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NEW LAW ON CONSUMER PROTECTION AND ITS IMPACT ON CONSUMER LOANS

Turkey's wind of change reached its consumer protection law. Turkish Parliament enacted a new bill on 7 November 2013 in order to modernize consumer protection, and at the same time, to integrate Turkish consumer protection principles with those of the EU. The new Law No. 6502 on Consumer Protection ("New Law") published in the Official Gazette on November 28, 2013, and will enter into force as of May 28th, 2014. Once the New Law becomes effective, the currently applicable Law No. 4077 on Consumer Protection will be abolished. This Client Letter points out a number of fundamental changes brought by the New Law into Turkish law with regards to consumer loans.

Consumer loans (*tüketici kredisi*)

First and foremost, with the New Law credit card transactions that provide payment delay or installments for more than three months shall be considered as consumer loans. Thus, regulations on consumer loans explained below shall also be applicable to such credit card transactions.

The New Law imposes a disclosure obligation on loan providers with respect to loan agreements they offer. Loan providers are obliged to deliver to consumers an information sheet, which covers conditions of the loan agreement they offer, a reasonable period of time before formation of the agreement.

Under the New Law, the interest rate is required to be fixed in definite term consumer loan agreements. Such interest rate that is determined at the time of contract formation cannot be changed to the detriment of consumers. In case any of contractual interest, effective interest rate or total cost of the loan is not stipulated in the agreement, the loan will be used without any interest until the end of the agreement term.

The New Law provides consumers with a withdrawal right from consumer loan agreements. Accordingly, consumers shall be entitled to withdraw from consumer loan

agreements within 14 days without being obliged to show a reason or pay a penalty. In cases where a consumer uses the loan, she will be obliged to repay the principal along with the interest accrued from the date on which the respective loan is used until the date on which the principal is paid back to the loan provider, within 30 days after sending the notice of withdrawal to the loan provider. If the consumer fails to repay the respective amount within the given term, it is considered that the agreement has not been withdrawn—that is, the agreement remains valid and enforceable. Further, where an ancillary loan agreement—whereby loan is granted explicitly to finance an agreement for provision of specific goods or services—is executed, such agreement is terminated automatically if the consumer withdraws from the agreement on provision of goods or services and submits the relevant notice to the loan provider within the withdrawal period. In such cases, the consumer will not be required to pay an indemnity or penalty.

Under new regime, property loan providers are still entitled to ask for the remaining amount as a whole if a consumer fails to pay installments in case of a property loan. Loan provider may still exercise the foregoing right only if she fulfills all of her obligations and the consumer defaults on payments of at least two successive installments. Similar to the currently applicable rules, to exercise her right to request the remaining amount, a property loan provider is required to notify the consumer of default and provide her with a grace period. The New Law extends the grace period to 30 days (from one week). Also, in calculating the installments due, interests, commissions and similar fees will not be taken into account. Further, with the New Law, insurance in connection with loans will only be offered upon consumer's request.

Finally, the New Law also provides that in case a bank account is opened in relation to a definite term loan agreement and merely loan-related transactions are executed on that account, no fee or expenses under any name whatsoever can be requested from consumers in connection with that account. Such an account shall be automatically closed upon payment of the loan in full unless the consumer made a written request otherwise. Besides, institutions issuing credit cards are required to offer consumers at least one type of credit card for which they do not charge any annual membership fee or any other fee under similar name.

Sincerely,

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