

Proposed British Rescue for victims of Cyprus Property Mis-selling

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Executive Summary

These proposals are made in view of the current situation in Cyprus and the ongoing problem of property mis-selling more details of which are provided in our White Paper 'A Plan for All Reasons – Six Months On' published on 27/01/2013 and the Addendum thereto of 27/03/2013 both of which accompany this proposal.

We understand that there are 60,000 Britons who own property in Cyprus and it is estimated that up to 10,000 of them are victims of an ongoing mis-selling dispute involving in excess of €1 billion in outstanding loans. The nature of these disputes are such that legal remedies are generally too complicated to be pursued.

Given that the 'opponents' of these victims are either a Cypriot property developer/vendor and/or a Cypriot bank and that in most cases the bank holds accounts for both the vendor and the purchaser an effective and practical solution is to use the bank to adjust liabilities between the vendor and the purchaser as well as to provide write-downs where mortgages have been mis-sold.

Given that this is asking the banks to resolve disputes between the vendor and the purchaser by increasing their exposure to the vendor and given that it is also asking the banks to write off substantial amounts that are allegedly due to them by the purchasers at a time that they are already in the red and given that we are then asking them to continue to fund the reduced balances at a time of liquidity shortage, the attraction for them to take legal action and enforce any shortfall against other assets of the borrowers can be seen. This will inevitably lead to a cull to clear the Non-Performing Loans (NPLs) by forceful means. What is seen by all parties to be the most attractive solution is lump sum settlements whereby the bank will accept a lump sum, where possible claim a certain amount from the vendor (who invariably has guaranteed the loan of the purchaser) and write-off the balance.

Availability of a lump sum to these borrowers can only come from either the sale of the property or independently raised finance. The former means adding more properties to the stock pile and forcing down property prices even further. Re-financing in Cyprus using the property as security is difficult under normal circumstances and not possible in the current circumstances.

Under these proposals the British Government is asked to arrange for a line of credit to British victims of mis-selling in the Cyprus Property market which will allow us to reach lump sum settlements with the Cypriot Banks involved. It will also allow us to impose certain

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other terms which will ensure that all cases, irrespective of their nature, may be resolved under these arrangements.

Why British Government Involvement

1. This is not a proposal that a high street bank would entertain due to the complexities involved.
2. The proposed deal will necessarily involve the Government of Cyprus as well as the banks and developers and will necessitate certain undertakings to be given by the Government of Cyprus.
3. Victims have suffered enough for several years and are now facing even more adverse conditions. They need to be protected.
4. By reaching a lump sum settlement, substantial amounts which would have otherwise flowed out to Cyprus will be saved.
5. The proposed solution does not involve a hand-out by the British Government. The British Government is expected to broker and underwrite the deal but borrowers will still be expected to repay the agreed amounts that are due.
6. Cyprus is in desperate need of friends right now and Britain has the opportunity to build bridges which have been burned over the past few decades.
7. The alternative of doing nothing and allowing Britons to suffer years of arguments and litigation is almost unthinkable.

What the deal needs to address

The cases may be classified into the following categories:

1. Those that involve mortgage misselling only (e.g. ill-advised foreign currency mortgages);
2. Those that involve issues with the property (e.g. failure to complete, failure to provide amenities, failure to observe building regulations, health and safety etc.) and/or other misselling (e.g. dishonoured rental guarantees, misrepresentations).
3. Those that would be treated as bad debts under normal circumstances (e.g. due to redundancy, illness, etc.)

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These categories are not mutually exclusive and factors are rarely independent of each other. For example, a delay in delivery of the property or failure to provide a promised amenity such as a golf course has made the effects of a Swiss Franc mortgage much worse because the anticipated rental income cannot be realised and/or selling the property to cut losses is out of the question. Similarly, if a buyer relied on rental income and has since suffered redundancy or ill-health, his ability to maintain repayments is very much curtailed.

Underlying these factors are the inherent problems in the Cyprus property market identified in our White Paper. Ideally these need to be addressed as part of this deal for a number of reasons. These include the fact that Cyprus will continue to be a second if not the first home to tens of thousands of Britons and a healthy property market in Cyprus will help resolve all these cases and avoid new ones in the long-run.

The proposed deal

The deal is expected to have the following constituents:

1. The draft Heads of Agreement submitted to Alpha Bank and which accompany this proposal may be used as the basis to reach lump sum settlement agreements with the banks concerned.
2. The lender(s) will rely on the credit worthiness of the borrower and a guarantee from either the bank concerned and/or the Government of Cyprus for the amount advanced which may need to be underwritten by the British Government.
3. The Guarantor(s) will hold the property in Cyprus as security until the loan is repaid.

Credit should be made available to all Britons irrespective of residence either in sterling or in Euros depending on their preference and the source of their income. A large proportion of the Britons in this situation are already organised and the remainder will be reached through the property media and various forums.

As part of this deal, the Government of Cyprus should undertake to rectify a number of irregularities more details of which can be made available, if anything to ensure that people who want to sell their properties can do so as soon as market conditions permit and are not held up by the absence of title deeds or end up having another misadventure with unprofessional lawyers or unlicensed sales agents.

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Next Steps

Provided there is readiness to entertain such a proposal, we are prepared to provide whatever information is required and take all the necessary steps in Cyprus that hopefully will make this deal happen.

Timing

In the circumstances, timing is of the essence.

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