



NOMIN & ADVOCATES
LLP

MONTHLY LEGAL UPDATE

In this review, we present an overview of the newly approved Law on Lending Activities. The following topics will be addressed here:

1. *Purpose and Scope of the Lending Law*

2. *Key takeaways*

- *Obligation to register;*
- *Restrictions on interest, fines and fees; and*
- *Other relevant regulations*

Lending Law does not apply to the following relations:

Lending activities of banks, non-banking financial institutions, savings and credit unions

One-time or non-profit lending activity of an individual

LAW ON LENDING ACTIVITIES

On 4 November 2022, the Law on Lending Activities ("**Lending Law**") was discussed and approved by the Parliament of Mongolia, and this law will be enforced from 1 March 2023.

1. PURPOSE AND SCOPE OF LENDING LAW

Pawn transactions have been regulated by the MNS 5274:2017 standard of the National Council for Standardization and Metrology and general regulations of the Civil Code, but there were no specific laws to regulate this relation.

Thus, there are many cases of non-payment of taxes by legal entities which perform pawn transactions (60 percent of them did not pay any taxes in 2020) and harming the interests of citizens in terms of interest rates and other conditions of the pawn agreements.

Therefore, the Lending Law was approved for two main purposes. **First**, to uncover the shadow economy; **Second**, to protect the interests of consumers.

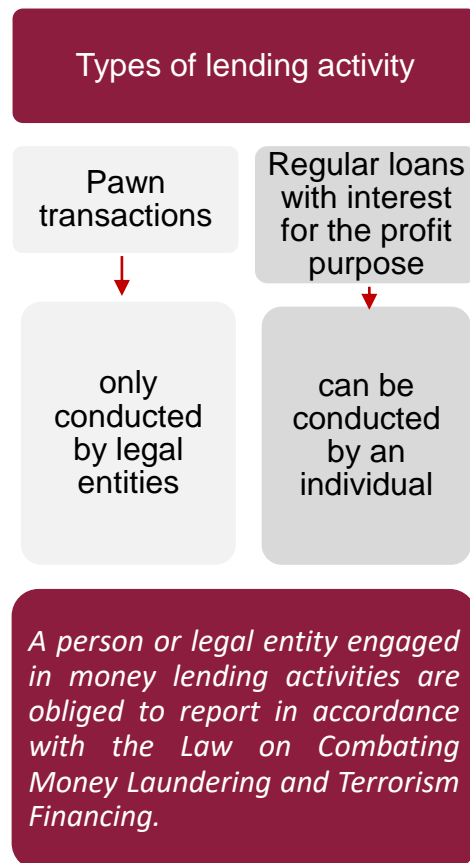
2. KEY TAKEAWAYS

2.1 Lender’s obligation to register

According to the Lending Law, individuals or legal entities are prohibited from engaging in unregistered lending activities or advertising about it.

In this regard, individuals or legal entities will lose the right to receive interest and pay penalty for related infringements in the case of unregistered lending activities. However, it is not prohibited to agree on the interest rate in one-time loan agreements that do not have the purpose of making a profit between citizens.

In addition, legal entities engaged in the lending activity are prohibited from engaging in activities other than money lending.



Forms of registration	To apply to the Governor of the province or capital city:
	Individuals and legal entities with 10 million togrogs or more in cash or share capital
	To apply to the Financial Regulatory Commission:
	Legal entities with a share capital of 100 million togrogs or more in the province, 300 million togrogs or more in the capital city

2.2 Restrictions on interest, fines and fees

It is prohibited to set interest rates that exceed the maximum interest rate and to collect interest rates in advance for those engaged in money lending activities.

The maximum interest rate will be determined by the Policy Council of Lending Activities working under the Financial Regulatory Commission.

Also, in case of overdue loan, it is prohibited to charge fines or penalties, and only if specified in the contract, an increased interest of up to 20 percent can be charged.

In addition, it is prohibited to collect any fees, charges, or additional payments for signing loan, pledge, or guarantee agreements.

2.3 Other regulations

In case of violating the Lending Law, the person will be fined by 500,000 togrogs, and the legal entity will be fined by 5 million togrogs under Article 11.34 of the Law on Infringements.

As part of the measures to prevent the spread of Covid-19, there was a restriction that the interest rate of the pawn transactions should not exceed 3 percent per month, and 0.2 percent per day, but it became invalid on 31 December 2022.

Relevant procedures

Financial Regulatory Commission /approved; not approved/

Procedures for keeping records, issuing numbers, and entering records into the electronic database of those engaged in lending activities

Procedures related to conduct training for entities engaged in lending activities

The model of the record book of loans granted under the pawn transactions and the procedure for maintaining it

Structure, composition and working procedures of the Policy Council of Lending Activities

Cabinet member for legal affairs /approved; not approved/

Procedures related to the operation of an electronic database by the police that contains information about items lost as a result of crimes or violations

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