rate is currently 9% p.a.).

This interest will be payable to natural persons (including entrepreneurs) in such a way that the amount of repayments remains unchanged, however, the duration (repayment) of the loan is adequately extended (by the time of repayment of outstanding interest accrued over the protection period).

Legal entities will pay interest **according to the loan agreement** (i.e. even during the time fence). There will de facto only postponed the repayment of the principal.

In addition, the credit provider shall not be entitled to other continuously paid payments (e.g. credit maintenance fee) agreed in the loan agreement and for the period of the first month of the month following the entry into force of the Act until 31 October 2020, nor the right to payments **connected in the loan agreement**



Legal Alert

3 April 2020

Weinhold Legal

with the default of the credit recipient with payment of the pecuniary obligations.

Both **the duration of the credit security** (e.g. right of pledge) and **the period for which a fixed borrowing rate was agreed** will be extended **by the duration of the time fence.**

No administrative fees shall be charged by the credit providers for the use of the time fence.

If the use of the time fence is recorded in the credit registers, the credit provider is obliged to note that this is the use of the time fence under a special law, and this fact should not affect the creditworthiness assessment of the credit recipient.

Certain specific types of transactions are excluded from the application of the law (e.g. credit cards, overdrafts, revolving loans, financial guarantees and certain financial market operations).

Consumer Credit Act

The Consumer Credit Act should also be amended. It is proposed that if the consumer is in delay for more than 90 days, the creditor will only be entitled to interest at the rate agreed in the loan agreement as of the effective date of the Act, but no more than the repo rate announced by the Czech National Bank increased by 8 percentage points.

It is very interesting that, according to the legislative bill, the amount of interest and sanctions should be limited according to the regulation contained in the Consumer Credit Act also for self-employed individuals.

Rental of commercial real estate

The legislative bill on certain measures to mitigate the effects of the SARS CoV-2 coronavirus epidemic on tenants of business premises shall cover the **lease, sublease and usufructuary lease of business premises.**

According to the legislative bill, the lessor **should not be allowed to unilaterally terminate the lease** (by notice or withdrawal from the contract) during the so-called time fence, i.e. from the effective date of the law until 31 March 2022, **if the only reason for termination is the lessee's delay with payment of rent or services associated with the use of business premises.** However, two conditions must be met: (i) the payment delay occurred between 12 March and 30 June 2020 (the government has already indicated that it is ready to extend this deadline until 30 September 2020) and (ii) the payment delay occurred mainly due to the restrictions imposed by the emergency measures in the epidemic, which have made it difficult or even impossible for the lessee to carry on his business (the lessee must certify this fact to the lessor). **However, the lessor will still be entitled to terminate the lease for other reasons.**

In addition, the provisions according to which the lessor's other rights resulting from the lessee's delay are not affected by the legislative bill shall also deserve our attention. In practice, the lessee will then be obliged to pay not only the rent and the service charge, but the lessor will also be able to claim default interest rate for the period during which the rent payment was



Legal Alert

3 April 2020

Weinhold Legal

suspended. Moreover, the possibility for the lessor to satisfy his claim on the outstanding rent from the lodged security (deposit) should not be affected.

Rental of residential real estate

*The legislative bill on certain measures to mitigate the effects of the SARS-CoV-2 coronavirus epidemic on tenants of premises serving housing needs, on the beneficiary of a loan provided by the State Housing Development Fund and in connection with the provision of services connected with the use of apartments and non-residential premises in a house with apartments introduces measures relating to **the lease and sublease of an apartment, house or part thereof**, very much as is the case with measures relating to commercial real estate.*

There is also for the time fence (which is shorter) from the effective date of this Act until 31 May 2021, **forbidden to unilaterally terminate the lease by the lessor only because of the delay in payment of rent incurred at the relevant period.** However, the time fence is from 12 March 2020 until the day following the end of the emergency measure against the epidemic, with the deadline of the time fence set for 30 September 2020. Moreover, an additional condition is also set, namely the occurrence of default in particular due to the restrictions of the emergency measure against the epidemic, if this has made it considerably more difficult or virtually impossible to properly pay the rent.

Possible difficulty for the lessee are **mainly the preservation of other rights of the lessor resulting**

from the delay of the lessee, as it should be in the case of commercial real estate.

The information contained in this bulletin is presented to the best of our knowledge and belief at the time of going to press. However, specific information related to the topics covered in this bulletin should be consulted before any decision is made. At the same time, the information contained in this bulletin should not be construed as an exhaustive description of the relevant issues and any possible consequences. Furthermore, it should be noted that there are various legal opinions on some of the issues raised in this bulletin due to the ambiguity of the relevant provisions. It cannot therefore be ruled out that in the future an interpretation other than the one we give us will prevail.

For further information, please contact the partner / manager you are usually

in touch with or the following Weinhold Legal lawyers:



Václav Štraser

Managing Associate

Vaclav.Straser@weinholdlegal.com



Václav Smetana

Managing Associate

Vaclav.Smetana@weinholdlegal.com

© 2020 Weinhold Legal
All rights reserved