

The purpose of this document is to give a general overview to a pledger of a pledge and a pledger's rights and obligations in respect to the bank that has granted the debt or to a creditor that is a pledgee due to a transfer of the pledge. The terms and conditions of an individual pledge are laid down in the pledge undertaking.

1. What is a pledge?

In a pledge, the pledger gives his or her property as security for the payment of a debt. If the borrower does not discharge the debt in the agreed manner, the debt may be collected from the property pledged.

A special pledge secures one or more debts specified in the pledge undertaking.

When giving a general pledge, it is not specified which debts the pledge secures. The pledge secures the borrower's all present and future debts. The borrower may take out new loans and the pledge secures them as well.

2. Pledger

A pledger may be either a natural person or a legal person such as a company, an association or a foundation.

A natural person who has given a pledge for another person's debt is called a private pledger. No exemption from the provisions protecting a private pledger can be made with any terms of agreement.

However, the owner of a borrower company or its parent company or a member of the management team of such a company is not considered a private pledger. Such persons are the managing director, a member of the board of directors, a responsible partner or a person who owns at least one third of the borrower company or its parent company.

3. What does a pledge secure?

Besides the debt principal, a pledge secures its interest and charges and fees. If the value of a reference interest rate or the exchange rate of a debt in a foreign currency changes, the pledge liability decreases or increases correspondingly. The terms and conditions of the debt are binding on the pledger.

4. Pledge securing another person's debt

Giving a pledge for a debt other than own debt should be carefully considered.

The liability of a pledge given for another person's debt is limited to the value and yield of the pledge. An upper limit to the pledge liability may also be laid down in the pledge undertaking. The pledger is not liable for the debt with his other property or income.

A natural person who gives a general pledge for another person's debts is protected by limiting the pledge liability quantitatively and chronologically. The pledger and the pledgee agree on the maximum amount that can be charged for the pledge. The amount must be given as a fixed sum (for example, 100,000 euros). Interest and other ancillary costs are also included in this amount unless a separate maximum amount has been agreed for them. The chronological limitation on the pledge liability is in general made under the condition that the pledge only secures debts arisen before the set date. In this case, overrunning the set date does not abolish the pledger's liability but determines which debts belong to the pledge.

Unless the pledge liability has not been limited as described above, the pledge only secures debts that were given a pledge when granted or that had arisen before giving the pledge undertaking and that were known to the pledger.

In addition to a quantitative and chronological limitation set out in the pledge undertaking, the person who has given a general pledge for another person's debts always has the right to determine a date after which the pledge does not secure any further debts. The limitation will come into force as soon as the pledgee has received the pledger's notification unless a later date has been indicated in the notification. The limitation notification should be made in a permanent manner. The limitation does not reduce the pledger's liability for the debts arisen before the entry into force of the limitation, with interest and ancillary costs.

A limitation made by one pledger does not reduce the liability of others.

5. Pledge securing another person's debt the amount of which may vary up to an agreed maximum limit

In the case of a debt the amount of which may vary up to an agreed maximum limit, such as an overdraft facility, a private pledger may limit his or her pledge liability by determining a date after which the pledge no longer secures any further debts. The limitation does not reduce the pledger's liability for any debt arisen before the entry into force of the limitation, with interest and ancillary costs. The limitation will come into force as soon as the pledgee has received the pledger's notification unless a later date has been indicated in the notification. The limitation notification should be made in a permanent manner approved by the pledgee.

A limitation made by one private pledger does not reduce the liability of others.

6. Deficiency pledge securing another person's housing loan

A pledge given by a private pledger for another person's debt is always a deficiency pledge if the debt has primarily been granted for the purchase or renovation of a residence or holiday residence and if the residence or holiday residence stands as security for the debt. In this case, the home in question is the primary pledge. A deficiency pledge secures only the part of the debt that the proceeds from the sale of the borrower's residence standing as security cannot cover.

A residence is considered to be property, mainly intended for living or spending free time, which may be real estate or, for example, shares entitling to the holding of the residence. The residence does not have to be in the borrower's own use.

If real estate stands as security, the mortgage bonds securing the debt related to the residence constitute the primary pledge. There may be other mortgages encumbering the real estate ranking higher in priority compared to these mortgage bonds.

A primary pledge can also stand as security for other debts. If the borrower's residence first also secures other debts, the proceeds from the sale of the residence can be primarily used for discharging the debts.

If a state guarantee in accordance with the Act on State Guarantees for Owner-Occupied Housing Loans stands as security for a housing loan, the residence always acts as primary security for the loan guaranteed by the state.

7. Amendments to the terms and conditions of the debt

Amending the terms and conditions of the debt to the detriment of another person who has given a pledge for the debt requires the pledger's consent.

However, the pledger's consent is not needed for extensions of the payment period that are to be regarded as ordinary or otherwise minor amendments to the terms and conditions of the credit

relationship. Similarly, the consent is not required when the pledge has been given as a general pledge or when the amendment is specified in the credit or pledge terms.

It is not possible to charge any higher amount from the pledge on the basis of the debt relationship than from the borrower. If the bank discharges the borrower or one of the borrowers from repaying the debt to some extent, the pledge is also discharged to that extent. Reducing the debt amount or cancelling the repayment obligation in a debt restructuring validated by a court of justice does not, however, decrease the pledger's liabilities.

8. Disclosing information when the pledge is given for another person's debt

Before making its credit decision, the bank finds out what the borrower's solvency is. Solvency information is mainly obtained from the borrower, from the bank's registers and from the credit information register. The borrower's solvency is affected by his or her income, expenses, debts and other undertakings.

Before signing the pledge undertaking, the bank gives to the pledger this information affecting the borrower's solvency.

The pledgee informs the pledger of a payment default concerning the debt belonging within the scope of the pledge. If the pledgee has not informed the pledger of a payment default within one (1) month, the pledgee may not charge interest or default interest from the pledge for the delayed amount until from the period subsequent to sending the notification.

As long as the pledge stands as security for the debt, the pledger can request from the pledgee information on the debt and on how diligently the borrower manages his or her debt. Furthermore, a private pledger has the right, if he or she so wishes, to receive from the pledgee information on the borrower's other debts and undertakings and other factors affecting the borrower's solvency. The right to receive information applies to the facts known to the pledgee and to the borrower's credit information. The information requested must have a meaning in assessing the pledger's risk. The pledgee charges a fee subject to its tariff for the costs arisen from disclosing the information.

In the case of a general pledge, the pledgee notifies a private pledger of each new credit separately. Alternatively, it can be agreed that the pledgee informs a private pledger of the amount of the debts belonging to the scope of the pledge at least every six (6) months.

The amount in use of a debt the amount of which may vary up to an agreed maximum limit is given to a private pledger every six (6) months.

9. Collecting a debt from a pledge

A debt can be collected from a pledge after the debt has matured. The expiration may result from the termination of a credit period agreed on or the calling in of the debt, for example, due to a payment default.

The pledgee is not liable to collect the debt first from the borrower. Similarly, the pledgee is not liable to collect the debt first from other security unless the case involves a deficiency pledge.

The pledgee is entitled to demand payment from the deficiency pledge only after the borrower's residence has been sold or it has been established in distraint proceedings that there is an obstacle to the sale of the residence. A deficiency pledger may, if he or she so wishes, discharge the debt in order to prevent the sale of the residence owned by the borrower or the accrual of default interest.

The pledgee must notify the owner of the pledge in advance of the sale of the pledge. If a matured debt still remains unpaid after one (1) month of the notification, the pledgee is entitled to sell the pledge. The deadline is two (2) months if shares in a housing company entitling to holding the pledger's own residence stand as the pledge.

The pledger can agree with the pledgee that instead of selling the pledge he or she pays the pledgee the current value of the pledge as repayment of the debt.

10. Discharge of a called-in debt in accordance with the original terms and conditions

A private pledger can repay the debt in accordance with the terms and conditions of the debt valid before the was debt called in even if the debt had been called in due to a payment default. The procedure requires that the pledger pays the due instalments to the creditor and places security for the cover of the outstanding principal.

11. Pledger's right to collect a payment from the borrower

If the proceeds from the sale of the pledge are spent to discharge the debt or if the pledger amortises the debt to the pledgee in order to reduce the pledger's liability, a third-party pledger is entitled to reclaim from the borrower the sum paid to the pledgee including interest and costs (right of recourse). The pledger should keep the receipts for collection.

There may be several pledges and guarantees as security for the debt. If the pledge owned by a third-party pledger is sold, the owner of the pledge obtains the right to the pledge given by the borrower after the pledgee's receivables.

A person who has given a pledge for a third party's debt has no right to pledges given by others than the borrower or right to collect the payment from the guarantor of the debt.

12. Effects of debt restructuring and corporate restructuring on the pledges

In debt restructuring or corporate restructuring the pledgee's right to demand payment of its receivables concerning the borrower from the pledge given by the borrower is determined in accordance with the confirmed repayment schedule.

The pledgee may collect the debt in accordance with the previous terms and conditions of the debt from a pledge other than that given by the borrower even if the terms and conditions of the debt were amended in respect of the borrower in a debt restructuring or corporate restructuring.

If the borrower retains the property that stands as security in a debt restructuring or corporate restructuring, the pledgee may demand from the deficiency pledge only that part of the debt for which no payments are made in accordance with the repayment schedule. If, however, the pledge given by the borrower must be sold, the pledgee may demand payment from the deficiency pledge in accordance with the previous terms and conditions. A deficiency pledge does not, however, cover the default interest that would accrue on the debt to be paid by the borrower during the repayment schedule.

13. Death of the borrower or pledger

The pledgee's right to the pledge continues even if the borrower or the pledger dies. If the borrower dies, the pledgee is entitled to give notice on the debt and to sell the pledge or to agree with the estate on the management of the debt.

14. Corporation as the borrower

If a company, an organisation or a foundation is liable for the debt, its owners, members or representatives are not, as a general rule, liable for the debt personally. Only the partners of a general partnership and the responsible partners of a limited partnership are liable for the company's debt personally. A business proprietor is personally liable for the debt he or she has taken out in the business name with all his or her property.