CHAPTER THIRTEEN
Rights to pledge

Sub-chapter one: Common provisions

Article 153. Pledge

153.1. If debtor fails to fulfil legal or contractual obligation secured by a pledge, then the creditor-pledgee shall be entitled to have her/his needs satisfied first from the value of the pledged property before other creditors.

153.2. With creation of rights to pledge, the pledge creditor shall exercise a prevailing right to demand the performance of obligations.

153.3. Pledge may be used for meeting future requirements with conditions possible to foresee at the pledge formation time.

153.4. A right to pledge constitutes a derivative benefit as stipulated in Article 88 the same as the main and other auxiliary rights.

Article. 154. Pledge items

154.1. Movable and immovable property and rights that may be transferred to ownership of others may be items of pledge.

154.2. If the item of pledge was rights to demand and the debtor executed his/her obligations prior to termination of the period, then this performance shall be an item of pledge.

154.3. In cases provided by this Law, a property may be pledged to several persons and in this case, the demand shall be satisfied according to sequence of contracts concluded.

154.4. In case a property is pledged by a person without rights to pledge though s/he used to possess the property, by transfer documents certifying the rights to possess, then pledge creditor shall be considered a fair possessor, unless pledge creditor was able to be aware that pledge debtor was not entitled to pledging rights.

154.5. Pledge creditor referred in Art.154.4 as a fair possessor shall have a priority over the pledge than third parties.

154.6. A pledge contract may be altered by parties in order to replace the item of pledge with another.

Article. 155. Transfer of pledge rights

155.1. If a pledge creditor transfers his right to pledge to a third party, the latter shall become a new creditor.
155.2. Regulations governing acquisition of assets, permissible securities and rights to assets shall be applicable for the transfer thereof.

155.3. If transfer of pledge to others might touch the interests of a third person, then the third party concerned may transfer the rights to pledge to him/herself by satisfying demands of creditor.

**Article 156. Pledge contract**

156.1. Contract for pledge shall be concluded in writing.

156.2. Contract for pledge of immovable property must be certified by notary and registered with the Real Estate Register agency. A contract for pledge shall contain the name, place of residence of the parties to it, the obligation secured by the pledge and its amount, the time for performance and the type and value, as well as the location of the pledged property.

156.3. Contract that does not meet requirements state in Items 156.1. and 156.2. of this Law shall be invalid.

156.4. At request of a party the contract for pledge may be certified by a notary or registered with registering organization.

**Article 157. Rights and obligations of parties**

157.1. Pledge creditor shall be entitled to the following rights:

157.1.1. acquire benefits from pledge within the demand secured by pledge;
157.1.2. have his/her demand satisfied from the sum of sales of pledge prior to other creditors;
157.1.3. sell the pledge item in accordance with provisions of this Law, unless the pledge debtor chooses other option or had other object pledged within the period stated in Item 157.2.2. of this Law;
157.1.4. demand to transfer the pledge to his/her possession if s/he consider that pledge debtor does not perform obligations stated in Item 157.6.1 of this Law.
157.1.5. secure the completeness of pledge when the pledge is transferred to his/her possession and demand from pledge debtor the necessary cost arising with this regard;

157.2. Pledger shall have the following obligations:

157.2.1. immediately inform the pledgee, in case a real situation of destruction and significant reduction of value of pledge emerges;
157.2.2. in the case stated in Item 157.2.1. of this Law, to recommend pledge debtor to chose other options and possible period to bring another pledge item;
157.2.3. keep the money earned from sales of pledge until the end of the period stated in Item 157.1.3. of this Law;

157.3. If several items are pledged in order to meet demand of creditor, then unless otherwise provided by law, the pledge creditor shall be entitled to choose the item that meets the demand, however, this should not exceed the quantity and size to meet the demand.
157.4. Pledgor shall exercise rights stated in Article 92 of this Law, in case the condition impeding implementation of pledge rights emerge.

157.5. Pledge debtor shall exercise the following rights:
157.5.1. get benefit from pledge during the period of possessing it;
157.5.2. if circumstances stated in Item 157.2.1 emerge, offer an alternative that may satisfy the demands of pledge creditor demanding a replacement;
157.5.3. demand to transfer the pledge item to a third party, who is capable to keep the pledge item sound and safe, if s/he considers that pledgor can not perform properly his/her obligations stated in Item 157.1.5. of this Law.
157.5.4. demand to transfer the remaining income from sales of pledge at auction after deduction of creditor’s demand, costs related to holding an auction and other necessary costs;

157.6. Pledge Debtor shall assume the following obligations:
157.6.1. Ensure safety and soundness of the pledge which is in her/his possession;
157.6.2. inform the third party, if a third party involvement is necessary with regard to object to be pledged at the moment of conclusion of contract for pledge.
157.7. If the pledgee is not debtor in the demand to secure by pledge, then the pledge debtor shall be entitled to make counter-demand that can be made from a debtor to a creditor.
157.8. If the demand secured by pledge can be secured with assets of debtor and a third party at the same time, then the pledgee shall be entitled to rights to demand the creditor to secure the demand with asset of debtor first.

**Article 158. Satisfaction of pledge creditor’s demand**

158.1. The pledge creditor’s demand shall be satisfied through sales of pledge or other forms of sale, if rights to demand are created or period of performing the obligations is over.

158.2. Pledger’s demand is deemed satisfied, when debtor makes proper payment to creditor.

158.3. Pledger shall be entitled to demand to sell the pledge, if the period of complete and partial satisfaction of cash demand is due, and s/he shall exercise this right only to have own demand satisfied.

158.4. If it is necessary to take actions of legal importance in order to meet the demand secured by pledge, then the pledger have rights to demand the pledgee to undertake actions, which may be taken by pledgee with a third party on behalf of the pledgor, unless the latter undertakes these actions within fourteen days

158.5. If a pledge is pledged to several persons, then the first pledge creditor (person, who first accepted as pledge) shall have rights to demand to sell the pledge. If this person refuses to exercise this right, then the next pledger shall exercise this right to demand.

**Article 159. Sales of pledge**

159.1. Unless otherwise provided by law, a pledged asset shall be sold at the auction according to procedures set forth in this Law.
159.2. Price of the pledge may be determined by an expert prior to sales, if pledge demanded so, and in this case the pledgee shall bear the relevant cost.
159.3. Owner of the pledge may take part in the sales operation of the pledge and make an offer purchase the pledge.
159.4. Participants of the auction shall be explained that they shall lose rights to purchase unless they had paid the price of the pledge.
159.5. Pledge shall be transferred with unrestricted rights to a person who acquired the pledge legally and in a fair manner.

**Article 160. Termination of pledge rights**
160.1. Rights to pledge shall be terminated in the following cases:
160.1.1. if demand secured by pledge is terminated;
160.1.2. if pledge creditor notified the pledge debtor/possessor about his/her discharge his/her right to pledge;
160.1.3. if pledger gave the pledge, that was under his/her ownership, back to the pledgee;
160.1.4. if rights to possess the pledge transferred to pledger;
160.1.5. if the pledge was destroyed;
160.1.6. on other grounds set forth in the law;
160.2. Rights to pledge shall not be terminated, if the demand to secure by pledge remains for a third party in the case referred to in Item 160.1.3..
160.3. In case the rights to pledge is terminated on grounds other than that referred to in Items 160.1.4. and 160.1.5. of this Law, then the pledger shall be obligated to return the pledge back to pledgee or possessor.

**Sub-chapter two**

**Special regulation of movable property and rights’ pledge**

**Article 161. Transfer of demand secured by pledge**
161.1. Creditor may transfer his/her rights to pledge to others by transfer of demand secured by pledge.
161.2. Rights to pledge shall not be created, if transfer of pledge along with transfer of demand is impossible.

**Article 162. Acquisition of permission**
162.1. Unless otherwise provided by law and agreement, pledger and pledgee shall be obligated to obtain mutual permission in the following cases:
162.1.1. from pledgee, if pledger takes a pledge;
162.1.2. from pledger, if pledgee is to make a transaction with a third party with regard to the pledge.

**Article 163. Sale of immovable property and rights**
163.1. Pledger may entrust a special sales organization for sales of pledge through it, if the market or stock exchange price of pledge is evident.
163.2. Pledger shall be obligated to notify in advance the possessor of the pledge of the possible sales of pledge, as well as its price. The pledge shall not be sold within fourteen days since the notification.

**Article 164. Pledge of rights**
164. 1. Relevant provisions of Articles 153-160 of this Law shall be equally applied to pledge of rights.

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**Subchapter three**

**Mortgage of immovable property**

**Article 165. Hypothec**
165.1. Creditor’s mortgage of certain immovable property in order to have his/her demand satisfied first before all the other creditors shall be hypothec.

165.2. Maximum price of immovable property that may satisfy the demand of the creditor shall be identified and noted in the State register.

165.3. Possessor and creditor may mutually agree to replace the demand secured by hypothec with other demand, and in this case they shall have respective changes registered with state registration.

165.4. If demand of creditor is to be satisfied with hypothecs of several immovable property, each immovable property shall be used for entire satisfaction of demand concerned and the creditor may chose any of immovable property for having his/her demand satisfied.

165.5. Hypothec shall be equally applied to component of and benefit from immovable property, which was acquired by irregular commercial operations, or which having not been transferred to ownership of others although it was acquired by standard commercial operations.

165.6. If otherwise provided by agreement, interest, tort, damage caused and Court costs, in addition to main obligations, shall be deducted from the price of immovable property that is a hypothec object.

**Article 166. Registration of hypothec**
166.1. Hypothec is created with its registration with the State register.

166.2. Possessor, debtor and creditor of immovable property shall make a document certifying the amount of demand secured by hypothec, its interest, and period of performing the demand. The owner and creditor of the immovable property shall have hypothec registered in conformity with procedures set forth in the law.

**Article 167. Secured hypothec**
167.1. Creditor may agree to have his/her rights to hypothec exercised by proving own demands only, without making the registration of rights to hypothec as a proof. This hypothec shall be registered with the State register as secured hypothec.
167.2. Hypothec may be determined for demand concerning payment obligations of nonbearer or inscribed/bearer securities. In this case it shall not be necessary to have the hypothec secured.

**Article 168. Transfer of hypothec to owner**

168.1. Hypothec shall be transferred to owner of immovable property by the termination of creditor’s demand or if the creditor refused from his/her demands.

168.2. In the case referred to Item 168.1. of this Law, the owner shall terminate the hypothec and write off the State register or may transfer it to another person, retaining the registration order.

168.3. If owner of immovable property is liable before a third person for terminating the hypothec, or the immovable property or hypothec should be transferred to the same person, then it may be noted in the State register in advance.

168.4. Unless owner of the immovable property is obligated before the pledgee in person, s/he shall exercise the same rights as the person, who is obligated in person, and he/she shall be entitled to request the demand to be considered invalid or have a the requested amount reduced.

**Article 169. Satisfaction of creditor demand**

169.1. Owner of the immovable property shall be obligated to satisfy the demand of creditor if period of satisfaction of creditor’s demand is due, or from the time when the obligation performer acquires the right to perform the obligation.

169.2. If the owner satisfied the demand of creditor, then s/he shall have rights to demand the creditor to provide him/her with documents necessary for making changes in the State register or termination of hypothec.

169.3. Unless owner is obligated in person, s/he may transfer the obligations from debtor to him/herself with the consent of pledger.

**Article 170. Protection of creditor rights**

170.1. Owner shall be obligated to have the value of immovable property, serving as hypothec, determined realistically.

170.2. If a situation endangering the immovable property emerges, creditor may set a period of time for owner to eliminate the danger. If owner did not take actions to eliminate the danger by expiration of the period, then creditor shall be entitled to have his/her demands immediately satisfied from the property concerned.

170.3. If immovable property is insured, then in the event of emerging insurance, insurer shall be obligated to notify the creditor and then provide insurance compensation to insured.

170.4. If there grounds exist to consider that insurance compensation shall not be used for rehabilitation or restoration purposes, then the creditor shall be entitled to take necessary measures not to let insured receiving insurance compensation.
170.5. If it is determined that the owner failed to perform obligations with regard to safety and soundness of immovable property serving as hypothec, then the creditor shall be entitled to demand the transfer of immovable property to his/her ownership.

**Article 171. Non-restriction of owner transaction right**

171.1. Transaction, obligating the owner not to use the immovable property serving as a hypothec, not to transfer it to ownership of others, and not to otherwise entitle rights to it to third party, shall be invalid.

171.2. Validity of the transaction concluded by hypothec owner with a third party shall depend on the creditor’s permission.

171.3. Transaction about agreeing that right to ownership of immovable property shall be transferred to creditor unless the latter demand is satisfied completely or partially, shall be invalid.

**Article 172. Transfer of hypothec and demand**

172.1. Hypothec and demand serving as its grounds may be transferred together to others only in a case referred to in Item 87.1. of this Law.

172.2. Demand is considered as transferred if documents of hypothec certified with notary is transferred to a new creditor and this new creditor is registered with State register.

172.3. If obligation performer executed his/her obligations before the previous creditor after the transfer of demand to the new creditor, but was not unaware of such a transfer, then the previous creditor shall perform obligations before the new creditor to the extent to which obligation was performed by debtor.

172.4. Hypothec and demand shall be transferred to new creditor in the same amount as the previous creditor had.

172.5. Document that is registered with the State register and certifies the transfer of hypothec to new creditor shall be considered true and reliable. Debtor shall not be entitled to make demand with regard to it. If new creditor was aware of a mistake in the registration, then this provision shall not apply to such a case.

172.6. If rights and legitimate interests of a third party were damaged as a result of a hypothec, the person concerned shall be entitled to satisfy the demand of creditor and transfer the hypothec rights to him/herself.

172.7. If a third party satisfied the creditor’s demand according to provision of Item 172.6. of this Law, then s/he shall be entitled to transfer the pertaining documents and registration into her/his name.

172.8. If hypothec was transferred to a person who satisfied the creditor’s demand as referred to in Item172.6 of this Law, then s/he shall be entitled to demand the owner to compensate the damages caused.
172.9. If a creditor, who is entitled to demand, has the same amount of obligations as the obligation performer, then their demands maybe considered as mutually satisfied.

Article 173. Hypothec refusal and rights to demand
173.1. If creditor renounces the demand and hypothec and have this refusal registered with the State register according to appropriate procedures, hypothec shall be transferred to the owner of the property concerned.

173.2. If creditor declined the hypothec, but retained his/her demand valid, then debtor shall be exempt from obligation to the extent s/he already paid the compensation for damages caused by hypothec.

173.3. Owner of the immovable property shall be entitled to demand the creditor to decline the hypothec, in case the hypothec becomes impossible to use for long-term with her/his acquisition of the right to dispute.

Article 174. Demand on sale of immovable property
174.1. Creditor shall be entitled to demand to sell the immovable property, in case the debtor exceeded the period of satisfaction of hypothec demand.

174.2. Provision of this law shall be applied for sales of immovable property, and regulations of this law shall be deemed more detailed.

Article 175. Forced sale of pledge based on Court ruling
175.1. In case the obligation performer failed to fulfill obligations when demanded as provided by Article 174 of this Law, immovable property serving as hypothec shall be subject to forced sales at the decision of Court, unless otherwise provided by law.

175.2. Court may determine other forms of sales of immovable property based on the claims from owner of the immovable property and creditor, and considering proposals made by authorized parties.

175.3. Creditor, debtor and owner shall be entitled to take part in the auction.

175.4. Debtor shall lose his/her rights to keep the benefit from the property by issuance of decision on sales of immovable property at auction.

175.5. If debtor lives with his/her family members in a house or in a room of the house, that serves hypothec, s/he shall become lessee by the moment of issuance of Court decision on forced sales of immovable property and shall be obligated to pay the rent to creditor at the current rate.

175.6. Person, who assigned by Court to lead the auction, shall carry out the auction within 30 days from issuance of Court decision.

175.7. Person assigned by Court to lead the auction shall notify the public of the event through the mass media 14 days prior to it.
**Article 176. Suspending and postponing auction**

176.1. In case the owner or third person, whose rights may be affected by carrying out the auction, satisfies the creditor’s demand in advance, then the auction may be suspended.

176.2. Court may postpone the auction based on the request from the owner and having considered proposals by parties entitled to ownership rights by up to six months in the following cases:
- 176.2.1. if it is possible to postpone the auction depending on the nature of debt to be paid by debtor;
- 176.2.2. if it is necessary to consider the personal and commercial relations of owner.

176.3. If Court deems that temporary postponement of auction, stated in Article 176.2 of this Law, may potentially create an explicitly negative consequences for the creditor, it may decline the owner’s request.

**Article 177. Auction price**

177.1. The price, offered for real estate to be auctioned, shall be mutually agreed and fixed jointly by obligation performer, obligation assigner and owner, but if no agreement was reached, the competent auctioneer shall determine the price based on expert’s opinion.

The expert shall be nominated by the auctioneer.

177.2. If no price offer was up to the level of the price offered at the initial auction, or no one participated in the auction, the second auction shall be conducted.

177.3. Second auction shall be organized within 30 days after the first one. Second auction shall be publicly announced as provided by law.

177.4. The price offered by auction participants shall be sufficient to cover the costs related to organizing the auction and meeting the creditor’s requirements.

If the price was not high enough, it shall be considered that the auction did not take place.

**Article 178. Ownership right over auctioned item**

178.1. The buyer, offered the highest price, shall be liable to transfer to the competent person conducted the auction the price, from which the auction conducting cost shall be deducted.

178.2 Buyer shall become the owner of the property from the time of paying fully the price of the auctioned property.

178.3. All limited rights for property and other hypothecs, registered after the hypothec, enforced by the creditor, shall be terminated with transferring the ownership right.

178.4. Nonetheless, other limited rights to be exercised with regard to that particular immovable property, shall remain valid.

178.5. New owner bought the immovable property, shall become a party to the contract valid during transferring the ownership right.
**Article 179. Distribution of auction proceeds**
179.1. If the obligation assignor /creditor is the sole person registered with the State register with hypothec right, or if the auction proceeds were sufficient to satisfy the needs of all obligation assignors, after deducting from it the cost related to organizing the auction, the competent person, organized the auction, shall distribute the remaining proceeds, after deducting from it all costs among obligation assignors according to proper order and procedures, and transfer the residuals to the owner participated in the auction

179.2. If the price at which the immovable property was sold not enough to satisfy requirements of obligation assignors, the competent auction organizer shall deduct the cost of organizing the auction, deposit the remaining amount on a special account and distribute it among obligation assignors in the order they were registered with the State register.

**Article 180. Auction organizer’s liability**
180.1. If damages were caused to others due to the failure of a competent person nominated to organize the auction properly fulfill the obligations, the damages shall be compensated as provided by Article 497 of this Law.

**Article 181. Transfer of immovable property**
181.1. Court may rule to transfer the property for others’ management instead of auctioning it based on the request of obligation assignor with hypothec claiming rights. In this case, Court may nominate a competent person to manage the immovable property or transfer this right to the owner.

181.2. Before making decision provided by Article 181.1., Court shall be liable to consider the opinions of all competent persons registered with the State register, whose rights and legitimate interests might be affected with forced transfer of the property for others’ management.

181.3. Court shall rule as provided in Article 181.1. only in case, the proceeds from transferring for others’ management would be more than the costs related to its management.

181.4. If the obligation performer and her/his family reside in the building or its part, which was forced to be transferred for others’ management, s/he shall pay the rent at the rate prevailing at that particular time.

181.5 Competent person managing the immovable property shall get all benefits from the property, deduct from it all management and other related costs according to own proposal approved by Court, and dispose of the residuals at the end of the year.

181.6. If the obligation assignor’s requirements were met, the competent person managing the immovable property shall return the immovable property to its owner.

181.7. If it became obvious that the obligation assignor’s requirements cannot be met by forced management, it shall be terminated and the immovable property shall be sold through auction.
Sub-chapter four
State register

Article 182. State registration right
182.1. Rights, except for the right to own immovable property/real estate and other rights of property that is relevant to it, shall be registered with the State register.

182.2. In case it is stated in the law or contract, movable property and related rights should be registered with the State register.

182.3. Registration of rights stated in this article shall be regulated by law.

Article 183. State registration note
183.1 Note written in the State register shall be considered accurate, unless the person, receiving the right registered with the State register under the name of the person transferring the right based on transaction, knew that the note was inaccurate or refused to believe that it is accurate.

183.2. If the registration is made under the name of a person who is not entitled to register it, the person suffered from harm as a consequence of that registration in terms of rights and legislation, shall be entitled to demand from the person whose name is in the register to alter the records in the registration.

183.3. In order to identify the genuine owner of the right registered with the State register, a person, whose right is violated, shall be entitled to submit to registration office an application about inadequate records in the State register.

Article 184. Order of registered rights
184.1. Order of registered rights in the State register shall be determined according to the submission order of application to register.

184.2. The order could be altered later based on the permission of parties that are exchanging their orders, and the alteration shall be recorded in the State register.

184.3. In order to register any rights, the owner of immovable property/real estate may put a condition to register any right before another, the such a condition shall be recorded the State register.

Article 185. Preliminary records in the State register
185.1 In order to meet the requirements of registering immovable property/real estate rights, preliminary records may be made in the State register.

185.2. The recording specified in Article 185.1 of this Law could be made in order to satisfy conditional demands or those may emerge in the future.

185.3. Unless the registration, which will be made after preliminary recordings, terminates or damages the demanding rights of a person, whose rights are protected by the preliminary records, such records shall not impact on the person.

185.4. The preliminary record shall be made in order to determine the possessor of right, with the permission of the owner of the immovable property.
185.5. If preliminary record is likely to reduce the opportunity to use the property for a long period of time, possessor of the property shall entitled to demand from the person who made such recording to cancel it.

185.6. If any rights of the person insisted on preliminary recording are not valid, s/he shall be entitled to demand from the possessor of the property a permission to get registration, which is necessary to implement requirements that would be satisfied by preliminary record.