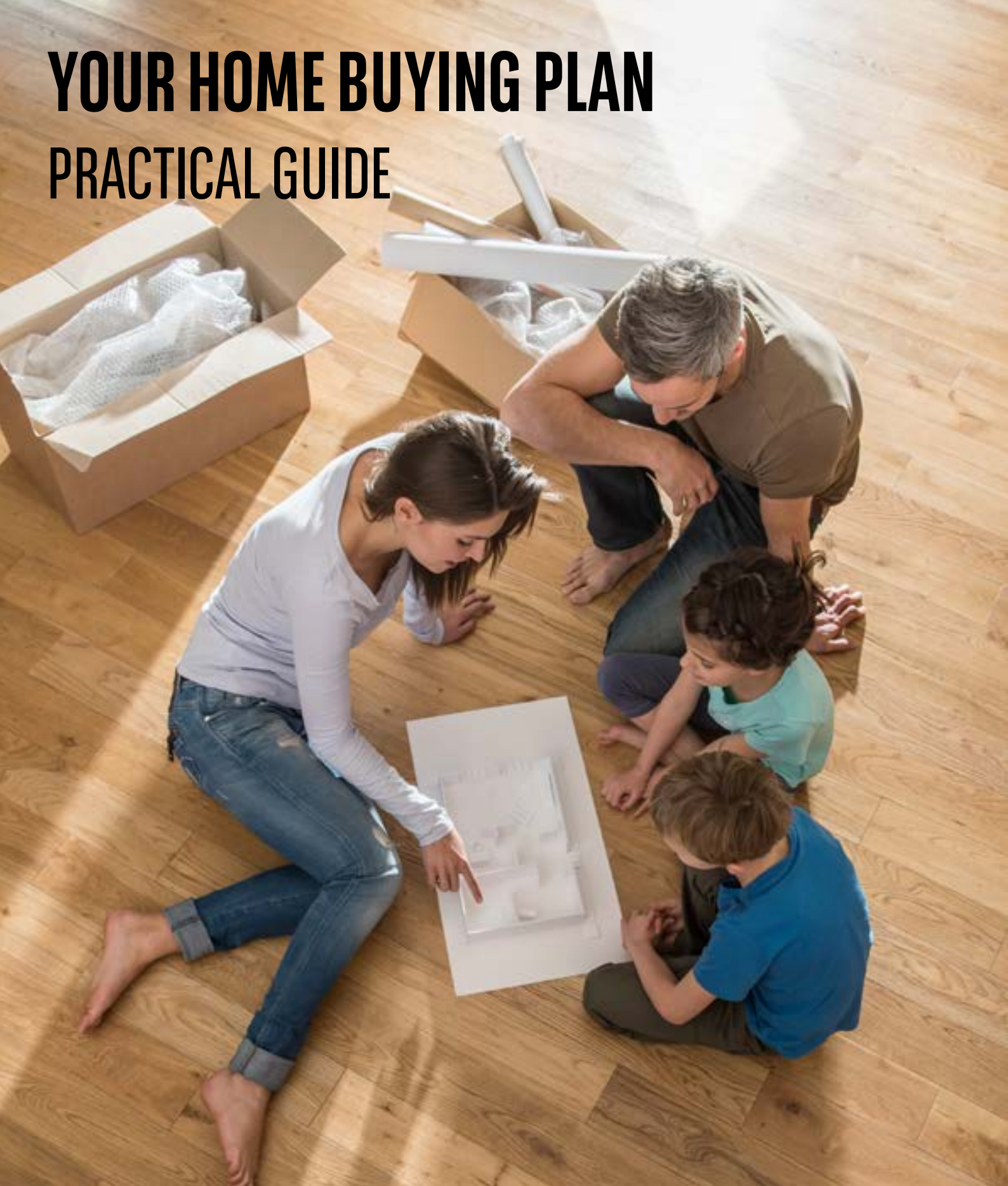


# YOUR HOME BUYING PLAN

## PRACTICAL GUIDE



**BGL**  
**BNP PARIBAS**

The bank  
for a changing  
world







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## **BUYING, BUILDING OR RENOVATING A HOME IS A MAJOR PROJECT AND LONG-TERM INVESTMENT THAT CALLS FOR CAREFUL PLANNING.**

This practical guide from BGL BNP Paribas explains how to go about financing your property investment.

We are at your disposal to answer any questions you might have and to help you arrange the best financing plan to meet your needs. Feel free to contact one of our branches to arrange a personal, non-binding consultation.



# THE PROJECT

## Buying off-plan

When opting for a yet-to-be-built property – known as “buying off-plan” – bear these key points in mind:

- You will sign a **pre-sale agreement** stipulating that the full price is to be paid in instalments according to how far the work has progressed.
- The developer is required to offer you a **performance bond** which will be appended to and recorded with the notarised act of sale. The bank issuing the performance bond guarantees to pay the cost of fully completing the construction work according to the terms of the contract if the seller does not fulfil the completion obligation.
- The bank can substitute a **reimbursement bond** for this performance bond. In this case, it undertakes to reimburse the buyer for the instalments he or she has paid if the sale is cancelled due to non-completion.
- Besides the act of sale, you will also sign a **joint-ownership agreement** pertaining to the common areas of the property. Owners' rights and responsibilities will be stipulated in a formal set of rules.
- When you take delivery of your new home, an **acceptance agreement**, noting anything missing or defective, is drawn up. By signing this agreement, the builder undertakes to remedy any problems as quickly as possible. A **full completion statement** for the building is signed by the parties and given to the bank, discharging it of the performance bond. The ten-year warranty provided by the builder covers the building for latent defects for a period of ten years from the date the apartment is handed over.

## Buying an existing house or apartment

To buy an existing home, you will need to complete these steps:

- Thoroughly inspect the house or apartment you are thinking of buying to avoid any nasty surprises. The opinion of a building expert can also help you **estimate the value of the property**, detect hidden defects (cracks, damp) and assess what repairs will have to be made.
- You must also ensure beforehand that the building possesses an energy performance certificate (Energiepass), which has been compulsory in Luxembourg since 1 January 2008. The costs associated with the building will be lower if the energy performance is improved.
- In the case of an apartment, it is also recommended that you consult the joint ownership regulations which set out the rights and obligations of everyone in the shared property.
- When you have found the house or apartment that seems right for you, you can sign a **preliminary contract of purchase** with the seller. This contract may contain clauses relating to duration, termination, and compensation for breach of contract. If you are taking out a mortgage to finance the purchase, it is customary to include a condition precedent whereby the contract lapses if you fail to get a loan from a bank.
- Some **renovation or conversion work** may be needed. If that is the case, remember to ask the local authorities for the necessary permits.
- The purchase of an apartment, a house or land is made official by a **deed of sale** signed before a notary. Your **title** is registered with the Civil Agreements division of the Luxembourg property registry (Administration de l'Enregistrement et des Domaines).



## Choosing the right building land

Before buying land to build on, make sure the answer to the following questions is yes:

- Is it really building land, with a **building permit** issued by the competent local authority? Before beginning any work, you must have a **building permit** issued by the local authority on the basis of your architect's plans.
- Are the **necessary utility connections** such as sewerage, water, electricity, telephone and gas available?
- Are there any **unidentified easements** on the property such as a right of way, a spring, municipal pipes or gas lines?

**The local authority, the land registry (Administration du Cadastre), your notary and your architect** will be able to answer these questions for you.

## Building a house

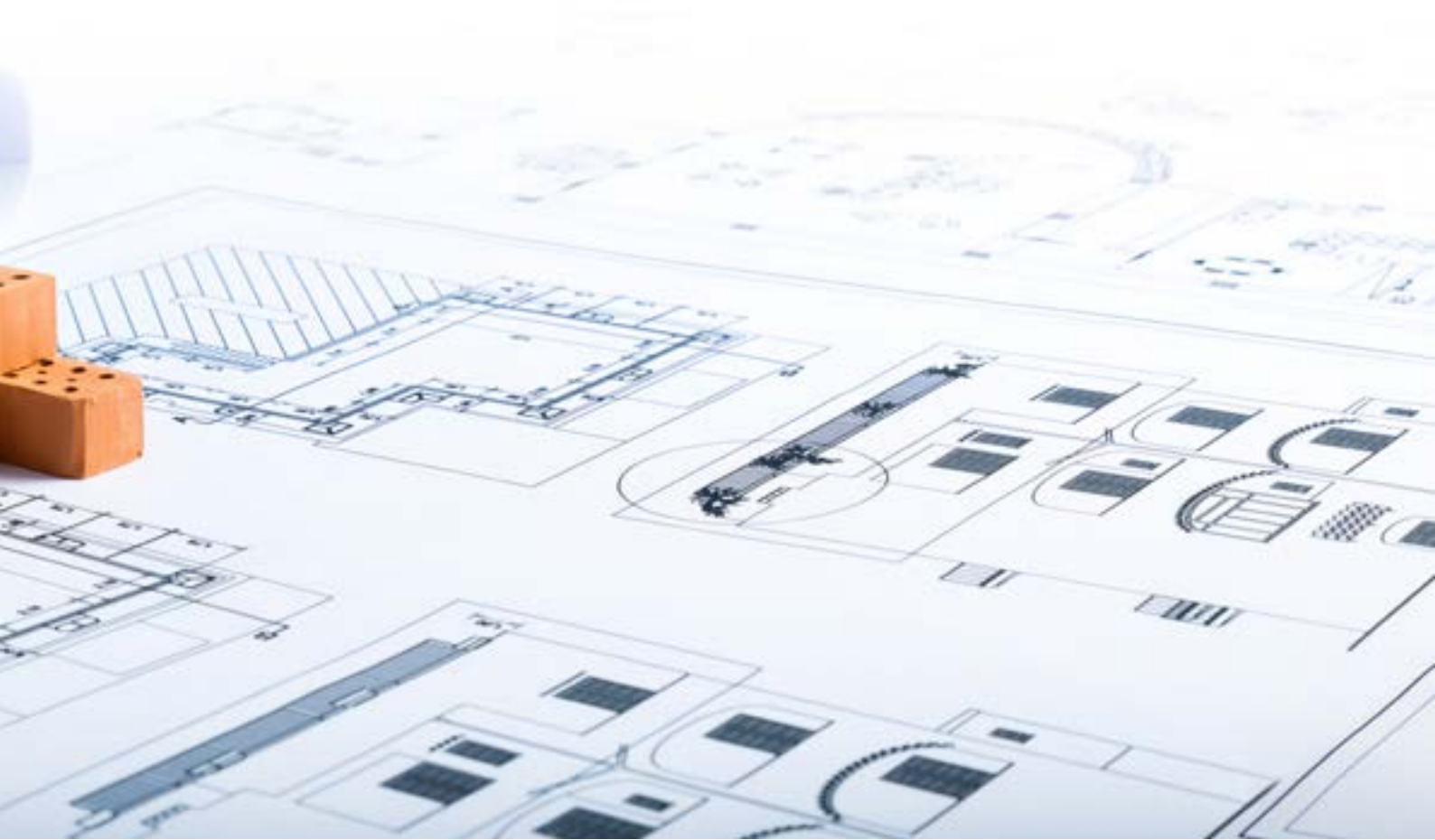
You own land and want to build a house on it.

If you want to deal personally with the various phases of the project, **customised building** will allow you to be involved in many different ways. Your architect will draw up **preliminary plans**, taking into consideration your tastes and your budget. The architect will also prepare a detailed description of the interior and exterior finishings, the fixtures and the materials to be used, and give you a **cost estimate**.

Once a final project has been decided on, the architect will supply a detailed plan and a schedule for the phases of construction.

Since you are the person ordering the work, you may get **estimates** from contractors, examine their **proposals** and choose the companies to build your new home. Your architect can help you find the most competitive and competent construction company, with verifiable references.





If you do not want to deal with all these matters yourself, you can choose the **home building contract** option, with a choice of traditional or prefabricated construction. The price of the home is specified in the contract and, in principle, cannot be changed. The company you choose to build your home awards the contracts, co-ordinates and oversees the work, and guarantees **deadlines and quality of service**. You sign a **purchase or construction contract with the builder, containing a list of specifications** for the work to be done. This contract must be drafted in a legal manner, and it obliges the builder to comply with certain building regulations. It contains a detailed description of the work and materials as well as the agreed total price. In some cases, the limits and conditions for revising this price may be included, too. To avoid delays, you can also specify the date that work is to begin and end.

If you will be paying for the house in instalments, you have the right to ask your builder for a **bank guarantee**.

The bank issuing the guarantee undertakes to pay the cost of fully completing the construction work if the builder does not fulfil the **completion obligation** (performance bond).

On the day you receive the keys, you will sign an **acceptance agreement** for the house with the builder, which states that work has been completed and that it **complies** with the original description. If you notice any defects or missing items, it is recommended that you note these in the agreement.

By signing this document, the builder undertakes to correct these problems promptly.

A **full completion statement** for the building is signed by the parties and given to the bank, discharging it of the performance bond. The builder will provide you with a **ten-year warranty** covering any and all latent defects for a period of ten years.

The warranty takes effect on the date you take delivery of the house. It should be included in writing in the acceptance agreement.



# HOME LOAN

## Drawing up a financing plan

The financing plan includes the cost of items in the project and the sources of financing. It will help you **determine the amount you will need to borrow**.

To help you draw up your complete financing plan, we have listed below most of the **expenses that you will incur** when purchasing or building a home.

- a. The **purchase price** of the land or building is specified in a contract between the seller and the buyer.
- b. **Deed of sale fees**, also called **notary fees**, are charged for the preparation and registration of a notarised deed of sale, which makes your property rights official. These costs can be estimated, but only your notary will tell you the exact amount you will actually be charged.
- c. You should take every precaution by determining the **cost of any conversion or repairs** on the basis of precise estimates from builders or the contractor in charge of the work. For new builds, the price and work details should be itemised in the construction contract. When you build or renovate a dwelling that will serve as a main residence, or when you renovate a dwelling that you will rent out to a tenant as their main residence, you benefit from the extra low VAT rate of 3%.
- d. **Mortgage registration fees** are charged for the notarised instrument granting the mortgage and registering it on behalf of the bank with the Bureau des Hypothèques. You pay these fees through your notary. The mortgage is a **lien required by the bank**. It allows the bank to sell the property if the borrower cannot meet his or her obligations. This extreme solution is obviously used only when there is no alternative and only after the bank has sought other solutions with the client.
- e. It is possible to take out **credit protection insurance** and/or other types of life insurance to protect your loved ones in the event of premature death.
- f. You may also have to plan for **auxiliary expenses**, such as water, electricity, telephone and possibly gas connections, a television distribution network, land remediation and landscaping. Your local authorities can provide you with information on **the taxes related to the construction of a house**.
- g. In addition, administration fees will be charged when your home loan is approved.
- h. It may be wise to set aside funds for **unforeseen expenses** and the likely increase in the prices of materials during the construction (if you are having the house built).
- i. Lastly, if you only begin to repay your home loan after an initial drawdown period, you should also take into account the **interim interest payments**, which are calculated on the basis of the amount actually drawn down before repayments begin.

Adding up these items will show your total costs. Please note that your capital contribution (from savings, sale of a property, gifts, any kind of grants, possible VAT repayment, etc.) must be enough to cover these associated costs. The amount of your home loan will be determined on the basis of the total sum of all of your sources of funding.



## What is a home loan?

A home loan is a loan agreement guaranteed by a mortgage, by another equivalent form of secured interest in residential property, by a right relating to a residential property and intended to allow for the purchase or maintaining of rights of ownership over a piece of land, or by an existing building or a building to be constructed. All loans granted by the Bank within this framework are issued in euros.

Home loans granted by the Bank to individuals may be used for the following:

- purchase of a property for residential use or business and residential use;
- purchase of land for the construction of a residential property;
- construction works to build a residential property;
- all types of borrowing, provided the loan is guaranteed by a mortgage against a residential property.

## What is the interest rate for your loan?

All loans granted by the Bank will be subject to interest charges, which must be paid by the individual on top of the principal amount borrowed. The bank offers different types of interest rates:

### Variable rate

If the parties agree to a variable interest rate, this rate may vary over the term of the loan. A rise in the interest rate will result in higher monthly payments, while a fall in the interest rate will lead to lower monthly payments (or a reduction in the term of the loan if this is provided for under the agreement). This variable rate can be:

- a variable interest rate set by the Bank according to its refinancing costs and the sales margin agreed on a case-by-case basis with each client, or
- a base rate for a fixed term, in addition to the sales margin agreed on a case-by-case basis with each client.

**+ Advantage:** This type of rate is flexible and allows the individual to benefit from interest rate cuts and to make early repayments free of charge.

**– Disadvantage:** If interest rates rise, the monthly amount to be repaid by the client will be higher.

### Fixed rate

If the parties agree to a fixed interest rate, this rate stays unchanged over the entire term of the loan and the monthly repayment amounts remain the same.

- + Advantage:** This type of rate means that the borrower knows in advance the amount payable to the Bank and is protected should interest rates rise.
- Disadvantage:** The borrower will not be able to benefit from any reduction in interest rates and early repayments are subject to charges.

### Adjustable interest rate

It is possible to agree a period of fixed interest that is shorter than the full term of the loan. In this case, the borrower benefits from all the advantages of the fixed rate for a certain term and retains the option – at the end of that period – of choosing a new type of interest rate in line with current market conditions (variable, fixed, adjustable or any other type of rate available at the time).

It is also possible to combine these various options by allocating different types of interest rate to each tranche of your loan.

## What will your monthly payment be?

The monthly repayment amount depends on the interest rate, the term and the amount of the loan. In general, equal monthly payments are made as of the moment of moving into the property and on each payment date, over the entire agreed term of the loan. These payments include principal repayments as well as interest payments calculated on the basis of the remaining amount owed. As a result, the balance to repay at the end of the contract is equal to zero. The proportion of the principal repaid increases over time, while the proportion of interest decreases.

If you have bought a new home but the construction or renovation works have not yet been completed and you are continuing to pay rent or borrowing costs on your current home, you have the option of only paying the interest owed on the amounts drawn down until you move in.

You can also opt for a bespoke plan to lower your monthly repayments during the first five years. This specific repayment schedule will be drawn up on a customised basis with the assistance of your advisor depending on your situation and the development of your financial circumstances. This leaves you with resources to cover other priorities at the start of your loan.



## What costs are associated with taking out a loan?

In addition to the rate of interest on the loan, other costs may be payable by the borrower and included in calculating the APR (Annual Percentage Rate). These costs are as follows:

- The one-off advance commission fee (administrative costs for making funds available)
- Application fee (administrative costs for reviewing the application).
- Account handling charges

<b>Loan amount</b>	<b>EUR 500,000</b>
<b>Loan term</b>	<b>25 years</b>
<b>Annual interest rate</b>	<b>5.45%</b>
<b>APR</b>	<b>5.69%</b>
<b>Monthly repayment</b>	<b>EUR 3,062.41</b>
<b>Total cost of credit, including</b>	<b>EUR 420,723</b>
One-off advance commission fee	EUR 2,000.00
Account handling charges	EUR 500.00
<b>Total amount payable by the borrower:</b>	<b>EUR 920,723</b>

As costs relating to mortgage registration, notary fees and credit protection insurance are not known by the Bank, these are not included in calculating the APR. It is important to note that these charges will also be payable by the individual in a single instalment on issuance of the loan.

## What guarantees are required?

In order to protect itself against possible default by the borrower, the bank asks for the loan be guaranteed in the form of a first mortgage secured against the property or land for which the loan is provided. If applicable, a mortgage registration against another property may be requested. Furthermore, the bank may also require the client to take out credit protection insurance.

Other securities or guarantees may also be given to the Bank:

- a bank guarantee
- third-party surety
- pledging of collateral (cash or securities)
- wage assignment
- assignment of the proceeds from a life insurance policy or a home savings scheme

## Can I pay my loan off early?

Individuals may repay all or part of their loan at any time before the end of the loan's term. Amounts repaid cannot be reused. However, the bank has the right to fair and proper compensation where this is justified.

Repayment conditions differ depending on the type of interest rate applied to the loan.

**For variable rate loans**, early repayment of all or part of the loan can be made without paying additional fees by means of a simple transfer to the borrower's "loan" account. This allows for the loan's term to be reduced or the amount of the regular repayments to be decreased, depending on the conditions set out in the contract.

**For fixed rate loans**, borrowers must pay a termination fee in the event of early repayment. This fee is payable if ever the bank is unable to replace the funds repaid at an interest rate that is identical to the one set out in the loan contract binding it to the client. This termination fee may be capped under certain conditions.

### EVALUATE THE FEASIBILITY OF YOUR PROPERTY PROJECT

You can use the credit simulator available on [bgl.lu](http://bgl.lu) to obtain a rough idea of your monthly repayments depending on the amount that you wish to borrow.



# INSURANCE

## Credit protection insurance

**Credit protection insurance** covers a specified amount of capital for a set period in the event of death. In the case of a home loan, if the policyholder dies during this period, the insurance company will pay the beneficiary **the balance of the loan** up to the amount of the capital insured. The buyer's family can thus be **protected** from financial liabilities related to the loan if the policyholder dies.

Taking out credit protection insurance also entitles you to **tax deductions**<sup>1)</sup> (see related section on p. 15).

## Disability insurance in addition to credit protection insurance

In addition to credit protection insurance, you can take out **cover for disability**. The insurance company reimburses the unpaid balance in the event of total permanent disability, regardless of the cause.

## Life insurance and mortgages

Besides being a profitable long-term investment, **life insurance** can be part of your home loan arrangements while also entitling you to **tax benefits**<sup>1)</sup>. The amount paid on maturity of your insurance policy can in fact be used as a guarantee in the event of death.

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<sup>1)</sup> For people filing their tax returns in Luxembourg.





## GOVERNMENT AID

### SOME GOVERNMENT AID SCHEMES ARE DETERMINED ACCORDING TO INCOME, FAMILY SITUATION AND THE TYPE OF CONSTRUCTION OF THE INDIVIDUAL'S HOME.

Various government aid schemes are available to anyone who qualifies on the basis of their income or family situation, with the aim of encouraging individual homebuilding initiatives, home purchases and home improvements.

#### Capital grants and allowances

**Grants for home purchase, construction work and home improvement** can be obtained if you are buying, building or renovating a home.

These grants are determined according to your income, family situation and type of property. To qualify for these grants, you must not be the owner or usufructuary of another home and meet the criteria in terms of usable living space. In general, these grants relate to your main residence.

If you receive a home purchase or homebuilding grant, you can also apply for a **savings grant**: the amount of this grant corresponds to the subsidised interest and payments on your savings account, provided the majority of the funds has been used to pay for the property and you have been saving regularly for at least three years.

If you are building or renovating your home, the government can provide an **additional grant for architect's and consulting engineer's fees**, as long as the involvement of an architect is needed.

#### Interest support

If you have taken out a home loan to buy, build or renovate your home, and you are not the owner or usufructuary of another home, you can apply for an **interest subsidy**, the amount of which will depend on your taxable income and your family situation, or alternatively an **interest rebate** if you have dependent children.

#### Energy efficiency grants: KlimaBank

The "Klimabank an nohaltegt Wunnen" offer aims to promote sustainable building, sustainable energy efficiency improvement in residential properties and the development of renewable energies in the housing sector. As part of this drive, **green loans with reduced interest** and **green loans with zero interest** have been introduced in order to help prevent fuel poverty and further promote renovation works for sustainable energy efficiency. In addition, the **"PRIME House"** financial aid scheme has been reformed in order to encourage the building of sustainable homes and renovation works for sustainable energy efficiency.

#### Other forms of government aid

Under certain conditions, the government can also:

- Act as **guarantor** towards the credit broker if you are unable to provide sufficient guarantees to obtain a loan.
- Authorise the application of the **3% VAT rate** if the property is to be used as a primary residence. Either the government repays the difference in VAT initially paid (17%), or the borrower requests the direct application of the extra low rate before works commence, which must be authorised by the registration duties, estates and VAT authority (Administration de l'Enregistrement et des Domaines et de la TVA).

Lastly, some communes encourage home ownership by means of capital grants.

The citizen's portal at [www.guichet.public.lu](http://www.guichet.public.lu) contains full information about housing grants. Our advisors can also tell you about these various aid schemes and help you to apply. Just ask at one of our branches.



# TAXATION OF YOUR PROPERTY INVESTMENT<sup>1)</sup>

## Mortgage interest tax relief

Regardless of your type of home loan, you can deduct interest paid (with the exception of financing a second residence).

### Building land

- Loan interest can be deducted in full (acquisition costs under income from property rental) if construction begins within two years of purchasing the land.
- If construction does not commence within two years of the land being purchased, the interest will be classified as a special expense together with other loan interest.
- Under the changes introduced in the 2017 tax reform, the ceiling for tax-deductible interest and insurance is capped at EUR 672 (this amount may be increased depending on the number of people in the household).

### Owner-occupied property

- Loan interest can be deducted in full as acquisition costs while the building is unoccupied due to construction or conversion work.<sup>2)</sup>
- Once the building is occupied, the maximum annual amount deductible from loan interest depends on household size and how long the main residence has been occupied <sup>2)</sup>:

Duration	Maximum annual deduction per person
1-5 years	EUR 2,000
6-10 years	EUR 1,500
> 10 years	EUR 1,000




### Buy-to-let

Loan interest can be deducted in full (acquisition costs <sup>2)</sup>).

### Premiums paid within the framework of a home savings contract are tax-deductible.

Contributions paid into a home savings scheme are only deductible if the home savings contract has been taken out to finance a property used for the taxpayer's personal housing needs (construction, acquisition, conversion of a property or acquisition of land with a view to constructing a property), and specifically a main residence.

Taxpayers under 40 benefit from a higher tax-deductible ceiling.

Taxpayer age			
	2020	2020	2020
From 18 to 40 years of age	EUR 1,344	EUR 2,688	EUR 1,344 / child
41 years of age and over	EUR 672	EUR 1,344	EUR 672 / child

This limit is determined according to the age of the person taking out the contract. Tax-deductible amounts are increased according to the number of people in the household.

<sup>1)</sup> Taxation depends on each person's individual situation and may be amended subsequently (see art. 32(7) of the Grand Ducal Regulation of 13 July 2007). The possible deductions and tax benefits detailed in this brochure apply to Luxembourg tax filers.

<sup>2)</sup> Under income from property rental.



## Deduction of premiums from taxable income (credit protection insurance)

### Main residence

#### ■ Single premium policy

Taking out an individual policy:

Deduction of up to EUR 672 within the ordinary deduction ceiling for insurance premiums and loan interest for each person in the household.

In addition, the payment of a single premium may lead to the ceiling being increased, and may result in it being increased further for the purchase of a main residence.

Policyholder	Increase, up to age 30	Further increase, age 31 to 50	Further increase, from age 51
Taxpayer	EUR 6,000	EUR 480 /year over 30	EUR 9,600
with 1 child	EUR 7,200	EUR 576 /year over 30	EUR 11,520
with 2 children	EUR 8,400	EUR 672 /year over 30	EUR 13,440
with 3 children	EUR 9,600	EUR 768 /year over 30	EUR 15,360

#### ■ Annual premium policy:

Deduction of up to EUR 672 for each person in the household (under special expenses <sup>1)</sup>).

### Buy-to-let

Deduction of up to EUR 672 for each person in the household (under special expenses <sup>1)</sup>).



<sup>1)</sup> Within the ordinary deduction ceiling for insurance premiums and loan interest.

## VAT relief

To encourage the construction of housing for main residences, the government offers an **extra low VAT rate** of 3% when you build or renovate a dwelling that will serve as your main residence, or when you renovate a dwelling that you will rent out to a tenant as their main residence.

To be eligible for direct application of the extra low rate of 3%, the construction or renovation company, which is responsible for charging VAT at the correct rate, must file a request with the **Administration de l'Enregistrement, des Domaines et de la TVA** and have this request granted before commencing work. If no such authorisation has been requested or obtained, the company will apply the normal rate of VAT. To benefit from the partial VAT rebate (the difference between 17% and 3%), the owner will then have to go through the refund procedure in accordance with the applicable conditions and deadlines.

The refund procedure remains mandatory in the following cases: sales of new buildings not yet occupied, sales of finished sections (on the agreement date) of buildings under construction, purchases of building materials when the owner carries out the work themselves, and invoices not exceeding EUR 3,000.

The **maximum allowance** under the reduced VAT rate is EUR 50,000 per dwelling.





## Tax credit on registration and recording fees

You are entitled to a tax credit:

- If you buy a home to be used as your own personal and primary residence.
- If you buy a building plot located in the Grand Duchy of Luxembourg on which you immediately begin building your own personal and primary residence and this is documented by notarised deed.

This tax credit consists of a tax relief on the fees and is subject to different registration and recording conditions. The amount of this tax relief is capped at EUR 20,000 per buyer. If there are several buyers, each can receive the relief in proportion to their title to the property. In the case of a purchase by married taxpayers, each is entitled to the tax credit.

The tax credit can be used over time for other purchases until it runs out. In any case, the Administration de l'Enregistrement et des Domaines will receive a minimum of EUR 100 in terms of registration fees.





## FIND OUT MORE

This practical guide is intended to provide you with as much information as possible about buying property and taking out a loan in the Grand Duchy of Luxembourg. Before making any decisions about buying or renovating your home, it is crucial to be well informed.

A one-to-one meeting with our advisors is an integral part of our service. Make an appointment now, and lay the first foundations of your future home.

This document is provided for reference only and the information contained herein is solely intended to offer a general overview of the topics covered. BGL BNP Paribas makes no representations, whether explicit or implicit, as to the accuracy or exhaustiveness of the aforementioned information and accepts no responsibility whatsoever for any direct or indirect damage that may arise as a result of the use of the information contained herein.

Under no circumstances may this document be construed as intended to provide legal, tax, accounting, regulatory or financial advice and it must not be used for this purpose. It is not a personal recommendation of any kind. Should they have any questions about the topics covered herein, it is up to users of this document to consult their own professionals advisors.

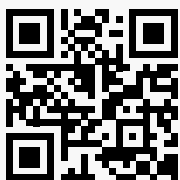
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All data in this brochure reflect the situation in the Grand Duchy of Luxembourg in October 2020 and are indicative and do not bind BGL BNP Paribas.





## FIND OUT THE OPENING HOURS OF OUR BRANCHES



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Marketing Communication April 2024



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