

GENERAL INFORMATION CONCERNING REAL ESTATE LOAN AGREEMENTS IN LUXEMBOURG

1 INTRODUCTION

This document covers the main features of a euro-denominated real estate loan agreement. The aim is to provide consumers with information during the pre-contractual period of a real estate loan and is not legally binding on the lender.

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2 REAL ESTATE LOAN

2.1 Use of the loan

There are many possible reasons to take out a real estate loan. The main ones are as follows (non-exhaustive list):

- The purchase/construction of a primary or secondary residence
- The purchase/construction of a buy-to-let property
- Land purchase
- The maintenance of property rights for a building plot or existing residential real estate

2.2 Term of the agreement

For the financing of a primary residence in Luxembourg, the real estate loan term may be up to 25 years. In the case of rental properties or secondary residences, the maximum term is 20 years. An additional two-year period is generally allowed for sales “off-plan”.

2.3 Amount to be borrowed

The possible borrowing amount is linked to the:

- Borrower's project
- Borrower's deposit
- Borrower's repayment capacity

3 THE INTEREST RATE

For any loan granted, the borrower will owe debit interest for the entire loan term. The interest rate is expressed on an annual basis in the loan agreement. The frequency of the calculation and the payment of interest is specified in the loan agreement. This is generally monthly.

Two types of interest rate are offered to the borrower:

3.1 Fixed rate

A fixed interest rate is one that does not change over all or part of the term of the loan. In other words, the loan rate is entirely independent of market fluctuations, which protects the borrower against any interest rate rises during the period in which the rate is fixed. Thus, at the start of the loan term, the borrower will always be aware of the amounts due, including the interest payable and the principal to be repaid during the agreed interest rate period.

3.2 Variable rate

A variable rate is an interest rate that increases or decreases depending on market conditions with an interest rate floor of 0%. A spread is added to this variable rate.

Example of financing for a property purchase:

Real estate loan of EUR 500,000.00 at a fixed rate of 2.00% over a 20-year term (240 monthly repayments):

Monthly repayment amount: EUR 2,536.10

Total interest amount payable: EUR 108,663.54

Total amount to repay: EUR 608,663.54

Administrative fees: EUR 500.00

Total cost of loan: EUR 109,163.54

APRC: 2.058% (including administrative fees, excluding insurance)

4 REPAYMENT METHOD

Real estate loans are generally repaid on a regular monthly basis. Each month, the borrower repays an amount comprising the principal and the interest.

Depending on their own needs, the borrower may agree to alternative repayment arrangements with the lender.

5 EARLY LOAN REPAYMENT

The borrower may, at any time during the loan term, repay all or part of the principal amount borrowed early.

A distinction must be made between the early repayment of a variable-rate loan and that of a fixed-rate loan:

- **Variable rate:** Given that the interest rate of a variable-rate loan is fixed at the beginning of each repayment period, consumers may at this time repay all (or part) of the outstanding real estate loan amount without incurring additional fees.

- **Fixed rate:** If a fixed rate applies, the borrower must, in addition to the loan, interest, fees and other costs, pay a penalty equal to the lender's break costs. This penalty is calculated at the time of the early repayment request. This early repayment may apply to the total outstanding balance in the case of a total early repayment, or to a portion of the outstanding balance in the case of a partial early repayment. The early repayment penalty is calculated principally on the following factors:
 - **The spread between the client rate and the lender's break rate.**
The break rate can be viewed as the rate at which the lender can reassign the funds that the client has repaid early. The lower the break rate, the higher the penalty to be paid by the client. If the break rate is higher than the client rate, no early repayment penalty will be due.
 - **The remaining period of the agreement's fixed-rate period.**
The penalty will be higher for longer periods.
 - **The outstanding balance due at the time of repayment.**
The higher the amount, the higher the indemnity.

The legal provisions in force in Luxembourg provide for the penalty to be limited to six months' interest if the loan agreement relates to the acquisition of a building that has served as the effective and principal residence of the consumer client for an uninterrupted period of at least two years. If this condition is met, the limited penalty shall apply up to a repaid amount of EUR 450,000 per loan agreement. Beyond that, the standard penalty shall apply for the amounts repaid above EUR 450,000.

6 COLLATERAL, FEES AND INSURANCE

6.1 Real guarantee (security in rem)

6.1.1 The real estate loan

To guarantee the payment of a real estate loan, a first mortgage on the real estate or land to be financed is generally required.

6.1.2 The pledge on financial assets and/or the assignment of a life insurance policy

The borrower may use the following as collateral for the amounts due under the loan:

- Pledge of their own account(s) opened with the lender and/or
- Assignment of a life insurance policy.

6.2 Ancillary guarantees

6.2.1 Pledge on claims

The borrower assigns the transferable and attachable portion of any salary, remuneration, and other sums due to them under their employment contract to the lender, which accepts, up to the amount payable under the loan.

6.2.2 Guarantee

A guarantor undertakes to repay to the lender the amounts due insofar as they have not been repaid by the borrower.

6.3 Fees and insurance

In addition to interest payable, other costs relating to the real estate loan may be charged to the borrower.

6.3.1 Administrative fees

The processing of real estate loan applications or amendments thereto may result in fees.

6.3.2 Consultancy fees

An independent survey may be required in respect of property financing. The fees related to the latter are to be borne solely by the borrower. A list of surveyors approved by the lender is available on request.

6.3.3 Purchase fees

Purchase fees include the notary costs related to the purchase, registration fees and VAT (value added tax) in the case of a new property.

6.3.4 The costs of the real estate loan deed with mortgage registration

The costs of the mortgage deed with mortgage registration include the costs of registering the loan deed, the mortgage registration tax, notary fees and other loan-related costs. These vary depending on the loan amount granted.

6.3.5 Any external fees (legal fees, etc.)

Fees for external lawyers instructed to deal with a financing application are borne by the borrower.

6.3.6 Fire insurance

Fire insurance is a requirement for any real estate loan agreement and covers the damage that may be caused to the mortgaged building in the event of fire, flood, break-in or natural disaster, etc.

6.3.7 Credit protection insurance (*assurance solde restant dû*)

Credit protection insurance protects the borrower's relatives in the event of their death or incapacity. The loan repayment would be the full or partial responsibility of the insurer.

7 REFLECTION PERIOD AND NON-COMPLIANCE WITH THE COMMITMENTS LINKED TO THE REAL ESTATE LOAN AGREEMENT

7.1 Reflection period

Consumers have a reflection period of 14 calendar days from the day on which the offer is received during which time it cannot be rescinded by the lender. Consumers can accept the offer at any time during the reflection period by signing and returning it to their adviser.

7.2 Non-compliance with the commitments linked to the real estate loan agreement

In the event of non-compliance with the real estate loan obligations, the lender will be entitled to terminate the real estate loan agreement and demand repayment of the outstanding balance and any other sums due under the terms of the real estate loan agreement.

The lender will also have the right to execute the guarantees provided. If this collateral does not cover the amounts outstanding, the borrower shall be held personally liable for the payment of the remaining amounts.

LEGAL NOTICE

The information, assessments and opinions provided in this brochure are provided for information purposes only on the basis of information known on the date it was written and are only applicable for the time at which they were given. Consequently, no guarantee can be given as to the suitability, accuracy, validity, correctness or exhaustiveness of this data or of the information and assessments based thereon. The information issued to the interested party does not constitute a loan offer, a recommendation, a solicitation to buy, or legal, accounting or tax advice. Banque de Luxembourg (the lender) shall not be held liable for the information included above or for any decisions that a person, whether or not they are a client of the Bank, may take on the basis of such information. All decisions must be made based on the personal situation of the interested party as well as legal, tax and accounting aspects, with the guidance of their own advisers. By providing this information, the Bank is not required to grant a loan under the abovementioned conditions. The contractual relationship between the Bank and the borrower shall be governed by a loan offer serving as an agreement.