A repayment agreement is an agreement between the bank and a customer whose account is overdrawn, with the aim of settling the overdue amount.

Under the agreement, the customer transfers or deposits a fixed amount, e.g. monthly, to their account, or this amount is collected by the bank (from an external account, if necessary). At the same time, the compliance with the repayment agreement is monitored and checks are carried out to determine whether it can be terminated early because the overdraft has been settled.

Creating a Repayment Agreement

A repayment agreement can be created at any point in the dunning workflow, as soon as arrears exist.

A declaration of consent by the customer with a repayment agreement in practice results in a change in contract. This implies that the contract can be terminated at any time if the terms of the repayment agreement are not complied with. Hence, in such cases, it is neither legally necessary to send any further reminders (1st / 2nd / 3rd reminder) nor to respect certain deadlines, before proceeding with an (extraordinary) termination. This means that after creating a repayment agreement, the account no longer follows the standard dunning workflow.

Instead, in the context of a repayment agreement, there are the following three dunning levels:

- Ongoing Repayment Agreement
- Breach of a Repayment Agreement
- Extraordinary Termination

The “key prerequisite” for creating a repayment agreement is that an overdraft exists on the respective account. As soon as a repayment agreement has been added, the account is assigned the “Ongoing repayment agreement” dunning level.

The default dunning workflow focuses on the overdraft amount and duration of the overdraft. However, this changes after adding a repayment agreement. After that, only the compliance with the terms of the repayment agreement is monitored. The overdraft days counter continues to run in the background independently of a repayment agreement.

There are only two ways to exit this “reduced” dunning workflow (with the three levels mentioned above): Either enough funds are transferred or deposited in the account again and it returns back to the “Without arrears” dunning level, i.e., to the standard dunning workflow, or the account is terminated, changes to the “Extraordinary termination” dunning level and is ultimately closed.

Ongoing Repayment Agreement

A repayment agreement does not have a fixed end of term. It will remain in effect until the account has sufficient funds again. Only then will the repayment agreement be terminated automatically.

For risk provisioning, a “synthetic” end date is determined at regular intervals by calculating, based on information from the repayment agreement (instalment amount, frequency, due date), how long it will presumable take before the current overdraft is settled.

As soon as a repayment agreement has been added, two factors are checked separately on a daily basis. These checks are carried out independently of the overdraft days of the regular dunning workflow:

1. Does the customer pay their instalments on time?
2. Has the lending value / deposit amount (i.e., the collateral value) fallen below the threshold defined in the repayment agreement?

A fail on any one of these checks immediately requires the responsible officer to react and take action. This is explained in more detail in the “Negative Checks” section below.

Positive Checks

The checks are positive if (1) the customer always pays their instalments on time and (2) the current lending value / deposit amount does not fall below the threshold value agreed in the repayment agreement during that time.

A check is made on each posting day to determine whether the account is still overdrawn. If the account is no longer overdrawn,

- because a sufficient amount as been transferred or deposited in the account, or
- because the regular end date of the repayment agreement has been reached and the sum of all individual instalments has settled the overdraft, or
- because the lending value has increased, which results in a higher account limit, which in turn results in the account not being below the overdraft threshold anymore,

then

- the repayment agreement is (prematurely) terminated, and
- the account changes back to a dunning level without arrears in the regular dunning workflow, and
- a new “Repayment agreement terminated/fulfilled” follow-up is created to notify the responsible officers (except for when the account is closed):

This follow-up is particularly important for repayment agreements with self-payers, as the responsible officers must inform the respective customer about discontinuing the instalment payments. Since this follow-up does not require any real action in the system and is purely informational, it only has to be closed manually after completion (e.g. after a telephone call).

If one of the instalments (f. ex. the most recent one) is higher than the outstanding overdraft, the instalment amount will not be reduced. The instalment amount specified in the repayment agreement will always remain the same. This is particularly important for automatic direct debits.

Negative Checks

The “Does the customer pay their instalments on time?” check is negative in the following case:

On each posting date, the system determines whether there are late payments for an account with a repayment agreement and, if so, how many instalments are currently outstanding. For this process, there is a difference between self-payment and automatic direct debit. In the case of self-payment, only the incoming payments are taken into account; in the case of automatic direct debit, in addition to the direct debit amounts, any returned direct debits need to be taken into account as well. For the purpose of this check, the payments due as per the repayment agreement are counted on the one hand and the payments received so far on the other. Any returned direct debits are counted negatively. Then, the target and actual amounts are compared. The comparison takes into account the following aspects:

- Due payments as “target” (= planned)
    - All payments due for which payment dates are less than or equal to the current posting date are counted.
    - If a due date falls on a day other than a working day, it will be postponed to the next working day.
    - Each due date is generally postponed by *x* calendar days. (Currently, the value *“x”* is configured for 3 days.) The number of days *x* is considered a grace period granted until the payment arrives. (Any necessary postponement to the next working day also applies to the due dates postponed by *x*.)

- Incoming payments as “actual”
    - Only payments that correspond to the instalment amount defined in the repayment agreement with a deviation of +/- *y* are counted. (Currently, the value *“y”* is configured for € 10.)
    - This means that for this calculation, special repayments are not taken into account, because their amount usually deviates more from a regular rate.
    - Likewise, customers are not allowed to subdivide their instalments into multiple payments. Two or more partial payments will not be added up into one regular instalment.
    - Returned direct debits (only relevant in case of automatic direct debits) are counted negatively in this calculation. In this case as well, only payments with a maximum deviation of +/- *y* from the instalment amount are taken into account. Such a deviation often occurs in the case of returned direct debits, since in most cases a retained fee for returned debits changes the original amount.

As soon as the value of the “target” counter exceeds that of the “actual” counter, this is counted as a late instalment. The difference between the “target” and the “Actual” value corresponds to the number of outstanding instalments.

Irrespective of this, the additional “Has the lending value / deposit amount fallen below the threshold defined in the repayment agreement?” check is negative in the following case:

When a repayment agreement is created, a threshold amount is agreed on, which is checked on a daily basis regarding the lending value / deposit amount of the associated portfolio. The threshold amount is an integral part of the repayment agreement, even if customers cannot influence the development of the lending value of their accounts. This check is carried out on each booking day to calculate whether the value has fallen below the threshold and, if so, by how much. There are three options for this check:

- The defined threshold refers to the current deposit amount (market value) of the account. In this case, the market value of the entire account must not fall below the threshold.
- The defined threshold refers to the current lending value of the account. In this case, the lending value of the entire account must not fall below the threshold.
- No threshold has been defined (for example, because there were no values available for the account). In this case, this second check will be omitted.

It is possible for both checks to end negatively at the same time. For accounts with a repayment agreement, the result of the two checks is displayed accordingly.

In case one of the two checks is negative, the dunning level of the account automatically changes from “Ongoing repayment agreement” to “Breach of repayment agreement”.

Apart from that, a follow-up is generated which notifies the responsible officers about the non-fulfilment of the repayment agreement. A manual action is required for their part. The follow-up remains active until the account quits the “Breach of repayment agreement” dunning level, either in a positive way, i.e. after a new agreement with the customer, or in a negative way, i.e. after an extraordinary termination.

Breach of a Repayment Agreement

In case of a breach of a repayment agreement, the responsible officers either need to take action on the corresponding follow-up or open the corresponding account with the “Breach of repayment agreement” dunning level in the “Current Accounts” tile in the “Lifecycle management” swimlane. The ongoing repayment agreement, which has been breached in this case, can be viewed in the account data.

Usually, the responsible officers should contact the account holder to resolve the breach in contract using one of the following options:

- Granting a payment term extension:

  The option of a payment term extension only exists if an ongoing repayment agreement has outstanding instalments. If the assignment of the “Breach of repayment agreement” dunning level occurred due a change in the lending value or deposit amount of the account, this option does not exist.

  On the one hand, a payment term extension can be granted in the form of a payment holiday, in which case the outstanding instalments up to and including the specified date are no longer due and no longer need to be paid by the customer at that time. In this case, instalments continue with the next regular instalment after the specified date. However, this in turn extends the payment plan of the repayment agreement. So, for example, if two instalments are suspended, the payment plan will be extended by these two instalments.

On the other hand, a payment term extension can be granted in the form of a deferral, which means that an outstanding instalment is not cancelled and appended to the payment plan, but the payment date is postponed by just a few days. Usually, this only involves a short period of time before the payment date of the next regular instalment. In the case of a deferral, the payment frequency of the repayment agreement is maintained, while just the payment date of a single instalment is slightly delayed.

However, a deferral can be granted multiple times in a row. So, if the instalment still has not been paid after the deferral period has expired, a further deferral may be granted.

Once an extension has been granted, the instalment is no longer considered overdue, which means that the repayment agreement is no longer considered breached. For any extension granted, the resulting change will be reflected in the payment plan.

The payment term extension is only processed at the next end of day. This means that the calculation of the outstanding unpaid instalment amount or the change back to the “Ongoing repayment agreement” dunning level is only carried out during the next end-of-day processing. Therefore, the following effects do not apply immediately, but only starting on the next posting date.

Result:

- The account is automatically assigned the “Ongoing repayment agreement” dunning level and is no longer in the “breach” state.
- The follow-up regarding the change to the “Breach of repayment agreement” dunning level is automatically closed at the same time.

- Partial/total liquidation of deposit amounts

  The liquidation amount will be credited to the corresponding account. If this credit is sufficient to cover the current overdraft amount, the account will no longer be overdrawn after the next end-of-day processing.

  Result:

  - The account is automatically assigned a dunning level without arrears and is thus again subject to the normal dunning workflow.
  - The follow-up regarding the change to the “Breach of repayment agreement” dunning level is automatically closed at the same time.
  - The ongoing repayment agreement is automatically terminated.
  - At the same time, a new “Repayment agreement terminated/fulfilled” follow-up is created.

  Since this follow-up does not require any real action in the system, it only has to be closed manually after reviewing it.

- Extraordinary Termination

  The responsible officers also have the option to terminate the contract, possibly in conjunction with a (partial or complete) liquidation of the deposit items. For this purpose, the account must be manually assigned the “Extraordinary Termination” dunning level.

  Result:

  - The account switches to the “Extraordinary Termination” dunning level. In this context, no document is created automatically, i.e. the termination letter to the customer must be written manually.
  - The follow-up regarding the change to the “Breach of repayment agreement” dunning level is automatically closed at the same time.

  After that, the usual steps for closing the account are performed in the customer data system: (Total/partial) liquidation, write-off, preparation of account statement, charge-off. After this is done, the account will be delivered as “closed” with a balance of “0”.

  Result:

  - The ongoing repayment agreement is automatically terminated.
  - Unlike terminations for other reasons, in this case, no “Repayment agreement terminated/fulfilled” follow-up is created.

- Changing the repayment agreement

  The responsible officers also have the option of changing the existing terms (instalment amount, threshold) of an ongoing repayment agreement.

  Technically, this business event terminates the old repayment agreement and creates a new one.

  Any breaches of the existing repayment agreement, whether unpaid instalments or exceeded thresholds, are no longer valid, when the new repayment agreement is created.

  Result:

  - The account is automatically assigned the “Ongoing repayment agreement” dunning level and is no longer in the “breach” state.
  - The follow-up regarding the change to the “Breach of repayment agreement” dunning level is automatically closed at the same time.

  The modification of the repayment agreement is only taken into account at the next end of day. This means that the calculation of the outstanding unpaid instalment amount or the change back to the “Ongoing repayment agreement” dunning level is only carried out during the next end-of-day processing.

In addition to these manual actions on the part of the responsible officers that might have been taken due to a “Breach of repayment agreement” follow-up, there is also a possibility for the breach to be resolved automatically, for example:

- in case of an outstanding instalment, when the payment is eventually received before a responsible officer has contacted the customer.
- in case of a market or lending value that has fallen below the threshold, when the value increases again so that it no longer undershoots the threshold defined for the repayment agreement.

In such cases, the “unbreached” dunning level is automatically reassigned:

- The account automatically changes back to the “Ongoing repayment agreement” dunning level.
- The follow-up regarding the change to the “Breach of repayment agreement” dunning level is automatically closed at the same time.

After that, the repayment agreement continues and is monitored as normal.

Repayment agreements for cancelled accounts

Creating a new repayment agreement or modifying an existing repayment agreement is also possible after a regular or extraordinary termination.

After a termination/fulfilment of a repayment agreement whose corresponding account was previously terminated, the account always returns to the termination level at which the repayment agreement was originally created. At the same time, the dunning workflow is set to “manual”, i.e. the account is no longer subject to the automatic workflow.

Regardless of how often a repayment agreement is created or modified after a prior account termination, no dunning letters will be issued again upon returning to the original dunning level. Only after a termination has been completely revoked (i.e. the regular dunning workflow has been reset to a dunning level without arrears), the dunning workflow has been started over, and then the account is terminated again, dunning/termination letters can be issued again.

Even in the event of an account closure, the account is reset to the dunning level it was assigned prior to the repayment agreement. If there was no termination prior to the repayment agreement, the account will be reset to a dunning level without arrears instead.

From a termination dunning level (regular or extraordinary termination), an account can be reset to a dunning level without arrears. Then, the automatic dunning level monitoring is re-enabled for the account.

Even in case of an ongoing or breached repayment agreement, an extraordinary termination can be initiated, which in this situation is the only way to change the dunning level manually. However, since it is also possible to create a repayment agreement after a termination (see above), this option is only available as long as no termination has been initiated before the repayment agreement was created.