

YOUR HOME BUYING PLAN



PRACTICAL GUIDE



**BGL
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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 it. It also contains useful advice on how to finance your property investment.

We will be glad 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 meeting. You are under absolutely no obligation.



THE PROJECT

Buying off-plan

By opting for a yet-to-be-built property – known as “buying off-plan”, there are five key steps :

- 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 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 apartment, 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, releasing it from 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:

- By thoroughly inspecting the house or apartment you are thinking of buying, you may avoid 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 that the building possesses an energy performance certificate, 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 sign a **preliminary contract of purchase** with the seller. This agreement contains 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** will be recorded with the Civil Agreements division of the Luxembourg land 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, that is, land classified as such, for which a building permit has been 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, cadastral records office, your notary and your architect will be able to answer these questions for you.

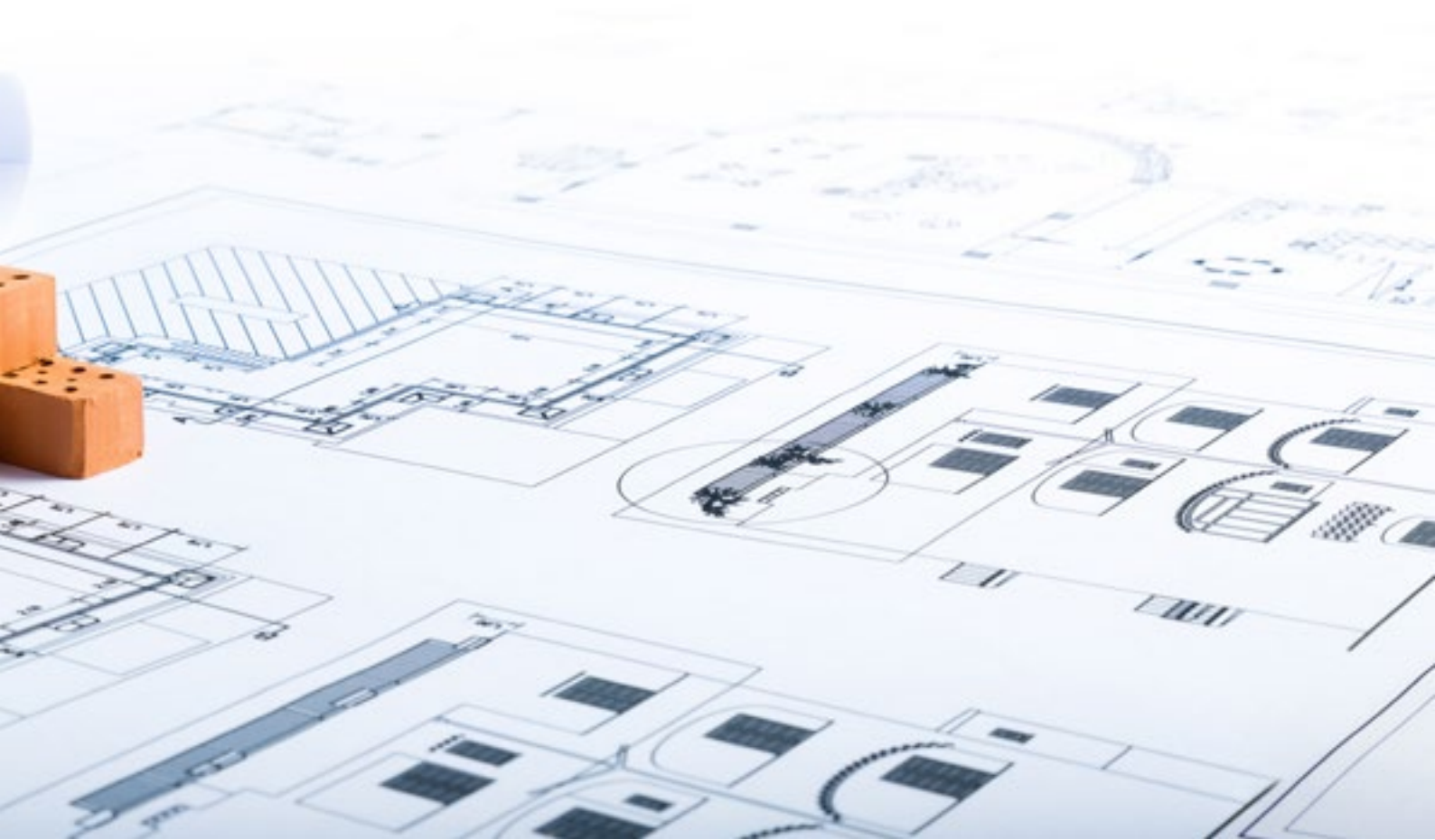
Building a house

You own land and you 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 your house in instalments, you have the right to ask your builder for a **bank guarantee** or performance bond by which the bank undertakes to pay another contractor to finish the work if the original firm does not meet its **completion obligation**.

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 the house is accepted. 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. At the back of the guide you will find a **table to fill in** with your own data.

- a. **The purchase price** of the land or building is specified in a contract between the seller and the buyer.
- b. **A deed of sale fee**, also called the **notary fee**, is 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 conversions or repairs** on the basis of precise estimates from builders or from the general contractor in overall charge of the work. For new construction, the price should be itemised in the construction contract. When you build or renovate a dwelling that will serve as a main residence you benefit from a lower rate of value-added tax.
- d. A **mortgage registration fee** is charged for the notarised instrument granting the mortgage and registering it on behalf of the bank with the Bureau des Hypothèques. You pay this fee through your notary. The mortgage is a lien required by the bank. It allows the bank to sell the property if the debtor 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. We recommend that you take out **repayment insurance** and/or other types of insurance to cover the outstanding balance on your mortgage in the event of death and thus protect your loved ones.
- f. You may also have to plan for **auxiliary expenses**, such as water, electricity, telephone and possibly gas connections, a collective TV aerial, land drainage and landscaping. The local authorities can provide you with information on the **taxes related to the construction of a house**.
- g. Also, administration fees will be charged when your mortgage is approved.
- h. We recommend that you 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 based on 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 based on 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 purposes:

- 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 borrower 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 borrower to benefit from interest rate cuts and make early repayments free of charge.

- Disadvantage: If interest rates rise, the monthly amount to be repaid by the borrower will be higher.



Fixed ratee

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 the amount payable to the Bank in advance and is protected should interest rates rise.
- **Disadvantage:** The customer 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 a fixed rate for a certain term and retains the option – at the end of this time period – of choosing a new type of 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 capital 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 plan will be tailor made with the help of your advisor based on your personal situation and your changing financial capacity. In this way you will have resources to cover other priorities at the start of your loan.

Lastly, the Schwäbisch-Hall home savings scheme constitutes an interesting alternative to the conventional home loan. This formula, combining home savings and a loan, allows you to take out a loan at a preferential rate of interest, while also benefiting from tax deductions.¹⁾ where applicable¹⁾.



¹⁾ Married couples may combine the advantages. More information on page 17 of this brochure.

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

Loan amount	EUR 300,000
Loan term	20 years
Annual interest rate	1.80%
APR	1.89%
Monthly repayment	EUR 1,494.63
Total cost of credit	EUR 59,711.20
One-off advance commission fee	EUR 1,000.00
Account handling charges	EUR 432.00
Total amount payable by the borrower	EUR 359,711.20

As costs relating to mortgage registration, notary fees and payment 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 borrower 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 to 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 also requires the borrower to take out payment 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?

Borrowers 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 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 borrower.

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 to obtain a rough idea of your monthly payments depending on the amount that you wish to borrow.



INSURANCE

Repayment insurance

The **credit protection insurance comprehensive home insurance** covers a specified amount of principal for a set period in the event of your death. In the case of a loan, if the policyholder dies during this period, the insurance company will **pay the outstanding balance on the loan** to the beneficiary.

The buyer's family can thus be **protected** from financial liabilities related to the mortgage if the policyholder dies.

You are entitled to **tax deductions**³⁾ for repayment insurance (see page 16).

Disability insurance in addition to repayment insurance

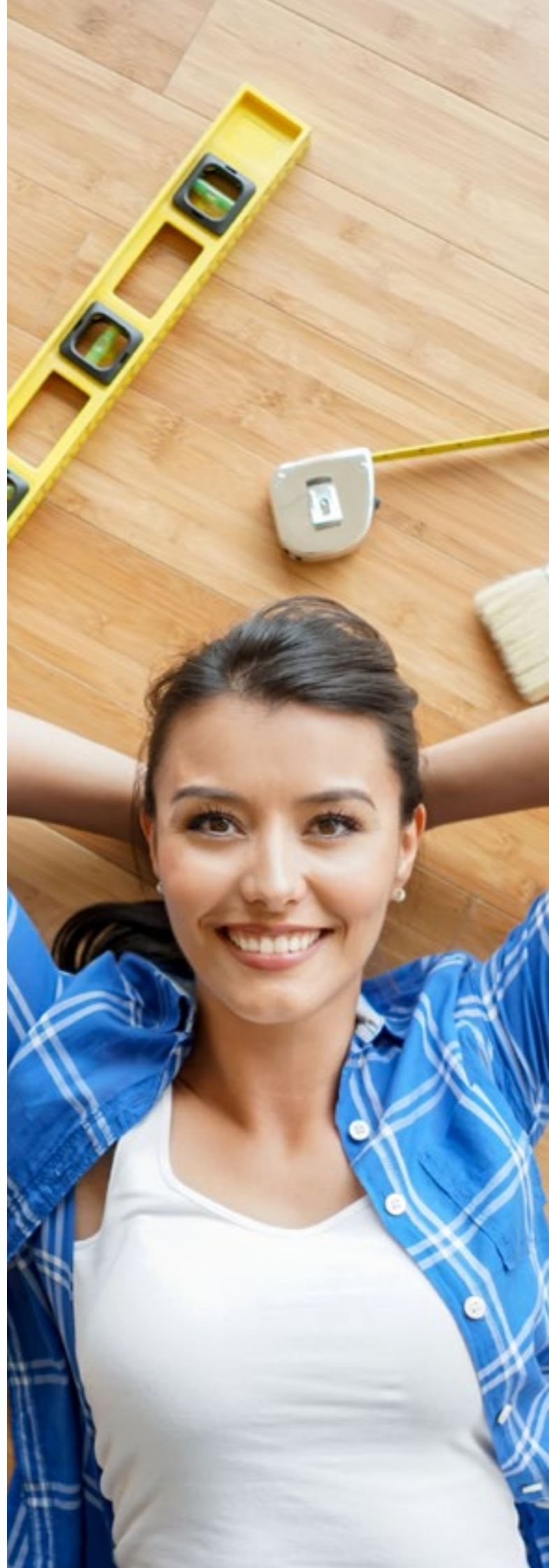
In addition to repayment insurance, you can take out **cover for disability**.

The insurer 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 mortgage financing arrangements, also entitling you to **tax benefits**³⁾. The face amount of your policy (i.e. the amount paid at maturity) can be used to guarantee your mortgage in the event of death.

³⁾ For people whose tax returns are processed in Luxembourg.





GOVERNMENT AID

SOME GOVERNMENT AID SCHEMES ARE DETERMINED ACCORDING TO INCOME, FAMILY SITUATION AND TYPE OF PROPERTY PLANNED FOR THE APPLICANT'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

Grants for home purchases, construction work and home improvements can be obtained if you are buying, building or renovating a home. These grants are determined based on 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 subsidies

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 subsidy if you have dependent children.

Energy efficiency grants: KlimaBank

The "KlimaBank an nohaltegt Wunnen" package aims to promote sustainable building, 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.
- Allow for 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 paid, or the borrower requests the direct application of the reduced rate before works commence, which must be authorised by the Administration de l'Enregistrement (Luxembourg Registration Authority)

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

The citizen's portal at 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.



TAX IMPLICATIONS OF BUYING INVESTMENT PROPERTY¹⁾

Interest paid is tax-deductible for home loans

Regardless of your type of home loan, you can deduct interest paid.

Building land

- Loan interest can be deducted in full if construction begins within two years of purchasing the land (deduction under "professional expenses").
- Under 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 professional expenses while the building is unoccupied because of construction or conversion work.
- Once the building is occupied, the amount of interest deductible depends on household size:




Period	Deduction per person
1-5 years	EUR 2,000
6-10 years	EUR 1,500
> 10 years	EUR 1,000

Rented property

Loan interest can be deducted in full ("professional expenses").

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

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

Age of the contributor						
	2016	2017	2016	2017	2016	2017
From 18 to 40 inclusive	EUR 672	EUR 1,344	EUR 1,344	EUR 2,688	EUR 672 / child	EUR 1,344 / child
41 and over	EUR 672	EUR 672	EUR 1,344	EUR 1,344	EUR 672 / child	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.

¹⁾ Taxation depends on the individual situation concerned and may be subsequently amended (see art. 32 para. 7 of the Grand Ducal Regulation of 13 July 2007). The possible deductions and tax benefits described in this brochure apply to Luxembourg tax filers.

Deduction of premiums from taxable income (loan repayment insurance)

Main residence

■ Single premium policy

Subscription to an individual policy :

Deduction of up to EUR 672 for each person in the household. The payment of a single premium may also give rise to a supplement and an additional supplement. Insured party Supplement up to age 30

Insured party	Supplement up to age 30	Additional supplement, age 31 to 50	Additional supplement, over 50
Taxpayer	6,000 EUR	EUR 480 / year	EUR 9,600
with 1 child	7,200 EUR	EUR 576 / year	EUR 11,520
with 2 children	8,400 EUR	EUR 672 / year	EUR 13,440
with 3 children	9,600 EUR	EUR 768 / year	EUR 15,360

■ Annual premium policy

Deduction of up to EUR 672 for each person in the household (under special expenses).

Rented property

Deduction of up to EUR 672 for each person in the household.



VAT relief

To encourage housing construction, the government the building or renovation of property for residential purposes is eligible for the reduced rate of **VAT at 3%**.

The building contractor or firm, which is responsible for charging VAT at the correct rate, must file a request for the reduced rate with the proper authority (**Administration de l'Enregistrement et des Domaines**) before commencing work. If no authorisation has been issued, the contractor or firm will apply the normal rate of VAT. The owner must then apply for a partial rebate (i.e., the difference between 17% and 3%) via a **refund procedure**.

The refund procedure is mandatory in the following cases: sales of new buildings not yet occupied, sales of finished sections (at the date of the notary's deed) of buildings under construction, purchases of building materials, and invoices not exceeding EUR 3,000.

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



Tax credit for registration and recording fees

If you buy a home to be used as your own personal and primary residence or a building plot located in the Grand Duchy of Luxembourg and this is documented by notarised deed, you are entitled to a tax credit. This tax credit consists of tax relief on registration and recording fees. The amount of this tax relief is capped at EUR 20,000 per buyer. However, this tax credit may be increased to EUR 40,000 in the case of a joint purchase by married taxpayers or two unmarried buyers.

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 (Luxembourg Indirect Tax Authority) 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.

For this reason, we offer one-to-one meetings with our advisors – these are an integral part of our service and leave you without any obligations or commitments. Make an appointment now, and lay the first foundations of your future home.

All data in this brochure reflect the situation in the Grand Duchy of Luxembourg in October 2017 and are indicative and do not bind BGL BNP Paribas.

OUR BRANCHES IN LUXEMBOURG CITY

Bonnevoie
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Gare
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Kirchberg Siège social
Limpertsberg
Merl-Belair
Merl-Jardins de Luxembourg
Royal Monterey

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Bascharage Kordall
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Clervaux
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Differdange
Dudelange
Echternach
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Esch Centre
Ettelbruck
Grevenmacher
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