

PREPARING YOUR MORTGAGE APPLICATION



Building tomorrow together

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What is a mortgage?

A home loan, or **mortgage**, is a loan intended for the construction, purchase or renovation of a property. This **long-term** loan is generally taken out for a period of up to 35 years, and is repaid in monthly instalments. When you take out a mortgage, a down payment is required, which is usually at least **10% of the value of the property** intended as your primary residence or **20% of the value of the property** intended as a rental property.

Which type of rate should you choose ?

There are **three main types of mortgage**: fixed-rate, variable-rate and adjustable-rate. Each of these has its **pros and cons**.



Fixed-rate mortgage

Your interest rate does not vary in line with financial markets, meaning that you repay your mortgage at a fixed rate each month. This rate is known in advance and does not change throughout the duration of the mortgage, helping you to manage your budget and avoid any unpleasant surprises. However, this could mean that you end up paying a slightly higher rate than the variable rate available at any given time. This type of mortgage is very popular when interest rates are low.



Variable-rate mortgage

interest rate fluctuations, whether upward or downward, affect your monthly repayments. Although the interest rate available when you take out your mortgage may be competitive, you could see an increase in your monthly repayments, depending on market interest rates. When interest rates are very low, this risk is significant.



Adjustable-rate mortgage

this flexible arrangement lets you keep a fixed rate of interest for a chosen period. At the end of this period, you can switch to a variable or fixed rate, or continue with an adjustable rate.

Whichever option you choose, your repayments can theoretically be spread over a period of up to 35 years. In practice, the term depends on your age and monthly budget, as with any type of mortgage.

Terms and conditions

The amount you are allowed to borrow and how long you have to pay it back both **vary** depending on your situation and the purpose for which you are purchasing the property. However, **three basic principles** apply at most Luxembourg banks:

- You may be asked to make a **deposit of 10% or even 20%**, depending on the purpose of the property.
- Generally speaking, **should not exceed 40%** of the household's recurring income. A minimum disposable monthly income threshold must be met in order to cover living expenses.
- The amount of time you have to repay your mortgage **depends on your age**.

Banks generally require four types of guarantee:

- **Mortgage on the property**: the bank has physical collateral, which is limited to your property.
- **Wage assignment**: you authorise the bank to claim against your employer if you do not make your monthly repayments.
- **Joint and several guarantee**: a third party undertakes to repay the debt if you default.
- **Mortgage protection insurance**: this protects your family and loved ones. If you die, the insurer pays the outstanding balance to the bank.





What are the différent Stages ?



YOUR SIMULATION

How far along are you with the project?

Visit www.bil.com/mortgage to simulate your mortgage and see all of the terms and conditions.

You can **estimate how much you can borrow, simulate a mortgage**, or even **apply online**.

Start your application by entering your **personal** (age, dependent children, etc.) and **financial** (income, expenses, etc.) **details** so that we can analyse your situation.



YOUR APPOINTMENT

Found your dream home?

Contact BIL for a personalised mortgage and insurance offer.

A Housing Advisor **will confirm the meeting** in person or virtually, and let you know what **information and documents are needed** to prepare your application.

The following documents will also be required in the case of a new-build or renovation:

- **Planning permission**;
- **Building plans**;
- **Photos of the building** (inside and outside) in the case of a renovation;
- **The plan, specifications or quotes** in the case of a new-build.



Come prepared: you have everything to gain and nothing to lose!

A Housing Advisor will go through all your mortgage and insurance options, which will depend on your situation.



Check-list



The preliminary sale agreement or the reservation contract



Land registry extract



Proof of funds
(if they are not held at the bank in question)



Details of existing loans



Your most recent pay slips



The energy performance certificate for the property being financed



Any other documents needed for us to process and approve your mortgage application.



What are the different stages

VALIDATION

Receive a **prompt response** to your application.

PREPARATION AND SIGNATURE OF YOUR LOAN DOCUMENTS

There are two solutions available to you:

- **Choose the digital channel** and receive your documents in your BILnet online banking and sign them remotely with your LuxTrust credentials, or
- **The Housing Advisor will contact you** to come and sign your documents at the branch.

SIGNATURE OF THE NOTARIAL DEED

The funds are released to your account. You sign the notarial deed.

You're now a homeowner!

Tax benefits and government assistance

The Luxembourg government has introduced a **series of tax incentives** to promote homeownership.



Tax relief on all mortgage interest while the property being built or renovated is unoccupied, or when a property is rented out;



Sliding-scale mortgage interest relief based on the number of years spent living in the property;



Full tax relief (subject to conditions) on mortgage arrangement fees and commissions (exception: the notarial deed related to the purchase of the property);



A tax allowance on the regular premiums of your mortgage protection insurance (along with interest on other non-mortgage loans) of EUR 672 per year and per person belonging to the tax household. Choosing a single premium can often be more attractive. It is only deductible for the year in which the premium is paid, but may be subject to an increased limit, which varies according to your age, tax class and family situation.

Alongside these measures, the Luxembourg government **offers various incentives** for the construction, acquisition, renovation and conversion of housing by individuals.

- **Direct capital grants;**
- **Interest relief for the repayment of a mortgage;**
- **Subsidies for improving energy efficiency;**
- **Subsidies for rainwater harvesting;**
- **Take a look at the financial aid available with the Klima-Agence simulator:**
aides.klima-agence.lu



To find out more, contact BIL directly or visit

www.guichet.public.lu

Would you like to know more?
Read our myLIFE articles



Preparing your
mortgage
application



Mortgages: how to
negotiate the best
interest rate



How a State home
loan guarantee can
help you buy property



Glossary

Lending rates

Interest rate expressed as an annual rate, calculating the interest to be paid by the client. Good news! Mortgage interest can be deducted from your tax return.

APR

The annual percentage rate that includes debit interest and ancillary mortgage charges. It is the rate needed to calculate the total cost of credit.

The APR is given so that clients can easily compare mortgage offers.

Total cost of credit

Sum of debit interest and all ancillary mortgage charges.

Early repayment fee

If a fixed-rate mortgage is repaid early, the bank may be unable to reinvest its money at the same interest rate, depending on how financial markets perform. Early repayment could therefore be costly for the bank, so **the client may be charged a penalty**. This is calculated as **the difference between the initial interest rate and the rates at which the money is reinvested**.

Straight-line repayment plan

Instalments are **constant** and include both **the principal and interest**. The proportions of the principal and interest vary over the term of the mortgage (at first, the interest part is predominant, but later on the principal part is bigger).

Bullet repayment plan

The principal is repaid in **one go** when the mortgage matures. So the principal remains the same throughout the mortgage, and interest is paid when it falls due (quarterly for a mortgage).

Bridging loan

Used to buy another property as a main home. The bank may advance the funds needed through a bridging loan.

This bridging loan will be repaid in one go, once the first property. This type of loan is **limited to 18 months** (24 months for an off-plan sale).

Vente en l'Etat Futur d'Achèvement (Off-plan sale)

Off-plan sale (VEFA): real estate sold on the basis of a plan, so yet to be built.

With mortgages for this type of property, funds are generally released as and when work is completed and the developer's invoices are received.

Expenses/income ratio

This ratio allows the bank to measure the client's debt load. It shows whether monthly expenses are too high relative to net monthly income (salary, pension, annuity, etc.). Generally speaking, this ratio should not exceed 40%.

Loan-to-value (LTV)

This shows **the ratio between the amount borrowed and the property value**. The lower the ratio, the more guarantee the lender will have that the mortgage will be repaid, either through a claim on the insurance or through a sale of the property on the market. So the ratio shows the level of risk to the bank if the borrower defaults.

As a general rule, this ratio should be **no more than 90%**. This means that the borrower's deposit amounts to at least **10%**. The ratio may be higher under certain conditions.

Solvency analysis

Before offering a mortgage, the bank is legally required to meticulously check and assess the client's solvency. This assessment gives suitable consideration **to relevant factors to verify the likelihood that the client will be able to meet all obligations under the terms of the mortgage agreement.**

To this end, the bank may provide the client with a financial questionnaire covering assets, liabilities, property and other wealth, etc.

Notarised deed of sale

The property transaction must be formalised in a **notarised deed.**

Stamp duty and transcription fees are payable, and amounts to 7% of the purchase price.

Bëllegen Akt

The Luxembourg government issues a **tax credit on stamp duty and transcription fees** ("Bëllegen Akt") for buyers of a property to be used as their own home.

This tax credit is **limited to EUR 40,000** per buyer.

The buyer must personally move in within two years of the date of the notarised deed of sale, and must undertake to occupy the property for an unbroken period of at least two years.

An overview of your mortgage

BILnet gives you access to a complete overview of all the information relating to your loans – amount borrowed, current interest rate, maturity date, next payment date, and capital outstanding – all entirely online.

Summary of the BIL mortgage process

Five steps to make your dream a reality.



1

I LOOK FOR A PROPERTY

- I assess my borrowing capacity at home or in branch with a BIL Housing Advisor.
- I receive my loan simulation straight away.



2

I HAVE FOUND MY DREAM HOME

- I contact my Housing Advisor to work out the best possible financing and insurance offer for my property plans.
- I provide the supporting documentation required to create my application.



3

I RECEIVE THE FINANCING AGREEMENT

- My Housing Advisor informs me of the agreement.
- I confirm to my Housing Advisor my intention to finance my property with BIL so that the bank can prepare the credit contract.
- I reconfirm the amount of personal funds that will be used for the purchase of the property.



4

I SIGN THE LOAN AGREEMENT

- My bank prepares my loan agreement, detailing all financing and insurance components.
- I sign the paperwork in branch or through BILnet online banking.
- The bank instructs the notary to proceed with the drafting of the mortgage deed.



5

I SIGN THE DEED OF PURCHASE WITH MY NOTARY

- The notary informs me of the appointment date.
- I make sure that my own funds are available in my current account no later than 5 days before the appointment date.
- The bank takes care of transferring the necessary funds to the notary (my own funds and the loan amount) – I don't have to do anything!
- I am officially a homeowner!

Once I have taken out my loan, I can still call on BIL for day-to-day assistance!

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