Simplified information sheet

prepared under the law on the accessibility
of products and services

Mortgage credit

This simplified information sheet is intended for you as an interested person. You are a client of the bank or would like to become one.

The **ABBL** has prepared this leaflet together with its members. The ABBL is the **A**ssociation des **B**anques et **B**anquiers, **L**uxembourg, (Luxembourg Bankers' Association).

The information sheet explains:

- What a mortgage loan is
- How the mortgage credit agreement works
- Your rights as a client
- Your obligations as a client

A mortgage loan is also known as housing loan or real estate loan.

The information provided here is not legally binding. It does not create any obligation for you. It also does not oblige the bank to offer this service to you.

Some words are explained in the text. **Underlined** words are explained in a **glossary** at the end of this sheet.

By providing this information, the bank complies with Article 15 of **the Luxembourg law of 8 March 2023 on the accessibility of products and services** offered by companies.

This means that companies must provide clients with **easy access** to the products and services they offer. Clients should be able to understand and use the products and services, without assistance.

The aim is to enable **everyone to participate in social life**.

Content

1. What is a mortgage credit?

A mortgage credit agreement is a contract between **the lender** (the bank) and the **borrower** (the client: you alone or together with one or more other persons).
The bank lends you money for the purchase, construction, transformation, or renovation of a private home, or for the purchase of land for building.
In return for the money advanced, you agree to repay the bank the amount of the credit and the interest.
The bank wants to make sure it can recover its money if you do not repay the credit. This is why the bank asks for one or more guarantees.
Usually, the guarantee requested is a **mortgage**. The mortgage is generally placed on the property financed by the loan.
If you do not repay your credit, the bank may sell the mortgaged property (see point 6).

In the **following text**, the mortgage credit will simply be referred to as a "credit".

2. What happens BEFORE signing the credit agreement?

Before signing the credit agreement with you the bank must give you information about how the credit works.
This information is called **"pre-contractual information."**
The information is provided through a document called: **European Standardised Information Sheet (ESIS).**

The ESIS contains, among other information about:

- the duration of the credit
- the total cost of the credit
- the interest rate
- how you repay the money (e.g., monthly instalments)
- the conditions for early repayment
- if you have a reflection period
- what happens if you do not pay

The ESIS is presented in the same format in all banks, so you can easily compare different offers.

The bank must also assess your financial solvency.
This means the bank must **verify whether you are able to repay the credit**.
To do this, the bank asks for personal information about:

- your income (salary, pensions, etc.)
- your expenses (rent, bills, other ongoing credits, etc.)
- your assets (money, real estate, etc.)
- any debts.

If you live in a country other than Luxembourg, the bank may check a database in that country. This database contains information about individuals' financial situation.
The bank then does a **credit analysis** and decides whether you will be granted the credit.

3. Do you have a reflection period?

Yes. In Luxembourg, the bank must give you a reflection period.
The Luxembourg **Consumer Code** provides for a **14-day reflection period**, including Saturdays, Sundays, and public holidays.
This means: when you receive the credit offer, you have time to decide whether to accept it. During this reflection period, the bank cannot change the conditions of the offer.
If you are a resident of another country, different time limits may apply.
These deadlines are precisely described in the pre-contractual information provided to you.

4. How is the credit agreement concluded?

The bank sets the conditions of the credit with you, for example:

- the amount of the credit;
- the duration of the credit;
- the guarantees;
- the interest rate;
- and the repayment terms.

After this step, the contract can be concluded in writing and signed.

5. How does the bank pay you the loan amount?

The mortgage credit agreement sets the conditions under which the loan amount is paid to you. The amount is disbursed once the required guarantees, such as the mortgage, have been put in place.

6. How is the credit secured?

As part of a mortgage credit agreement, the bank asks for guarantees to protect itself if you do not repay the loan.

For example, the bank may ask you to place a **mortgage** on a property you own.

This means: your property serves as security for the bank, but you remain the owner.

If the bank terminates the credit agreement because you did not repay as agreed, the bank can use the guarantee.

For instance, the bank may sell the mortgaged property at **auction**. To do this, it must begin a **forced sale procedure**, but the bank always contacts you first before starting this process.

The bank may also ask you to take out **residual debt insurance.** It may also ask you to insure the mortgaged property against damage and accidents.

7. What interest will you pay?

When you **borrow money**, you must pay **interest** to the bank on the amount borrowed. This interest is called **debit interest.** Its amount depends on the rate applied, which is referred to as the debit rate or **debit interest rate**.

There are two types of interest rates: **fixed or variable** (see points 8 and 9). The bank can agree with you on either a fixed interest rate or a variable interest rate.

8. What is a fixed interest rate?

A **fixed interest rate** stays the same for a specific period.

This means: your repayment amounts (monthly, quarterly, etc.) do not change during this period. The period is called the **fixed-rate period**.

The fixed-rate period can be shorter than the total duration of the contract. Once this period ends, the bank will agree with you on a new rate and a new repayment plan for the remaining amount.

9. What is a variable interest rate?

A **variable interest rate** can go up or down during the term of the contract. **This means**: your repayment amounts (monthly, quarterly, etc.) can also change. You will pay more if the rate increases, and less if it decreases.

10. What is the total cost of a mortgage credit?

The **total cost** of a mortgage credit includes the borrowed amount and all the fees you must pay as part of the contract:

- debit interest;
- commissions;
- and any other fees known to the bank when offering the credit.

The main cost of a credit corresponds to the **interest** (fixed or variable) and the **borrowed capital** to be repaid.

11. What is the Annual Percentage Rate (APR)?

The APR (in French: Taux Annuel Effectif Global - TAEG) represents in percentage the total cost of a mortgage credit that you have to pay under the credit agreement.
Its purpose is to allow you to **easily compare different credit offers.**

12. How do you repay the credit?

You must repay the credit according to the conditions set in the credit agreement.
The agreement may require regular payments, for example monthly, or repayment of the full amount at the end of the contract.

13. What happens if you do not repay the credit as agreed?

If you do not repay the loan as agreed, the bank may charge you late **interest and additional fees.**
Usually, the bank will contact you first to find a solution that suits your situation.
However, if the delays recur or if you do not respond, the bank may take further measures. For example, Ii you stop paying, it may terminate the contract and use the collateral (see point 6).
It will always inform you in advance of what it intends to do to recover the amounts owed.

14. Can you repay the credit earlier than planned?

You can repay all or part of the credit **before** the end of the contract.
This is called **early repayment**. You must first inform the bank **in writing**.
Attention if you have a fixed-rate loan and you repay it early, the bank may charge an early repayment fee, because this could cause them costs.
The amount of this fee is regulated by the Luxembourg Consumer Code or, where applicable, by the law of your country of residence.

The limit of this compensation is set by the Luxembourg Consumer Code or, where applicable, by the law of your country of residence.

15. Can you end the credit agreement BEFORE the agreed date?

In principle, you can terminate the mortgage credit agreement at any time by repaying the capital and the interest due.
If you wish to repay before the scheduled end of the contract, you must respect the **notice period,** which is specified in your agreement.
If you repay a fixed-rate loan early, the bank may ask for compensation (see point 14).
The bank may also terminate the agreement in certain specific cases, respecting a notice period.
These cases are defined in the contract — for example, if you stop repaying, fail to meet your obligations, or in case of death.

Glossary

- **Auction / public sale:** A public sale where people bid for a property. The property is sold to the highest bidder.

- **Consumer Code:** A set of laws that protect consumers' rights, especially in credit contracts.

- **Debt interest:** The amount of money paid in addition to the borrowed amount. Example: Marie borrows €1,000. She must repay €1,000 plus €50 in interest.

- **Debit interest rate:** The percentage (%) of the loan amount that the client must pay as interest. It represents the cost of borrowing the money.

- **European Standardised Information Sheet (ESIS):** An official document that clearly explains the conditions of a mortgage credit. It helps you compare different loan offers easily.

- **Forced sale:** A sale ordered by a judge, often when the owner cannot pay their debts. The property is seized and sold to repay what is owed.

- **Mortgage:** The bank takes a guarantee on a property (for example, a house). This protects the bank if the borrower does not repay the loan.

- **Notice period:** The time between the announcement of termination (e.g., ending a contract) and the date when the termination becomes effective (when the contract ends).

- **Pre-contractual information:** Information that the bank must provide to the client before signing the credit agreement. This helps the client understand the conditions of the loan.

- **Residual debt insurance :** This insurance pays back the loan, in full or in part, if the borrower (the person who took out the loan) is unable to repay it due events such as death or illness. In this way, the insurance protects both the borrower and their family.

A glossary is also available on the OSAPS website (www.osaps.lu). You will find other banking terms explained there.