Asociación Hipotecaria Española

MORTGAGE GUIDEBOOK

ALL YOUR QUESTIONS ANSWERED!

SPANISH MORTGAGE ASSOCIATION
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■ Why have we published this guide for you?

The Spanish Mortgage Association (Asociación Hipotecaria Española) is an organisation made up of the main credit institutions (savings banks, banks, co-operative banks and specialised financial credit institutions). Over the last few years, the Association has been actively involved along with the Spanish Administration and the European Union, in the development of regulations concerning mortgage lending transparency.

The National Consumer Institute (Instituto Nacional de Consumo) takes an active part in new initiatives aimed at offering more and clearer information about the market in order to promote and protect the financial interests of the consumer. This will help the consumer to compare the different products and choose the most suitable one.

Both organisations are fully aware that both buying a house and financing the purchase through a mortgage loan are operations of great importance and relative complexity, which require the consumer to have the right information to make the appropriate decisions relating both the purchase and finance.

And this is why they feel it would be useful to publish this "Mortgage guidebook", to provide consumers with a tool to allow them to easily understand the more important aspects of these operations, and so achieve greater transparency.

■ What do I need to know before buying a house?

Have you decided to buy a house? Do you want the purchase process to be secure and all the legal steps are fitted? Do you know the whole process and how much does it cost? Would you like to know which is the loan that better fulfilled your personal profile?

The aim of this guidebook is to help you to resolve these and any other doubts, since buying a house is one of the most important economic decisions a person can take in his or her life, nothing should be left to chance.

If you have decided to buy a house or summer residence in Spain, congratulations. Thanks to its climate and its socio-economic and cultural situation, Spain is one of the European countries that allows for a better quality of life.

You are possibly thinking of taking out a mortgage to finance the purchase of your new house and you may wonder if it is worth doing so in Spain.

In that case, remember that Spanish regulations on mortgage transparency and on consumer protection are among the most complete in Europe.

And what's more, the range of mortgage products available is very wide and varied. Since the purpose of this loan is to facilitate the purchase of a house, it has its own specific features: the property acts as a guarantee for the loan; interest rates are lower; the amount involved is usually high and the term of the loan is longer than in other types of loans.

As you can see, it is a long-term operation, which generates a close and lasting relationship between the lender and the borrower and one where the quality of the service takes priority. This is why it is not enough to look at the financial conditions of the loan. You should also think about your relations with the lender, its characteristics, how it deals with its customers, in other words, all the aspects that are part and parcel of the consumer-lender relationship and which are difficult to value in terms of price.

Mortgage financing is one of the most competitive, transparent and reliable activities currently existing on the Spanish financial market.

It is **competitive** because all credit institutions have a wide variety of products, and all with the lowest interest rates known in our banking history.

It is **transparent** because it is subject to different regulations that reached their peak in 1994 with the Decree about Transparency of Financial Conditions concerning Mortgage Lending. This Decree lays down standard rules to offer stronger protection and wider information. Furthermore, it obliges financial institutions to have an information leaflet available, to compare the different products easily.

And it is **reliable** because of the intervention of a notary who certifies the operation and because such operation is made public as it is registered in the Property Register.

This guidebook includes an extensive chapter on explaining what mortgage loans are and how they work, although it also pays attention to other aspects such as housing and the reliability of property purchasing. Our purpose is to help you to find the answer to most of the questions in these pages.

But, remember, should you have any doubts, do not hesitate to seek advice in your financial institution. Your branch is there not only just to grant you the loan, but also to help you throughout, to cut down the procedures, and, in short, to provide you with information allowing you to choose the most suitable loan. Every consumer may have the same doubts, but each one has a different financial situation that may need a custom-made solution.

And if you need any further information you can find it in the Instituto Nacional de Consumo and in the Consumer Agencies of the Autonomous Communities.

■ How can I choose a house which best suits my needs and my pocket?

The first golden rule: don't rush!

Have you already planned to buy a house? Have you got one in mind but you are not sure if it meets your needs? Are you looking at the different types of loans on the market?

If that is the case, our first suggestion is that you shouldn't rush because this is probably going to be the biggest and most important investment of your life. You must choose correctly and this means taking your time to **find the house that best fits not only your needs but also your possibilities.**

When it comes to choosing the house, you should consider four basic aspects that will directly affect your life in the long run. And these are:

1. **Location**: Have you thought about things such as noise, pollution, easy access (i.e. transports) and nearby basic services (i.e. schools, health centres, markets, leisure centres, car parks, etc.)?

2. **Characteristics**: Is it a house, a flat, an apartment? Which way does the building face? This will affect the temperature in the rooms. Which floor is the flat on and what's the view like? This will determine the amount of natural light. Do you know whether the building has additional services, such as junk room, garage, terraces or other common areas?

3. **Fittings**: Check the insulation for noise and warmth. This will improve comfort and reduce energy costs. Make sure that heating, water, electricity and gas fittings – town gas, natural gas or butane gas - meet specifications.

4. **Price:** the quality of fittings, location and type of building directly influence the price of the building, but also remember that whether the house is new or not, you will have to add the taxes and other expenses that go associated to the operation –notary, registration, valuation, etc.-.

The specific information to be provided by the seller of the house has been developed by the Royal Decree 515/89 of April 21, following General Law 26/84 of July 19, concerning Consumer and User Protection.

■ How much will it all cost?

The details are specified below. Right now, do not forget that you must take two important facts into consideration if you want to calculate the costs accurately.

One of them is that you will need about another 10% of the price of the house to cover all expenses. Most of this corresponds to taxation on the purchase itself and on the mortgage loan. Approximately, purchase expenses and taxes are between 7% and 8% while the mortgage origination itself costs about 1% or 2%; the rest corresponds to the mortgage loan. If an individual purchases a house for 100.000 €, then another 10.000 will be needed (10%) for expenses, in total, 110.000€.

Another fact is that the mortgage loan cannot cover the complete cost of the property because, according to the Spanish Mortgage Market Act, lenders usually have to limit the amount of the loan to 70% or 80% of the valuation price. In the case of our previous example, of the 110.000€ required, the consumer will receive between 70.000€ and 80.000€ through the loan, but for the rest he will have to resort to his savings.

This fact is very important. Firstly, because it limits the kind of property the buyer has access to, due to the financial situation, and secondly, because it emphasises the need to have previous savings.

■ What should I have to do before taking the first step?

You should get information about all the legal aspects of the transaction, by seeking advice in the organisations and institutions able to provide it, such as the Chamber of Urban Property –Cámara de Propiedad Urbana- and, particularly, the local **Property Register** –Registro de la Propiedad- and Notary Office.

Then, before you buy the property and even before you pay a down payment, you must check the situation of the property in the Property Register. There, through a *simple note*, you can make sure that the seller is the actual owner of the house. More important yet, you can find out if the property is unencumbered, that is, if there are any debts to third parties pending.

In other words, checking with the Register is a guarantee for the buyer, whether he pays for the house in cash or applies for a mortgage loan. In the latter case, the lender will require *the simple note*. In fact, if you ask the lender, it will do it for you. It is the only way to avoid unpleasant surprises in the future.

The buyer must also adopt other precautionary measures. It is advisable to contact the local owners' association. If the house is not in good conditions, you should get information from the Town Hall to make sure that the building has not been declared in ruins and that it complies with the urban planning requirements. You should also check that it isn't affected by any local development plans, etc...

What documents must the seller provide me with?

In the case of a newly built house, it is important to obtain the First Occupation Licence (*cédula de habitabilidad*), which is the official permission for the building to be used as a house. Moreover, the constructor must enclose a quality statement –material used, equipment, etc.-, and the plans of the house, as well as the other information referred to in the Royal Decree 515/89.

But in the case of a second-hand house, you should consider the economic aspects. You should request the last receipt of the Real Estate Tax (*Impuesto sobre Bienes Inmuebles*) from the seller because you will have to present it at the notary office before deed of sale is granted.

Request a copy of the title deed from the present owner and check that he is up-to-date regarding the owners' association payments because otherwise you will be charged the expenses for the previous year and the current one.

It is advisable to sign a call option? Is it a good idea to leave a down payment?

Right, are you sure? ... then go ahead!

Once you have checked that everything is all right, you can now leave a down payment to show your commitment to buying the property.

A deposit or down payment acts as a payment on account, and so it will be deducted afterwards from the amount to pay. It is a commitment, though not a definitive one, as both the buyer and the seller can change their mind at any time. If the seller changes his mind about the operation, he will have to return double the amount of the down payment. If it is the buyer who cancels the purchase, then normally he looses the deposit previously made.

An alternative is to sign a call option, which is similar to a down payment. It is convenient to agree in advance whether the money given by the buyer will be added or not to the final price if the property is finally purchased.

When buying a new house it is usual to previously sign a private sale agreement. Its conditions will be included in the public deed detailed below.

Before you sign the contract, you must carefully read all the clauses and especially those specifying who will be responsible for expenses or taxes. If you have any doubts, do not think twice: contact your lawyer.

And remember your financial institution is there to help you, too.

In any case, remember that the developers planned or under construction of houses must guarantee the refund of any money given on account plus annual interest. This requires a guarantee issued by the credit institution or an insurance contract, in case the construction is not completed as agreed, as stated in the Law 57/68 of July 27. The developers must be able to provide you with the document(s) where such guarantees are legalised.

What is a mortgage loan?

Definition: The mortgage loan granted by your lending institution is the loan that enables you to purchase the house you have in mind. That it is its specific aim: to facilitate the purchase of a house.

Its main characteristic is that as well as the personal guarantee, the property acts as a guarantee for the payment of the loan. However, this fact is precisely what makes it possible for mortgage loans to have lower interest rates than other type of loans with a minor guarantee. Furthermore, due to the importance of the investment, a longer term is allowed to make payment easier.

How to choose the type of loan which suits you best

Amount

In order to know exactly the amount of the loan you can get, two aspects have to be taken into account.

First of all, the **value of the house**. A recognised valuation company will tell you the value of the property and whether the amount requested by the buyer is adjusted to the real market value. Such a valuation of the property is, therefore, another way to increase your protection as well as the protection of the lending institution, which, at your request, can commission a company to carry out the valuation. But you must bear in mind that valuation-related expenses would be charged to you, whether the loan is eventually granted or not.

Naturally, another conditioning factor concerning the amount of the loan is your **income**. As a general rule, and in accordance with the detailed information you will be given further on, lenders usually recommend that the monthly instalment you will have to pay for the mortgage loan, should not exceed a certain percentage -around 30%- of your monthly income. It is safer for you: you avoid the risk of non-payment if you have unexpected expenses.

Do you know what the value of the property is? Well then, provided your income allows it, you will be able to obtain between 70% and 80% of this amount. Maybe even more, if you provide additional guarantees. Ask your credit institution for advice.

Our advice is that, when it comes to determining the necessary amount, do not tighten your belt excessively. Grant yourself some comfort within fundamental limits.

Repayment Period

The repayment period is the time set in the loan contract for its total repayment. Because of the size of the transaction, mortgage loans may last a long time, from five years to fifteen, twenty or even more.

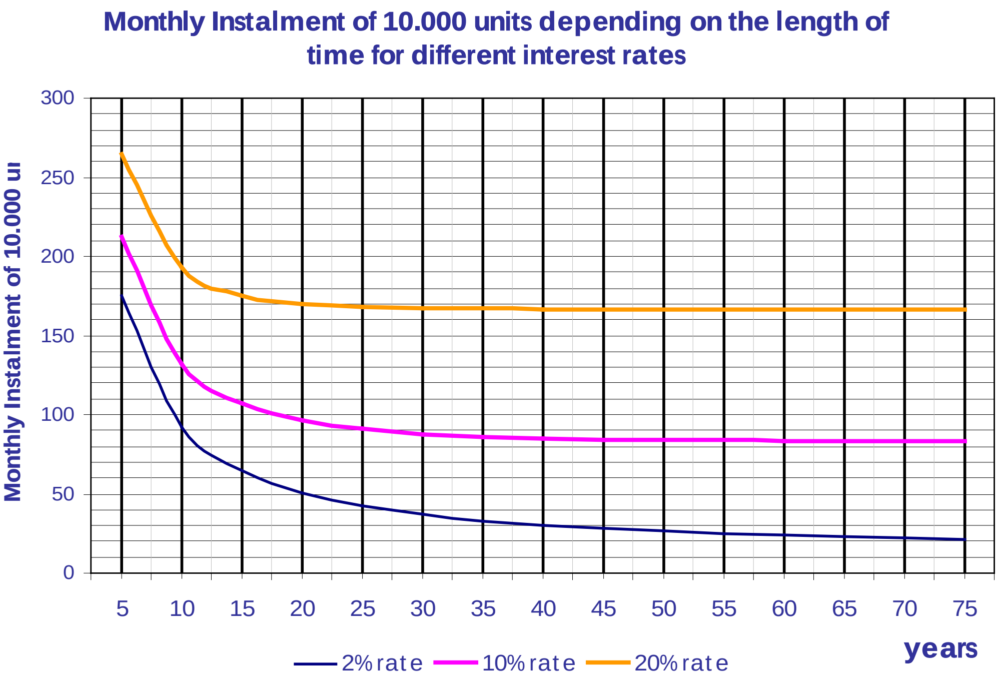
It is important for you to ask for an amount and a repayment period that best suit your possibilities. Find the optimum point: to extend the term more than necessary means paying interest for more years and to reduce it excessively could imply a burden too heavy.

As we will see below in a specific example, interest rates can also be combined with the period to a better or worse advantage. In general, low rates and a longer period causes a greater decrease in the size of the instalments, while in the case of high rates, a longer period does not lead to an important decrease in the size of the instalments.

Interest Rate

Obviously, the interest rate is a very important aspect of the loan since, along with the period, it determines what you are going to pay throughout the years. However, you should not see interest rate as an isolated element. Apart from considering less tangible aspects such as the relationship with your lending institution, you must pay attention to all the other elements of the loan: type of interest rate -fixed or variable- commissions applied, how much you are going to pay and how often, and the repayment period

It is essential to look for the perfect combination between interest rate and term so that the transaction adapts to your means. A quarter of a point on interest rate does not have a great effect on the repayment instalment but the difference over ten or twenty years may determine your getting the loan or your requesting a bigger or smaller amount.



- **What are origination and cancellation fees?**

Fees

The granting of the loan by the credit institution usually implies a fee, known collectively as origination fee, which covers the loan study and handling expenses. It is usually a minimum percentage of the amount of the loan.

The early repayment fee is only applied if early repayment actually occurs. This commission refers to the extra payments the consumer decides to use to reduce the loan, by reducing either the instalment to be paid monthly or the total period. Sometimes the fee varies if the whole loan is to be paid back -full repayment- or only part of it -partial repayment-. For lenders, this fee acts as an insurance that covers the risk they assume due to the fact that the transaction may be cancelled at the customer's will.

In variable interest loans, the fee for early repayment is limited to 1%, by law. In fixed interest loans, the commission is usually higher due to the greater risk for the lenders that are obliged to insure themselves against any possible interest rate fluctuations, with the resulting cost involved. The Law 2/1994 of March 30 includes two options to modify your mortgage loan: subrogation and credit novation.

The fee rate has to be previously communicated to the Bank of Spain and it is at the disposal of the public for consultation. Only those fees particularly stipulated in the loan deed can be charged to the borrower.

What is exactly the APRC?

APRC stands for **Annual Percentage Rate of Charge**. The APRC is the result of a mathematical formula including nominal interest rate, fees and repayment period.

It is important because it allows you to know what the effective cost -or real cost- of the transaction would be if interest rates at the time the loan is signed were the same during all its life. This does obviously not occur in variable interest rate loans.

This is why the APRC is more useful and valid in fixed interest loans, when the rate remains constant all the time, than in variable interest loans. In the latter, the APRC is only a reference - it will change each time the loan interest rate is reviewed - though it does help to see beyond the first year's proportional interest.

By comparing different mortgage products by APRC, you should remember that not all of them are cast in the same mold. **Do compare similar loans**: one fixed rate loan with another, or one variable rate loan with another, although you should really only compare variable interest loans if they have the same reference index.

What types of mortgage are available?

Nowadays, the range of mortgage loan products is very wide and varied. In spite of the many different trade names, four basic kinds of loans can be identified.

Fixed interest rate loan

Interest rate remains constant throughout the loan's life. In other words, whether interest rates increase or decrease the borrower will always pay the same amount each month. That gives you some security because if interest rates rise, you will not have to pay more. On the other hand, there is an inconvenience in that if interest rates fall, you will not be able to take advantage.

Another characteristic of this kind of loan is that its term is usually shorter -around 12 years- and the commission for early repayment is higher. Remember this if you have decided to use part of your future savings to reduce the amount of the loan or the extension of the term.

Variable interest rate loan

This kind of loan does allow you to take advantage of falling rates, though obviously, it also incorporates rises. Its main advantage is that there is no risk of the loan's rate not reflecting the market rates because from time to time -normally every 12 months- it is adjusted to match market rates.

Its main characteristics are: interest rates change with the market, a longer repayment period - up to twenty or thirty years- and the early repayment fee does not go beyond one per cent.

In this type of loan, it is important to make a distinction between the first period's interest rate - valid for the first six or twelve months (occasionally almost a starting offer)- and the applicable interest rates in the following years which will be determined by the indexes plus the differential added to such indexes, as explained below.

Mixed interest rate loan

This is the name used to refer to a loan period where the interest rate remains fixed -for two, three or more years- combined with another period where the interest rate is variable and changes according to the market. The repayment period and the commission for early repayment are usually similar to those for variable loans. This type of loan combines the advantages and disadvantages of both fixed and variable loans although, by having two different periods, risk is partly reduced.

Fixed repayment instalment loan

This is a variable interest loan though it looks like a fixed interest one where the borrower always pays the same instalment irrespective of interest rate trends. The difference is that, if rates increase, instead of paying bigger instalments, the repayment period is extended; and if they decrease, it is shortened. Its main problem is uncertainty. The consumer does not know for sure when he will stop paying the loan, because the period depends on rate trends. On the other hand, he knows for certain that his repayment instalment will not change in the least during the loan’s life.

■ What are reference indexes?

Reference indexes are a very important element requiring more attention than consumers usually pay to them. This is how the credit institution reviews and adjusts the interest rates to be applied in variable rate loans. In other words, the interest rate you are going to pay during nearly all the loan's life depends on them.

There are several but we are only going to look at the official ones. They are objective indexes prepared monthly by the Bank of Spain and published in nearly all the newspapers as well as in the Official Gazette. They are easy to find. They are usually placed in the economic pages, near the stock exchange lists and under a heading titled Mortgage loan indexes.

■ Most commonly used indexes

The indexes detailed below are official and are prepared and published by the Bank of Spain.

Bank index

This is the average interest rate of mortgage loans lasting for more than three years granted by the banks during the month in question for the acquisition of a non-subsidised house and it is expressed in terms of Annual Percentage Rate of Charge (APRC). The Bank of Spain calculates it from the information provided by the credit institutions

Savings bank index

This is exactly the same as the previous one although, in this case, it refers to the average rates of mortgage loan contracts granted by savings banks. It is also expressed in terms of APRC.

Average rate of credit institutions as a whole

This index includes both indexes above and, consequently, the average considered is much wider.

CECA asset rate indicator

CECA (Confederación Española de Cajas de Ahorro), the Spanish Confederation of Savings Banks.This index is the average Annual Percentage Rates of Charge (APRC) applied by savings banks both to mortgage loans and personal loans.

One year inter-bank rate

Better known as euribor, this is the average price, or interest rate, at which banks and savings banks lend one another money on the money market. It is not the rate of one specific day but the average of the transactions of the whole month, weighted by the volume of transactions. That is, the movements of one day or another are attenuated in the monthly average published by the Bank of Spain. Since it is a monetary indicator, this index reflects movements -rises and falls- suffered by interest rates more quickly than the other indexes do. Therefore, this index may have sharper changes than the other indexes.

Public debt internal yield

This index is not used very often. It is calculated from the average yield at which two - to six-year treasury bonds are negotiated.

■ How are reference indexes applied to review interest rates?

Reference indexes are used to guarantee the consumer that his loan will be adjusted to market prices when the loan interest rate is reviewed because as we saw when we looked at the indicators, these are the average of loans concluded at a certain period.

Remember that these indexes may be published with some lag, so your credit institution will use the latest figures published before the review date.

By applying these indexes, you have to take into account the application of the so called spread or margin, which is no more than the amount added, by lending institutions, to the reference index used as a starting point. For example, if a customer arranges a loan at Euribor plus one point and the Euribor is 3%, the new credit interest rate will be 3% plus the point established in the margin, that is, 4%.

The margin applied is not the same for all indexes. In the case of banks' and savings banks' indexes, the margin is usually lower than the differential applied to the Euribor. The reason is very simple: the Euribor tends to start from a lower value and a higher margin is added to bring it up to the market level. Nevertheless, the main reference indexes tend to follow the same trend, as can be seen from the chart.

A point and a half margin has been added to the Euribor and the values in the case of the banks' and savings banks' indexes are those published by the Bank of Spain. The figure clearly reflects how indexes follow the same trend although exceptionally there have been differences.

■ When is the interest rate reviewed?

This is usually done once a year. From that moment to the next review, the interest rate applied to your loan will be the sum of the margin and the latest available figures for the reference index. The latter is usually the reference index of the last month, or of the month before last (please note the time-lag explained in the previous chapter).

The advantage of having such a lapse between one review and another is that you do not have to be constantly adjusting your monthly budget, in which your mortgage plays an important role.

Naturally, when interest rates rise, all this works in your favour: you will have sufficient time to adapt your possibilities to the new conditions of the loan. And if interest rates fall, no problem! When your interest rate is reviewed, you know for certain that it will be automatically adjusted to market conditions.

Don't forget: your loan does not have to wait for the Bank of Spain to review interest rates to reflect the market. It is automatically adjusted each time a loan review is effected in the case of variable interest rate loans.

* Occasionally, the interest rates may be reviewed every six months. Ask for information at your credit institution

■ Which is the best loan?

Good question! If you think that interest rates are going to rise, you should take out a fixed interest rate loan and if you think that they are going to fall, then take out a variable one. This would be all right in the case of a short-term loan, for several months or even a few years. But you should bear in mind that we are talking about mortgage loans, which may last for twelve, fifteen, twenty or even more years, and in such a long time, rates may go up and down. As you can see, there are neither magic nor valid solutions for everyone.

The best loan is that which best suits to your possibilities, and this require thinking about all the factors involved in the transaction: the amount you need, interest rates, period, how much you can pay. **Look around and compare.**

Although the lender will make a personal study of your situation so that he can tell you what he thinks best responds to your needs, the decision is yours. And that depends, mostly, on your borrowing capacity or, in other words, on the instalments you can afford to pay.

■ System of repayment. How much do I have to pay monthly?

The monthly instalment depends on three factors: the amount of the loan, the interest rate and the period. The following graph clearly shows how the instalments vary as the period increases or decreases. As you can see, the longer the term, the lower the instalment.

Remember that you have to look mainly for easy payments but without making the mistake of lengthening the term beyond the strictly necessary limits.

INSTALMENT TABLE. Monthly repayment instalment per every ten thousand units of the loan currency

PERIOD (years) / Interest rate	12	13	14	15	16	17	18	19	20	21	22	23	24	25
2,000	78,17	72,85	68,29	64,35	60,90	57,86	55,17	52,76	50,59	48,63	46,85	45,23	43,75	42,39
2,125	78,74	73,42	68,87	64,93	61,48	58,45	55,75	53,35	51,18	49,23	47,45	45,84	44,36	43,00
2,250	79,31	73,99	69,45	65,51	62,07	59,04	56,35	53,94	51,78	49,83	48,06	46,45	44,97	43,61
2,375	79,88	74,57	70,03	66,09	62,66	59,63	56,94	54,54	52,38	50,44	48,67	47,06	45,59	44,23
2,500	80,45	75,15	70,61	66,68	63,25	60,22	57,54	55,14	52,99	51,05	49,28	47,68	46,21	44,86
2,625	81,03	75,73	71,19	67,27	63,84	60,82	58,14	55,75	53,60	51,66	49,90	48,30	46,84	45,49
2,750	81,61	76,31	71,78	67,86	64,44	61,42	58,75	56,36	54,22	52,28	50,53	48,93	47,47	46,13
2,875	82,19	76,90	72,37	68,46	65,04	62,03	59,36	56,98	54,84	52,91	51,16	49,56	48,11	46,77
3,000	82,78	77,49	72,97	69,06	65,64	62,64	59,97	57,59	55,46	53,53	51,79	50,20	48,75	47,42
3,125	83,37	78,08	73,57	69,66	66,25	63,25	60,59	58,22	56,09	54,17	52,43	50,84	49,40	48,07
3,250	83,96	78,68	74,17	70,27	66,86	63,87	61,21	58,84	56,72	54,80	53,07	51,49	50,05	48,73
3,375	84,55	79,28	74,77	70,88	67,48	64,49	61,84	59,47	57,36	55,45	53,72	52,14	50,71	49,39
3,500	85,15	79,88	75,38	71,49	68,09	65,11	62,47	60,11	58,00	56,09	54,37	52,80	51,37	50,06
3,625	85,74	80,48	75,99	72,10	68,72	65,74	63,10	60,75	58,64	56,74	55,02	53,46	52,04	50,74

3,750	86,34	81,09	76,60	72,72	69,34	66,37	63,74	61,39	59,29	57,40	55,68	54,13	52,71	51,41
3,875	86,95	81,70	77,22	73,34	69,97	67,00	64,38	62,04	59,94	58,05	56,35	54,80	53,39	52,10
4,000	87,55	82,31	77,83	73,97	70,60	67,64	65,02	62,69	60,60	58,72	57,02	55,48	54,07	52,78
4,125	88,16	82,93	78,46	74,60	71,23	68,28	65,67	63,34	61,26	59,39	57,69	56,16	54,76	53,48
4,250	88,77	83,54	79,08	75,23	71,87	68,93	66,32	64,00	61,92	60,06	58,37	56,84	55,45	54,17
4,375	89,39	84,16	79,71	75,86	72,51	69,57	66,97	64,66	62,59	60,73	59,05	57,53	56,14	54,88
4,500	90,00	84,79	80,34	76,50	73,16	70,22	67,63	65,33	63,26	61,41	59,74	58,22	56,84	55,58
4,625	90,62	85,41	80,97	77,14	73,81	70,88	68,29	66,00	63,94	62,10	60,43	58,92	57,55	56,30
4,750	91,24	86,04	81,61	77,78	74,46	71,54	68,96	66,67	64,62	62,78	61,12	59,62	58,26	57,01
4,875	91,86	86,67	82,25	78,43	75,11	72,20	69,63	67,35	65,31	63,48	61,82	60,33	58,97	57,73
5,000	92,49	87,31	82,89	79,08	75,77	72,87	70,30	68,03	66,00	64,17	62,53	61,04	59,69	58,46
5,125	93,12	87,94	83,53	79,73	76,43	73,53	70,98	68,71	66,69	64,87	63,24	61,76	60,41	59,19
5,250	93,75	88,58	84,18	80,39	77,09	74,21	71,66	69,40	67,38	65,58	63,95	62,48	61,14	59,92
5,375	94,38	89,22	84,83	81,05	77,76	74,88	72,34	70,09	68,08	66,28	64,66	63,20	61,87	60,66
5,500	95,02	89,87	85,48	81,71	78,43	75,56	73,03	70,79	68,79	67,00	65,38	63,93	62,61	61,41
5,625	95,66	90,51	86,14	82,37	79,10	76,24	73,72	71,49	69,50	67,71	66,11	64,66	63,35	62,16
5,750	96,30	91,16	86,80	83,04	79,78	76,93	74,42	72,19	70,21	68,43	66,84	65,40	64,09	62,91
5,875	96,94	91,82	87,46	83,71	80,46	77,62	75,11	72,90	70,92	69,16	67,57	66,14	64,84	63,67
6,000	97,59	92,47	88,12	84,39	81,14	78,31	75,82	73,61	71,64	69,89	68,31	66,88	65,60	64,43
6,125	98,23	93,13	88,79	85,06	81,83	79,01	76,52	74,32	72,37	70,62	69,05	67,63	66,36	65,20
6,250	98,88	93,79	89,46	85,74	82,52	79,70	77,23	75,04	73,09	71,35	69,79	68,39	67,12	65,97
6,375	99,54	94,45	90,13	86,43	83,21	80,41	77,94	75,76	73,82	72,09	70,54	69,14	67,88	66,74
6,500	100,19	95,12	90,81	87,11	83,91	81,11	78,66	76,49	74,56	72,84	71,29	69,91	68,65	67,52
6,625	100,85	95,79	91,49	87,80	84,61	81,82	79,37	77,21	75,30	73,58	72,05	70,67	69,43	68,30
6,750	101,51	96,46	92,17	88,49	85,31	82,53	80,10	77,95	76,04	74,33	72,81	71,44	70,21	69,09
6,875	102,17	97,13	92,85	89,19	86,01	83,25	80,82	78,68	76,78	75,09	73,57	72,21	70,99	69,88
7,000	102,84	97,81	93,54	89,88	86,72	83,97	81,55	79,42	77,53	75,85	74,34	72,99	71,78	70,68
7,125	103,51	98,49	94,23	90,58	87,43	84,69	82,28	80,16	78,28	76,61	75,11	73,77	72,57	71,48
7,250	104,18	99,17	94,92	91,29	88,15	85,41	83,02	80,91	79,04	77,37	75,89	74,56	73,36	72,28
7,375	104,85	99,85	95,62	91,99	88,86	86,14	83,76	81,66	79,80	78,14	76,67	75,35	74,16	73,09
7,500	105,52	100,54	96,31	92,70	89,58	86,87	84,50	82,41	80,56	78,92	77,45	76,14	74,96	73,90
7,625	106,20	101,23	97,01	93,41	90,31	87,60	85,24	83,16	81,33	79,69	78,24	76,94	75,77	74,71
7,750	106,88	101,92	97,72	94,13	91,03	88,34	85,99	83,92	82,09	80,47	79,03	77,73	76,58	75,53
7,875	107,56	102,61	98,42	94,84	91,76	89,08	86,74	84,68	82,87	81,26	79,82	78,54	77,39	76,36
8,000	108,25	103,31	99,13	95,57	92,49	89,83	87,50	85,45	83,64	82,04	80,62	79,35	78,21	77,18
8,125	108,93	104,01	99,84	96,29	93,23	90,57	88,25	86,22	84,42	82,83	81,42	80,16	79,03	78,01
8,250	109,62	104,71	100,56	97,01	93,97	91,32	89,01	86,99	85,21	83,63	82,22	80,97	79,85	78,85
8,375	110,31	105,41	101,27	97,74	94,71	92,07	89,78	87,77	85,99	84,42	83,03	81,79	80,68	79,68
8,500	111,01	106,12	101,99	98,47	95,45	92,83	90,55	88,54	86,78	85,22	83,84	82,61	81,51	80,52
8,625	111,70	106,83	102,71	99,21	96,20	93,59	91,32	89,33	87,58	86,03	84,65	83,43	82,34	81,37
8,750	112,40	107,54	103,44	99,94	96,94	94,35	92,09	90,11	88,37	86,83	85,47	84,26	83,18	82,21
8,875	113,10	108,25	104,16	100,68	97,70	95,11	92,87	90,90	89,17	87,64	86,29	85,09	84,02	83,07
9,000	113,80	108,97	104,89	101,43	98,45	95,88	93,64	91,69	89,97	88,46	87,12	85,93	84,87	83,92
9,125	114,51	109,69	105,63	102,17	99,21	96,65	94,43	92,48	90,78	89,27	87,94	86,76	85,71	84,78
9,250	115,22	110,41	106,36	102,92	99,97	97,42	95,21	93,28	91,59	90,09	88,78	87,61	86,57	85,64
9,375	115,93	111,13	107,10	103,67	100,73	98,20	96,00	94,08	92,40	90,92	89,61	88,45	87,42	86,50
9,500	116,64	111,86	107,84	104,42	101,50	98,98	96,79	94,88	93,21	91,74	90,45	89,30	88,28	87,37
9,625	117,35	112,59	108,58	105,18	102,27	99,76	97,59	95,69	94,03	92,57	91,29	90,15	89,14	88,24
9,750	118,07	113,32	109,32	105,94	103,04	100,54	98,38	96,50	94,85	93,40	92,13	91,00	90,00	89,11
9,875	118,79	114,05	110,07	106,70	103,81	101,33	99,18	97,31	95,68	94,24	92,98	91,86	90,87	89,99
10,000	119,51	114,78	110,82	107,46	104,59	102,12	99,98	98,13	96,50	95,08	93,82	92,72	91,74	90,87

How do I use the instalment table?

Very easy!. Choose the loan interest rate you have been offered from the first column and then find the period (in years) you want in the first row of the table. In the intersection cell of both variables, you will find the monthly instalment per ten thousand units resulting from the interest rate you have been offered and the period you want. For instance, a mortgage loan at 3.5% for 15 years means a monthly instalment of 71.49 units per ten thousand units. At the same interest rate but for 25 years instead of 15, the monthly instalment is 50.06 units, that is to say, by lengthening the period for another 10 years but at the same interest rate -6%- the monthly instalment will be 21.43 units less.

Here's another example but with a higher interest rate: 6%. For 15 years, the monthly instalment is 84.39 units, an amount that falls to 64.43 units if the period is lengthened to 25 years. In other words, the long-term instalment is 19.96 units less.

However, as the interest rate increases, the saving achieved by lengthening the repayment period falls until it is not in fact worthwhile continuing to lengthen the repayment period.

With this table you can make different combinations of interest rates and periods and work out if the amount suits your possibilities. However, don't forget that the amount you choose to pay is not based on chance, it also depends on your income.

Different kinds of instalments

We can distinguish between several kinds of instalments depending on frequency: monthly, quarterly and even half-yearly.

Instalment includes part of the capital being repaid and the corresponding interests. In this case we can differentiate between:

Fixed instalment:

This is the most frequent. The amount of interest paid decreases proportionally according to the amount of capital repaid.

Increasing instalment:

In this case, the instalments increase each year according to a pre-set percentage. Its advantage is a lower payment at the beginning but, naturally, the burden increases as years go by. Its disadvantage is that you pay more interests.

Decreasing instalment:

Just the opposite. You pay back exactly the same amount of capital each time but with a progressively decreasing amount of interests. And so you pay less and less. The disadvantage is that you pay more at the beginning.

It is also possible to establish a qualifying period during which the borrower only pays interests but no capital. It is usually offered for a short term - one or two years - at the beginning of the operation, in order to make the first payments easier.

Ask your credit institution for advice when choosing the best instalment and don't forget that, in the case of variable rate loans, the instalments will be adjusted when the interest rate is reviewed.

What documents do I have to present to the lender to apply for a mortgage loan?

The documents you have to present to the lender can be divided into two groups:

Personal information:

Identity card/fiscal identification number. If you are married, you will also be asked if there is a marriage settlement (joint or separate estate). Don't worry; the lender is not interested in your private life. The reason is that in some cases the consent of both you and your spouse may be needed.

Economic information:

It is usual for the credit institution to request some kind of document or certificate indicating your income or economic situation so that they can verify your ability to pay the loan instalments. Probably, you will also be requested to show your Income Tax Return and an employer certificate stating the lenght of service.

For self-employed person: Income Tax Return. An income certificate and last payments of VAT and income tax.

However, if you are already a regular customer of the credit institution that is going to grant you the loan, these procedures will be simplified.

Property information:

1. If you purchase the property to another person: copy of the sale deed.
2. If you purchase the property to a developer: copy of the deed of sale agreement.
3. If you want to build the house: title deed of the land, the building license and the project.

And what information will the financial institution give me?

The financial institution will give you an information sheet with the basic features of the loan: period, interest rates, fees, repayment instalments and all the expenses you will be charged. This sheet, governed by the Order of Transparency concerning mortgage lending, will enable you to compare the different products.

Once you have studied them and received the lender's initial approval, you can ask for a formal binding offer. The lender will study your request and answer you shortly, after checking the situation of the building in the Property Register and after valuing it.

The binding offer is a document whose conditions will be valid for at least 10 days, during which you can decide if you accept the offer or not. This document must specify in detail every element of the loan:

1. The value of the loan and how it is to be paid.
2. Repayment: number of repayment instalments, frequency, amount and date of the first and last instalments, conditions in case of partial repayment.
3. Interest: nominal rate; fixed or variable and, in the case of the latter, how, when and according to which reference rate it will be adjusted, and the margin to be applied.
4. Fees: origination fee and fees for early repayment – total or partial -. The latter will only be applicable if early repayment actually occurs.
5. Other expenses chargeable to the borrower: property valuation, registration and notary fees, etc. (these are listed in detail below).
6. APRC.

Read the binding offer thoroughly and don't hesitate to ask about anything you don't fully understand. The contents will afterwards be specified in the mortgage deed. Don't forget that if the property is valued, you will have to pay for it even though you eventually turn down the binding offer.

■ Signing the deed of sale and the mortgage

It's time to sign the purchase agreement and the mortgage
You've accepted the binding offer, and the time has come to sign the documents.

Now you will have to present a set of extra documents: the seller's title deeds, his last Property Tax receipt and the purchase conditions which are usually the same as those in the private contract, if there is one. Everything is ready. And in a few days you can sign the documents.

Usually, the deed of sale as well as the mortgage deed will be signed in a single act and before the notary. Check that the mortgage deed includes each and every aspect you approved of in the binding offer. If you wish, you can check it a few days before at the office of the notary who in any case is responsible for their being the same.

The notary should also verify with the Property Register that the property has not been subjected to any changes since the moment when you (or the lender) first checked the property's situation.

■ When can I make use of the loan?

According to Spanish legislation, the mortgage only comes into force when the deed is registered at the Property Register.

Given the high amount of money involved in mortgage loans, the lender should logically allow you to make use of the loan only after the mortgage has been registered and this could require quite some time.

However, most credit institutions hand over the amount of the loan at the moment the deed is signed, to allow you to pay the seller there and to spare you the trouble and the expenses that could arise from deferring the payment.

Consequently, the credit institution carefully selects any third parties (notary, administration agency) to achieve maximum efficiency, so that they can give you the loan immediately and to ensure that the deed (the document on which the lender's rights are based) will be registered immediately.

■ How could I get a copy of the deed?

If you want to have a copy of your loan deed, you can request it directly from the notary where you signed it. It isn't expensive and it allows you to know at any moment your rights and obligations over the loan.

If you prefer, the *gestoría*, the administration agency in charge of the other procedures, can also see to this service.

■ Why do I need a provision of funds?

As we pointed out at the beginning, the purchase of a property and the financing of the purchase, through a mortgage loan, imply other expenses. Such expenses are necessary to effect the transaction

and bear no relation to the lending institution: notary, administration agency, taxes, etc. Thus, on the signature date, you will have to provide funds, in favour of the administration agency that will take charge of administrative procedures, to cover precisely these expenses.
If, after everything has been settled, there is some money left over– which is quite usual – the credit institution will credit the money to your account. You will be given the receipts.

There are a number of expenses that we will now look at in detail.

■ What expenses are incurred in the operation when you sign a mortgage?

Transaction costs

Property valuation: this is paid to the company commissioned to calculate the house value. If there is a valuation, you will have to pay for it whether the mortgage loan is taken out or not.

Register: two concepts here. Firstly, when requesting information at the Property Register about the house you are going to buy and, secondly, when recording, at the said Register, the deeds certifying that you are the new owner of the house and that you hold a mortgage loan.

Notary: the notary is the person who confirms the deed of sale and the mortgage deed as authentic and certifies the operation. The notary must inform and remind the customer of the financial clauses of the loan - commissions, APRC, reference index, etc. - and to advise him if he finds any differences between the binding offer and the contract.

Gestoría: an administration agency that will ultimately carry out the administrative procedures such as registration, tax payment, etc.

Bank charges: this item includes the loan commitment charge. Don't forget that, although the bank will inform you about the early repayment fee, this in fact will only be paid if early repayment occurs.

■ What taxes have to be paid when I purchase a house?

Tax: the purchase of the house implies the payment of some taxes that the administration agency will attend to out of the provision of funds you made. Taxes involved are as follows:

1. *Value Added Tax (VAT).* Only in the case of a newly built house. Usually it is 7% of the value executed by deed. Some state-subsidised apartments have a special tax rating of 4%
2. *Capital Transfer Tax*. Only if it is not a newly built house. It amounts to 6% of the value executed by deed.
3. *Stamp Tax/Tax on document legal acts*. It amounts between 0 and 1% of the mortgage guarantee value, which is between 1.5% and 2% of the amount of the loan.

If we add them all up, the expenses amount, more or less, to 10% of the housing value, as indicated before.

■ What insurance policies do I need?

But don't forget to insure your future!

Insuring yourself against unexpected problems in the house is as important as the selection of a good loan, or even more. Legally, you are only obliged to take out a material damage insurance covering the value of the property.

However, the house is a too important property to leave anything to chance. Consequently, besides insuring the contents or the building structure, you should think about covering other possible events. Your lender will inform you about the insurance you might take out; we summarise them briefly as follows.

Fully comprehensive insurance. Through the payment of an insurance premium you get peace of mind because the contents of your house are insured. In case of fire, damage by water, breakage of windows, burglary, public liability for damages, etc., the insurance will cover everything. Moreover, this kind of insurance usually entails a 24-hour home assistance service.

Life insurance or mortgage insurance. This kind of insurance covers the loan holder's death or permanent disability risks. If this happens, the family will not have to take charge of the debt, as the insurance will attend to the repayment to the lender of the outstanding amount of the loan.

Ask your lending institution about all the advantages and guarantees involved in either kind of insurance. There, you will be informed about each insurance cost, as the premium varies in relation to the events you want to insure against: the value of the goods, the age of the insured person, the period, etc. Don’t forget that, in any case, you are the one who has to decide which insurance company you want to deal with.

■ If I have any doubts or problems, where do I seek advice?

As we have suggested throughout these pages, do not hesitate to ask your credit institution for advice whenever you have a question or a doubt.

Remember that a mortgage loan is a very long-term operation that will probably result in a steady relationship between lender and consumer and where, besides good financial conditions, you must value the quality of the service offered. In the long run, this is one of the most important elements to consider.

Don’t forget that in case of complaining, if you do not get satisfactory answers from your branch, you can address the lender’s ombudsman, who defends the interests of the client. Usually, all credit institutions have such department where your complaints will be studied to find a solution. If you don’t get a satisfactory answer or no answer after two months, you can appeal to the Complaints Service of the Bank of Spain.