

GENERAL INFORMATION CONCERNING REAL ESTATE CREDIT AGREEMENTS IN LUXEMBOURG

1 INTRODUCTION

This document covers the main features of real estate credit agreements in Luxembourg. The aim is to provide borrowers with information during the pre-contractual period of a real estate credit and is not legally binding on the lender¹.

2 LENDER'S CONTACT DETAILS

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3 POSSIBLE CREDIT PURPOSES

There are many possible reasons to take out a real estate credit. The following is a non-exhaustive list:

- The purchase or construction of a primary or secondary residence;
- The purchase or construction of a buy-to-let property;
- Land purchase;
- The retention of ownership rights of a plot with an existing property, or a plot on which a property is to be constructed, in the event of divorce or refinancing for example;
- All types of borrowing, provided that the credit is guaranteed by a mortgage on residential property.

¹ 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 in the long term 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 credit 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 lender, 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 lender is not required to grant a credit under the abovementioned conditions. The contractual relationship between the lender and borrower will be set out in a credit agreement.

4 FORMS OF COLLATERAL

4.1 Mortgage

To guarantee the payment of the real estate credit, a first-ranking mortgage registration, in Luxembourg or in another Member State of the European Union (Belgium, France, Germany), on the building, or the financed land, or on any other real estate, is generally required.

4.2 Pledge on financial assets

The borrower can also grant as security for the payment of the real estate credit:

- A pledge of their own bank account(s) opened with the lender;
- A pledge on claims (rent, remuneration etc.);
- A pledge on shares or equities.

4.3 Joint and several guarantee

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

4.4 Collateral relating to a life insurance policy

The borrower may agree to guarantee the payment of the real estate credit through a pledge or a delegation relating to their life insurance policy, taken out with an insurance company authorised to operate in Luxembourg.

5 POSSIBLE TERM OF THE REAL ESTATE CREDIT

For the financing of a primary residence in Luxembourg, the real estate credit term may be up to 30 years. In the case of rental properties or secondary residences, the maximum term is 20 years.

6 TYPES OF INTEREST RATES

For any real estate credit granted, the borrower will owe debit interest for the entire real estate credit term. The interest rate is expressed on an annual basis in the real estate credit agreement. The frequency of interest calculations and payments is specified in the real estate credit agreement. This is generally monthly, but it can also be quarterly, semi-annual or annual.

Three types of interest rate are offered to the borrower:

6.1 Fixed rate

A fixed interest rate is one that does not change over all or part of the term of the real estate credit. In other words, the credit 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. Accordingly, at the start of the real estate credit term, the borrower will always be aware of the amounts due, including the interest payable and the principal to be repaid during any agreed fixed interest rate period.

6.2 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 as specified in the real estate credit agreement. Rate changes do not affect the real estate credit term.

This variable rate is determined based on the EURIBOR reference rate.

6.3 Internal adjustable rate

The adjustable rate corresponds to the rate of the main refinancing operations of the European Central Bank + 0.50%.

This internal adjustable rate (ECB rate + 0.50%) increases or decreases depending on market conditions with a floor of 0%, plus a margin.

The rate of the main refinancing operations can be viewed on the website of the European Central Bank:

https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.fr.html

7 CURRENCY OF THE REAL ESTATE CREDIT

The real estate credit is offered in EUR. For a real estate credit in another currency, the borrower must contact the lender.

Where (i) the real estate credit is not in the currency of the Member State where the borrower has his or her habitual residence, or (ii) the real estate credit is denominated in a currency other than that in which the borrower receives his or her income on the basis of which the real estate credit is to be repaid, such circumstances may affect the real estate credit due to currency risk. For example, if the currency of the Member State where the borrower has his or her habitual residence falls by 20% against the currency of the real estate credit, the value of the real estate credit in the currency of the Member State where the borrower has his or her habitual residence will increase.

8 EXAMPLE OF FINANCING FOR A PROPERTY PURCHASE

Real estate credit of **EUR 500,000.00** at a **fixed rate of 3.00%** over a 20-year term (240 monthly repayments):

Monthly repayment amount:	EUR 2,784.32
Total interest amount payable:	EUR 168,236.51
Total amount to be reimbursed:	EUR 668,236.51
Administrative fees:	EUR 500.00 payable when the credit is granted
Account handling charges	EUR 25.00 payable quarterly
Total cost of credit:	EUR 170,236.51
APRC:	3.13% (Including administrative fees and account handling charges, excluding insurance)

The information in the example above is provided for reference only.

9 COSTS NOT INCLUDED IN THE TOTAL COST OF THE REAL ESTATE CREDIT

In addition to the total cost of the real estate credit, other costs relating to the real estate credit may be charged to the borrower.

9.1 Surveyor 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.

9.2 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.

9.3 Mortgage registration costs

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

9.4 Any external fees (legal fees, etc.)

External fees instructed to deal with a financing application are borne by the borrower.

9.5 Any insurance fees

Insurance premiums (fire insurance or credit protection insurance, for example) are borne by the borrower.

10 REPAYMENT TERMS

The amount and number of instalments depends on the real estate credit amount, its term, the repayment type, and the interest rate. Depending on their own needs, the borrower may agree to repayment arrangements with the lender.

The real estate credit is generally repaid in monthly instalments. Instalments can also be quarterly, semi- annual or annual.

The possible real estate credit repayment types are:

10.1 Amortised credit

The interest and principal shall be payable by the borrower to the lender at the end of each due date. On each due date, the borrower repays an amount comprising the principal and the interest.

10.2 Interest-only credit

Interest shall be payable by the borrower to the lender at the end of each interest period. On each due date, the borrower pays an amount comprising the interest. The borrower will reimburse the principal and any other balance of the credit to the lender in full and in one lump sum on the final maturity date.

11 EARLY REPAYMENT

The borrower may, at any time, repay all or part of the principal amount borrowed early provided that the lender has received written notice from the borrower of their intention to make an early repayment specifying the amount to be paid early. Early repayment may give rise to a termination fee.

Different scenarios apply in the event of the early repayment of an adjustable-rate real estate credit, a variable- rate real estate credit and a fixed-rate real estate credit:

11.1 Internal adjustable rate

The borrower may, at any time, repay all (or part) of the outstanding amount without incurring fees.

11.2 Variable rate

Given that the interest rate of a variable-rate real estate credit is fixed at the beginning of each interest period, the borrower may, at this time, repay all (or part) of the outstanding amount without incurring fees.

11.3 Fixed rate

In the case of a fixed rate, the borrower must, in addition to the credit amount, 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.

The early repayment penalty is calculated principally on the following factors:

- **The spread between the interest rate applied to the Client and the lender's reuse of funds rate**

The reuse of funds rate can be viewed as the rate at which the lender can reassign the funds that the client has repaid early. The lower the reuse of funds rate, the higher the penalty to be paid by the client. If the reuse of funds rate is higher than the interest rate applied for the client, no early repayment penalty will be due.

- **The remaining period of the real estate credit agreement's fixed-rate period**

The longer the residual period of the real estate credit agreement's fixed-rate period is, the higher the fee will be.

- **The outstanding balance due at the time of repayment**

The higher the amount that is repaid early, the higher the fee will be.

- **Potential limit on the penalty**

The legal provisions in force in Luxembourg provide for the penalty to be limited to six months' interest if the real estate credit agreement relates to the acquisition of a building that has served as the effective and principal residence of the borrower 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 real estate credit agreement. Beyond that, the standard penalty shall apply for the amounts repaid above EUR 450,000.

In the case of a fixed-rate real estate credit, after receipt of the request for early repayment, the lender shall provide the borrower with an information sheet, which provides details of calculations of the consequences of early repayment and any penalties. Should the borrower still wish to proceed with the early repayment after receiving this information, they must notify the lender of their intention in writing.

12 PROPERTY VALUATION

For real estate credits secured by a mortgage or by a comparable security, the lender will be required to estimate the value of the property. In principle, the lender conducts the valuation of the property and no additional fees will be charged to the borrower.

In some cases, the lender reserves the right to request a property valuation by a third-party expert. In such cases, the cost will be borne by the borrower. A list of surveyors approved by the lender is available on request.

13 ANCILLARY SERVICES

Fire insurance is compulsory for any real estate credit agreement secured by a mortgage or by a comparable surety.

The borrower expressly undertakes, for the benefit of the lender, to immediately insure, for the entire duration of the real estate credit and for the entirety of their reconstruction value, the mortgaged buildings against the risk of fire and other damage or accidents likely to decrease their value.

The fees related to this insurance are borne by the borrower. The latter is free to procure those services from the company of their choice.

Credit protection insurance may be required by the lender in some cases.

Credit protection insurance protects the borrower's relatives in the event of their death or incapacity. Repayment of the real estate credit would be the full or partial responsibility of the insurer. The fees related to this credit protection insurance are borne by the borrower. The latter is free to procure those services from the company of their choice.

14 NON-COMPLIANCE WITH THE COMMITMENTS LINKED TO THE REAL ESTATE CREDIT AGREEMENT

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

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

15 REFLECTION PERIOD

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