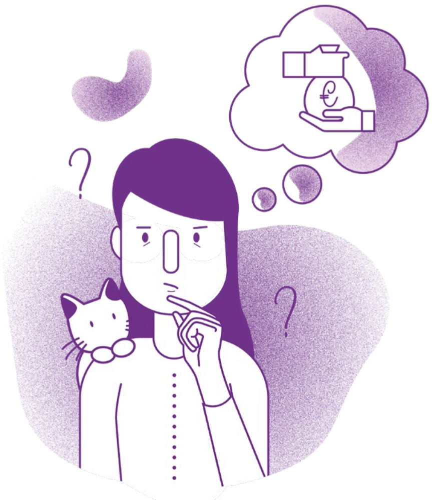
# Preparing your mortgage application

BIL 1856
BANQUE
INTERNATIONALE
À LUXEMBOURG

## WHAT IS A MORTGAGE?



A home loan, or **mortgage**, is a loan that allows an individual or couple to buy a property. This **long-term** loan is generally taken out for a period of 10, 20 or even 30 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 and/or an extension to the term, 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 three, five or ten years.** 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.

## THE FINE PRINT

The amount you are allowed to borrow and how long you have to pay it back **vary** from one bank to the next. However, **three basic principles** apply at most Luxembourg banks:

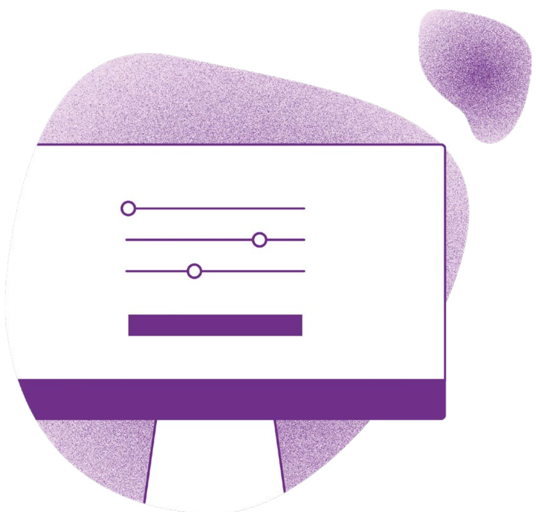
- You may be asked to make a **deposit of 10% or even 20%**, depending on the purpose of the property
- Generally speaking, total monthly repayments **must not exceed** a third of the household's income. This helps ensure that you always have a minimum monthly disposable income
- The amount of time you 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 STAGES?

### 1 Your simulation



**How far along are you with the project?**

Visit www.bil.com/pret-logement 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.

## 2 Your appointment

**Found your dream home?**

**Contact BIL** for a personalised mortgage and insurance offer.

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

### Check-list

- **The preliminary sale agreement and the draft or final notarised deed**;
- **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

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! Your Relationship Manager will go through all your mortgage and insurance options, which will depend on your situation.**

## 3 Validation

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

## 4 Preparation and signature of your loan documents

There are two solutions available to you:

- **Receive** your documents in your BILnet online banking app and **sign them digitally** with your LuxTrust user IDs.

ou

- **Call in to your branch** to meet your Relationship Manager and sign your documents.

## 5 Signature of the notarial deed

**The funds are released to your account. You sign the notarial deed. You're now a homeowner!**

# TAX BREAKS 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: https://aides.klima-agence.lu/**

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To find out more, contact your **Relationship Manager** directly or visit

**www.guichet.public.lu**

## WOULD YOU LIKE TO KNOW MORE?

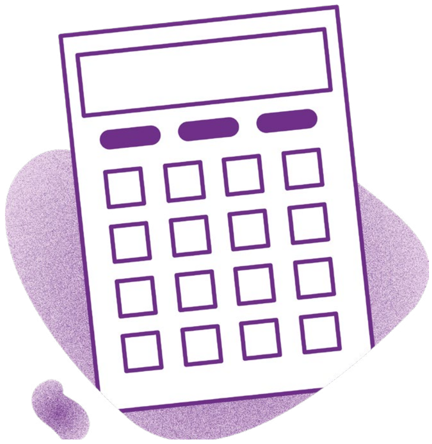
**Read our myLIFE articles**

Preparing your mortgage application

Mortgages: how to negotiate the best interest rate

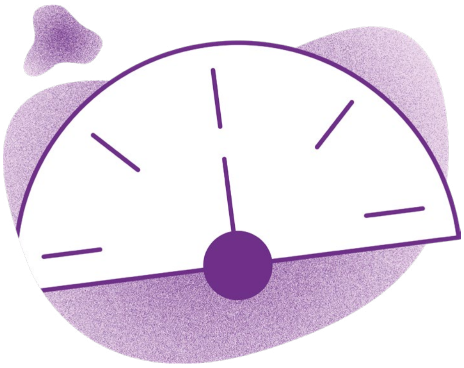
How a State home loan guarantee can help you buy property

# Glossary



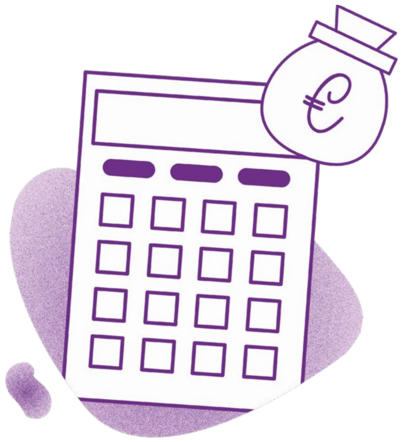
### Lending rates

**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.

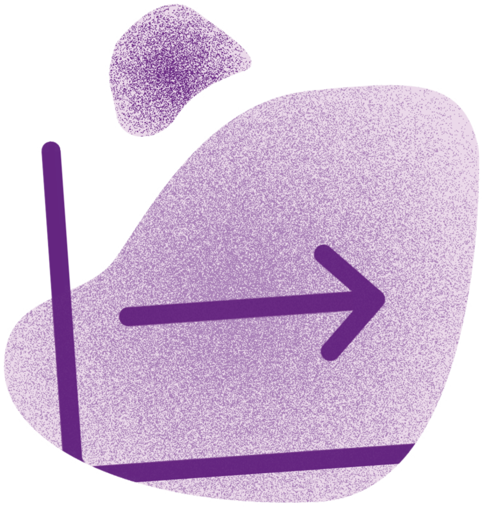



### Total cost of credit

**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 principal part is predominant, but later on the interest 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).

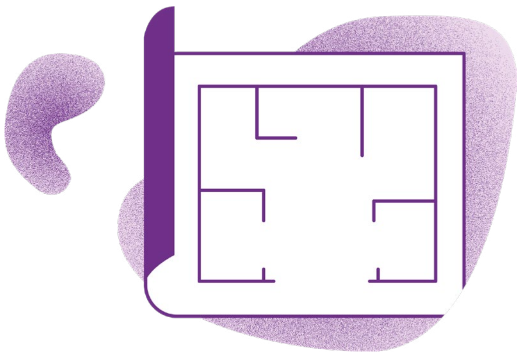

### Bridging loan

**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 Futur état 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 **35%**.

## Loan-to-value (LTV)

This shows **the ratio between the amount borrowed and the property value**. The lower the ratio, the more guarantee the borrower 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 would be **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

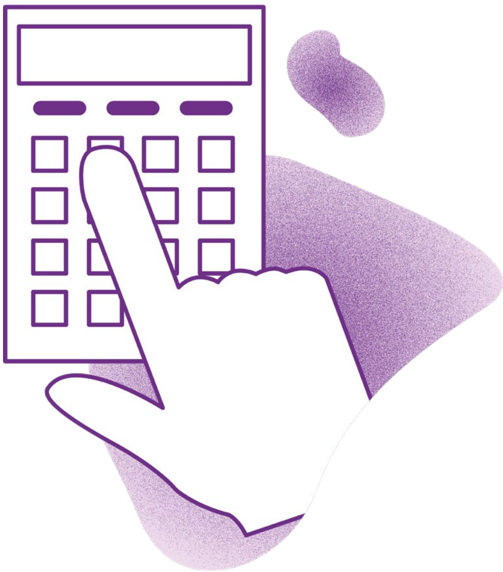
The property transaction must be formalised in a **notarised deed**. Stamp duty is payable, and amounts to 7% of the purchase price.

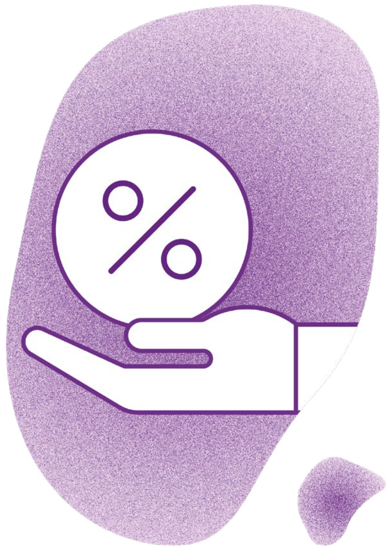
## Bëllegen Akt

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 30,000** per buyer (EUR 40,000 for 2024).

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.