

MORTGAGES IN SPAIN TO BUY PROPERTY

If you want to buy a property but you need a mortgage, it's recommendable to become familiar with a number of aspects, which can help you to understand the process and the expenses incurred.

1. What's the advantage of a mortgage with variable rate + EURIBOR?

The type of interest that usually regulates mortgage loans in Spain is variable interest. The Euro Interbank Offered Rate, also called **Euribor**, is the reference rate for variable-rate mortgages and is currently at very low levels. Most mortgages in Spain are established according to the Euribor plus the interest rate offered by the bank.

A mortgage with a variable interest rate is subject to an **annual review of that interest rate** by the bank. In other words, in the month of the review, the bank will apply the new interest rate according to the latest Euribor published by the Bank of Spain. This new interest rate will result in a new monthly repayment, which will apply for the following 12 months until the next review.

2. What's the advantage of a mortgage with fixed rate?

Some banks offer fixed-rate mortgages, but the number of fixed-rate mortgages obtained in Spain is lower compared to that of variable-rate mortgages. The **main advantage of a fixed-rate mortgage** is that you can be certain of the monthly amount you will have to pay for the entire loan period. Therefore, your mortgage will not be exposed to the ups and downs of the financial markets. It is clear that, in situations where the Euribor is very low, interest payments are higher for fixed-rate mortgages and the loan will be more expensive to repay. However, the loan period covers many years so it is usual for the Euribor to be at very high and very low levels during the entire period.

3. Do all monthly payments have the same division between interest and capital?

No, the first years you almost **only pay interest and little capital**. Therefore, if more than half of the mortgage repayment period has elapsed, it is very likely for you to have paid 75% of total interest during the first half.

4. Are longer mortgages more expensive?

Yes, if the mortgage repayment period is longer -for example 30 instead of 20 years- you **pay a higher interest rate**. So, if you are able to get a mortgage for a shorter period (with higher monthly payments) that is your best option in term of interest costs.

5. What is the maximum period and age?

In general, the limit time is **30 years until the age of 70 years**, but banks can look at individual cases and extend this period. The maximum age mostly is 75 year for the oldest person if you apply for a mortgage loan as a couple.

6. A mortgage in Spain or in your home country?

As a non-fiscal resident in Spain it's good to **compare the total mortgage conditions** of Spanish banks against the possibilities in your home country, especially if you already own a house there. Foreign bank usually don't give mortgages over Spanish properties (so the house as a pawn), but they could do so over the 'over-value' on your existing property. This money you then can use for your purchase in Spain without any problems. Foreign banks normally just need to see the private purchase contract or a draft of the title deeds to release the money.

7. What are the costs of a Spanish mortgage?

A Spanish mortgage used to be more expensive than foreign ones because the client paid for the initial costs like the notary, registry, administration, taxes, etc. Due to a change in the law this isn't the case anymore. Besides from the interest itself, the bank does might charge you an **opening commission** (usually 0,5% - 1% of the mortgage) and the taxation report for the property.

It's important to understand all **side conditions** concerning the mortgage as Spanish banks often have specific rules about the obliged life insurance, house insurance, share of the cooperation, etc. Your lawyer can give you the exact information to clearly compare all current conditions between the various banks.

8. How can I save on mortgage costs?

'**Comparing**' is the key word if you want to get a good deal for your mortgage and of course herein also it's important to define your own exact **wishes and needs**, as these can vary from person to person. Like we said before, shorter periods have lower interest rates and it's recommendable to investigate both the options for variable and fixed rates. It's wise to not only look at the interest rate itself but also at the **TAE-percentage** in which all costs are calculated so it's easier to compare various mortgages.

Some banks also give discounts ('**bonificaciones**') on the interest rate if you contract extra products like insurances and comply with other stipulations as:

- Direct credit of your salary or pension
- A minimum monthly balance in the account linked to the mortgage
- Online banking or a virtual mailbox
- Direct debits of service companies (water, electricity, taxes, etc.)
- Debit/credit card
- Pension plan with a minimal yearly contribution
- Life insurance and a house insurance

A lot of people don't realize that after signing the mortgage deeds you might still be able to save on your mortgage costs. The reason for this is that after one year you're free to **subrogate your mortgage** to another bank with better conditions. Read more about this in the last paragraph. The same right, by the way, you have for changing your life insurance policy or any other insurances.

9. How much money can I borrow?

The capital amount of the mortgage loan is always based on the lowest of either the purchase price or the **official taxation value**. In most cases the taxation price is the lowest, in the countryside it could be up to 30% below the commercial value. The percentage for your loan depends on 2 criteria: **fiscal residency and the qualification of the house** (urban or rustic). The maximum percentage lies between 60% for non-fiscal residents for rustic properties to 80% for fiscal residents with an urban property. This means you'll need to finance the rest of the purchase price plus the 12% extra costs (transfer tax, notary, registry, lawyer) with your own private funds.

Besides of these coverage percentages, most banks have the rule that you can only spend about **35% of your income** on housing costs in both Spain and abroad.

10. When do I start the procedure with the bank?

You can already contact the bank **before** you have selected a house and signed a reservation contract. This saves you time later in the process, which might be welcome as in Spain it's not common to sign contracts '**subject to mortgage**'. Also, it gives you an indication for the needed taxation price and at this stage you don't have any costs yet. Your lawyer can advise and facilitate you in this process as he is familiar with the terms and conditions of most banks. The process with the bank is divided in 2 parts:

- The **economical pre-study** for the loan amount based on income, age, other loans / mortgages, etc.
- The **mortgage application** itself where all official documentation is checked, after which the bank can issue the binding offer called FIPER.

11. How does the economical pre-study work?

If you already know the bank where you want to apply for your mortgage, we suggest that during your house search you already apply for a **financial / economical approval of the mortgage**. This process will be done at no cost as the bank will only carry out a paper analysis of your financial situation to determine whether you are solvent enough to pay the mortgage. At this stage you will provide the bank with a **complete list** of your income and loans as well as your employment status and the amount of the mortgage loan you would need (based on the future taxation price). The bank will enter all these details into the system and tell you if they would approve the mortgage at your income level and for which amount.

12. What about the actual mortgage application and the binding FIPER offer?

To be able to give you a binding mortgage offer, the bank will need all official documentation plus the taxation report of the property (which costs between € 300 to € 600). This documentation, by the way, needs to include an extract of the Land Book Registry (**Nota Simple** of the Registro de la Propiedad), of the property you are interested to buy. Also, they will ask for an extract of the '**debts registry**' in your own country. As this may take some time to get, it's advisable to apply for it in early stage. If the bank analyses your financial details and can't grant you an interesting mortgage, you always have the possibility to go to a different bank.

The final offer is called the **FIPER** ('*oferta vinculante*') and has by law a binding **validity of 3 months** in which you will need to complete the purchase (otherwise the process needs to be started again). The binding offer contains all financial details of the mortgage, so you or your lawyer can confirm these with the draft of the mortgage deeds of the notary.

13. How long does the application procedure take?

The economical pre-study can be quickly given during a personal meeting at the bank if you have all documentation or might take a few days, depending on how busy the bank is. The final FIPER will **at least take 3 weeks**, but it might take longer if the project needs to be sent to an analyst of the bank. This depends on the details of the application and the authorization level of your contact person.

If you don't have a binding offer of the bank yet, you might try to have the reservation contract and/or the private purchase contract '**subject to mortgage**' (preferably for a specific amount). This however isn't very common in Spain and depends on the negotiation with the seller.

14. What happens after I approve the binding offer (FIPER)?

The mortgage deeds need to be signed **at the same moment** as the purchase deeds in front of the notary. The representative of the bank therefore needs to be present at the moment of completion. You can either sign both deeds yourself or have this done by your lawyer through Power of Attorney.

Once the deeds are signed the bank (so in case of a mortgage *not* the lawyer) will take care of the correct **inscription in the Land Registry & Cadaster** and will make sure the **taxes** get paid. When the deeds are back from the Registry in maybe 2 or 3 months, the bank should arrange the **final balance meeting** with you and hand you over all official documentation plus bills.

15. Am I obliged to get a life insurance policy?

Banks have **different policies** about this life insurance policy. Some oblige to have this insurance through their bank, while with others it's not possible to get one based on the client's nationality. In this case you can apply for it independently, but you won't get any discount / 'bonificación' on your interest rate then.

The insurance policy guarantees that the open mortgage amount will be paid for by the insurance company in the event that one (or both) of the account holders would die. The life insurance therefore also is an interesting product for mortgage holders, but it may involve high **costs**. Especially if the insured people are elderly or have any health problems. It's important to know that **after the first year you can switch** from insurance company to one that offers you better conditions on your life insurance.

Some banks require this life insurance policy to be completely paid for when granting the mortgage, which means that you automatically loan this capital amount on top of normal mortgage capital. It's wise to take this into account when comparing the interest rates.

16. Can I take over the existing mortgage of the seller?

If the conditions are good compared to the interest rates for a new mortgage, this indeed might be an interesting option and especially with new build property this is often arranged. Be sure to check all financial conditions **including any fines and/or administration fees** for having the mortgage put in your own name.

17. Can I save money by subrogation of a mortgage?

If you are a home owner with a Spanish mortgage than -after one year- you have the right to subrogate your mortgage to another bank with a lower interest rate or better conditions. In this case the new bank will pay the rest of the loan plus the transfer commission (if this exists) to your current bank and you will pay your mortgage from that moment to the new bank according to the new conditions.

This new bank will send the subrogation terms to your current bank and, unless it **matches those terms within a period of fifteen calendar days**, it will receive the total outstanding capital and the new bank will now 'own' the mortgage on your home.

Since most interest is paid during the initial mortgage period, if over half of the repayment period has elapsed, it is very unlikely for the subrogation to be beneficial as you will have little interest left to pay. The best thing to do is to perform a calculation.