BANK OF ITALY
GUIDES

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EUROSISTEMA
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conoscere per decidere

BUYING A HOME: MORTGAGES
made easy

OPTIONS and COSTS

Borrower RIGHTS

Useful CONTACTS

Mortgages from A to Z

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Mortgages

This guide provides an introduction to mortgages, the most common form of real estate loan offered to consumers. A mortgage is a medium- to long-term loan, usually with a duration of 5 to 30 years. The borrower generally receives the entire amount in a lump sum and repays it over time in fixed or variable instalments. A mortgage is used to buy, build or renovate a building, particularly residential property. It can also be taken out to replace or refinance an existing mortgage for the same purpose. A mortgage is secured by a lien on a property.

A mortgage can be granted by banks or other financial operators, all referred to in this Guide as 'lenders'.

A mortgage is the key to purchasing your home.

What's inside

How to choose a mortgage

Before deciding, ask yourself these questions

Do I qualify for a mortgage?

Anyone can qualify for a mortgage, provided they can demonstrate that they are able to pay the amount borrowed back over time. To determine this, the lender will evaluate the borrower's **creditworthiness** (> Mortgages from A to Z).

How much should I borrow?

In general, the lender approves an amount based on the value of the property to be purchased and your creditworthiness. The amount approved cannot be more than 80% of the property's value as determined in the **valuation** (> Mortgages from A to Z) performed by an independent expert.

Sometimes lenders grant mortgages for more than 80% of the valuation, but in these cases they require higher collateral and often the terms and conditions are less favourable for the borrower.

How much should my instalment payment be?

Before applying for a mortgage you should carefully consider your income (especially what you expect to earn in the future) and determine how much money you will have available each month after subtracting your normal expenses. A rule of thumb is that your mortgage instalment payment should not exceed one third of your disposable income, so that you will be able to meet your current expenses, unforeseen expenses, and any drops in income caused by, for example, illness, accident or job loss.

How much will it cost?

The main component of the cost is interest, which is basically compensation paid to the lender for granting the loan and depends in part on the mortgage term.

In addition to interest there are other costs, all set out in the **General Information Sheet for Mortgage Customers** (> Mortgages from A to Z), which describes the primary features of the product offered. You can pick up a copy at one of the lender's branches or from its website. When budgeting your expenses, you should also factor in notary fees and one-off taxes to be paid when you sign the property purchase agreement.

Which mortgage term is best for me?

The mortgage term, agreed between the borrower and the lender and set out in the contract, is one of the factors that determines the amount of the mortgage instalment payment. The payment is made up of principal plus interest.

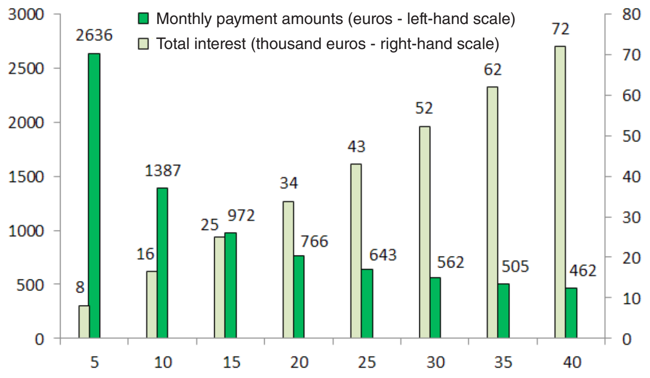
For a given amount financed and a given **interest rate** (> Mortgages from A to Z), the shorter the term of the loan, the higher the individual payments will be, but the amount owed in interest will be lower. However, if the term of the loan is longer, the individual payments will be lower, but more total interest will be owed. Here is an example to help you understand.

Example

Let's take a mortgage in the amount of €150,000 with a fixed rate of 2.1%.

If the term is 20 years, the monthly payment is €766 and the total interest paid over the life of the loan is €34,000.

If the term is 40 years, the monthly payment is lower (€462) but the total interest paid is higher (€72,000).



Types of mortgage

Fixed-rate mortgage

The interest rate remains that indicated in the contract for the entire term of the mortgage.

The disadvantage of this type of mortgage is that the borrower cannot benefit from any reduction in market rates that may occur over the life of the mortgage.

A fixed-rate mortgage is recommended for those who worry that market rates might rise and, when signing the contract, want to be sure of the amounts of the individual payments and the total amount of the debt to be repaid.

To offset these advantages the lender often applies more onerous conditions compared with a variable-rate mortgage.

Variable-rate mortgage

After the initial rate period, the interest rate may be adjusted at pre-set intervals to follow fluctuations in an index that is usually set by money and financial markets.

The main risk is that the mortgage instalment payment could increase. You should understand that a rise in interest rates will have a greater impact on longer-term mortgages.

The initial interest rate on a variable-rate mortgage is lower than the rate on a fixed-rate mortgage for the same term, but the rate can rise over time, causing the mortgage instalment payment amounts to increase as well, sometimes considerably.

A variable-rate mortgage is recommended for those who want a rate that is always in line with the market rate and who can bear the cost of increased mortgage instalment payments.

Hybrid-rate mortgage

The interest rate can switch from fixed to variable (or vice versa) at pre-set intervals or under certain conditions indicated in the contract. The advantages and disadvantages are those of fixed-rate or variable-rate mortgages.

Split-rate mortgage

The mortgage is divided into two parts: one with a fixed rate and the other with a variable rate.

A split-rate mortgage is recommended for those who prefer a middle ground between a fixed-rate and a variable-rate mortgage, balancing the advantages and disadvantages of each.

INDEX AND SPREAD

The interest rate is calculated by taking a base rate determined using indices set by money and financial markets, and adding a margin, or spread, representing the difference between the index and the actual rate applied.

Usually, the index used for fixed-rate mortgages is the **Eurirs** (> Mortgages from A to Z); instead, variable-rate mortgages use the **Euribor** (> Mortgages from A to Z) or the official rate set by the European Central Bank.

How much does a mortgage cost?

To understand the total cost of the mortgage, you have to take into account other factors beyond the interest rate.

Taxes and tax breaks

If a mortgage is granted by a bank, the borrower pays a tax equal to 2% of the total amount (0.25% in the case of the *prima casa* primary residence tax break).

The tax is withheld directly by the bank, so the sum that the borrower receives is less than the loan amount granted.

There may then be other taxes relating to the registration of the **lien** (> Mortgages from A to Z) or other formalities.

The interest paid on a mortgage for the purchase, construction or renovation of a **primary residence** (> Mortgages from A to Z) can be deducted from your personal income tax. The amount and the conditions for the deduction are set by law.

For more information:

- ask your lender,
- visit www.agenziaentrate.gov.it, or
- contact the Revenue Agency's call centre (848.800.444).

Other costs

In addition to interest and taxes, you will face other costs:

- **arrangement fee** (> Mortgages from A to Z), which can be either a fixed fee or a percentage of the loan amount;
- valuation fee, which many be charged for valuing the property to be mortgaged;
- notary fees for the mortgage contract and recording of the lien in land registers;
- the cost of insurance premium to cover damage to the property and any risks associated with events in the borrower's life that could make it difficult to repay the loan. If the lender requires the borrower to take out a life insurance policy that it also offers, it has to accept any policy that the customer presents or finds on the market, without making any changes to the conditions of the mortgage provided, as long as the policy provides an equivalent level of protection to that proposed by the intermediary. If the customer accepts the insurance policy offered by the intermediary, they must be informed about the commission paid by the insurance company to the intermediary. You must be careful as to how much the policy costs, as the one proposed by the intermediary might be more expensive than others on offer on the market.
- arrears charge, if the mortgage instalment payment is late. Usually, the charge takes the form of a percentage of the amount due, accruing from the due date until the payment is made;

- servicing fee, the charge for processing the payment (the complete list of charges is set out in the General Information Sheet).

If you decide to use a mortgage broker, it is important that you first understand the fee charged, which could be high.

AMORTIZATION SCHEDULE

The amortization schedule is your debt repayment plan: you must review it carefully.

The schedule sets out the amount of the loan, the amount of the individual payments, the date by which the entire loan must be repaid, the frequency of the individual payments (monthly, quarterly, half-yearly), the criteria for calculating the amount of each payment, and the outstanding balance.

The payment is made up of two components:

- principal, namely the portion of the loan repaid, and
- interest, that is, the interest accrued.

There are different ways of repaying your loan. In Italy, the most common is a fixed-instalment repayment plan, composed partly of principal and partly of interest; the principal portion rises over time while the interest portion falls.

At the beginning, the payment is largely made up of interest. Since the interest is calculated on the outstanding loan balance, as the principal is repaid, the amount of interest decreases and the portion applied to principal increases.

The change in the ratio of principal and interest could have an impact on your tax deduction, as the deductible amount changes from year to year; specifically, the deductible interest portion of your payment will decrease over time.

A sample amortization table is included in the **European Standardized Information Sheet (ESIS)**, (> Mortgages from A to Z) – in Italian: *Prospetto Informativo Europeo Standardizzato* (PIES) – relating to fixed-term mortgages for the entire term of the contract and to mortgages that provide for **capitalized interest** (> Mortgages from A to Z). In both cases, once the contract is signed, you can obtain for free from your lender at any time an updated amortization schedule, which should in any case be provided to you at least once a year.

Example

Let us again look at a €150,000 loan with a fixed interest rate of 2.1%, with a 20-year amortization repayable monthly.

The monthly payment will always be €766, but, while the first payment consists of €503 in principal repayment and €263 in interest, the final payment will be €765 in principal and €1 in interest.

Making the decision

Choosing the type of interest

(fixed, variable, hybrid, split)

It is important that you consider the advantages and disadvantages of the type of interest given your financial situation and market conditions, thinking about how they might change over time.

To help you make up your mind, ask for the General Information Sheet in which the lender explains all the features of the mortgages on offer.

Compare the offers of several lenders

The interest rate and conditions offered by different lenders may vary, sometimes greatly.

Lenders with websites publish this Guide and the General Information Sheet online, so you can compare the offers in your own time.

There are also internet search engines and websites that offer guidance and suggest the best type of mortgage for your needs. Of course, you can always ask the lender directly for information, for example at a bank branch.

An important factor to evaluate and compare is the **Annual Percentage Rate of Charge (APRC)** (> Mortgages from A to Z) – in Italian: *Tasso Annuo Effettivo Globale* (TAEG) – which all lenders must publish by law in the General Information Sheet.

The APRC summarizes the total cost of the mortgage, including the interest rate (and therefore also the spread applied by the lender) and other fees and expenses (for example, arrangement and servicing fees); if the mortgage rate is variable or hybrid, the APRC reported is only an example.

Choosing the lenders from which to request a customized offer: the ESIS.

The General Information Sheet provides information in a standard format.

Borrowers may be offered different terms and conditions tailored to their individual situations. The lender, once it has received information on the borrower's needs, financial situation and preferences, provides the borrower with the free European Standardized Information Sheet (ESIS). This form sets out the information on the customized offer that the borrower can use to compare with other offers available in the marketplace.

The borrower must be given the ESIS without delay, before committing to any loan contract or offer.

The ESIS must also set out the terms and conditions of the contract based on the borrower's characteristics and needs.

Beware!

Before signing the loan agreement, the borrower has the right to a **reflection period** (> Mortgages from A to Z) of at least 7 days to compare the different offers, to consider their terms and conditions, and to make an informed decision.

The 7-day period starts when the borrower receives a binding offer from the lender. During this period the offer is binding on the lender and can be accepted by the borrower at any time. The offer must be accompanied by the ESIS, unless the ESIS was provided earlier or the features of the offer differ from the information contained in the earlier ESIS.

In reviewing the offers, pay careful attention to the:

- spread;
- APRC;
- amortization schedule;
- fees and other costs;
- timetable for granting the loan (which must be compatible with that needed to purchase the property), and
- tax savings, which can vary based on the composition of the payments (share of principal vs. interest) set out in the amortization schedule.

Ask for help in understanding the offer

Before you sign the contract and for the entire reflection period you can ask the lender to explain, free of charge, the pre-mortgage documents, the essential features of the product, your financial obligations and the consequences of missed payments – basically everything you need to know to decide whether the offer is right for you.

Ask for loan counselling

Lenders can also offer a loan counselling service to provide borrowers with personalized recommendations on mortgage contracts and related services. Before providing the service, lenders must give borrowers specific information about the service and any fees. The cost of the service is included in the APRC when loan counselling is a required part of obtaining the loan on the terms and conditions offered; that is, the same type of mortgage may be available but with terms and conditions that differ depending upon whether loan counselling is a condition.

Providing the information and documents for loan processing

In the processing stage, the lender verifies the income, the assets and the collateral proposed by the borrower to assess the borrower's ability to repay the loan over the long term.

Each lender has its own procedures, but in general the documents required show:

- personal details, such as age, address, marital status, any pre- or post-marital agreements affecting property rights or analogous agreements between civil union partners;
- proof of income:
  - for employed persons: statement from your employer indicating years of service, the most recent payslip and a copy of your tax return;
  - for self-employed persons: your most recent income tax returns, Chamber of Commerce certificate, proof of registration with professional associations;
- information on the property, such as a copy of the preliminary sales contract (*compromesso*), floor plan, certificate of habitability, and the last deed of transfer by sale or inheritance.

The General Information Sheet sets out the information and documents that borrowers must provide for the lender to assess borrower creditworthiness and the deadline for their submission.

Providing security

The lender usually requires collateral in the form of a lien, which gives it the right to sell the property if the borrower is unable to repay the loan.

To determine the value of the property, and therefore of the collateral, a valuation of the property is made.

The borrower can live in the mortgaged property or can let it. Selling it could, however, be more complicated given the lien on it.

The lender could require other security beyond the lien, for example, when the borrower's income is low in relation to the payments, the borrower does not have a stable job, or is asking for a mortgage that exceeds 80% of the property's value. One of the most common forms is a **guarantee** (> Mortgages from A to Z), issued by someone other than the mortgage applicant. Providing a guarantee makes the guarantor personally liable for repayment of the entire loan.

Beware!

If you want to buy a property yet to be built, make sure that the guarantee you are given for reimbursement of your down payment is issued by a bank, insurance company, or other qualified entity.

The Bank of Italy's website contains legal explanations and notices on the topic of financial guarantees and a list of entities that have been reported for issuing guarantees without authorization.

http://www.bancaditalia.it/compiti/vigilanza/avvisi-pub/garanzie-finanziarie/index.html

https://www.bancaditalia.it/compiti/vigilanza/avvisi-pub/soggetti-non-legittimati/Allegato_GARANZIE.pdf

http://www.notariato.it/sites/default/files/Le_guide_per_il_cittadino_Acquisto_in_costruzione_set_14.pdf

Considering the time needed to disburse the mortgage

The time needed to obtain the mortgage, that is, the time between submitting the documentation and actual disbursement of the loan amount, is indicated in the General Information Sheet.

Borrowers can choose their own notary.
Usually, the mortgage is not disbursed on the day the contract is signed but rather a few days later when the lien has been fully and legally secured.

Beware!

Before signing the contract, take some time to learn about the possible tax breaks available for home purchase and renovation. For more information, visit the website of the Italian Banking Association (Associazione Bancaria Italiana – ABI) (https:// www.abi.it/Pagine/Mercati/Crediti/Crediti-alle-persone/ Mutui/Mutui.aspx?LinkFrom=Consumers).

For more information on other types of loans, consult the Government's website on homeownership:

http://www.casa.governo.it/allegati/Booklet_2016_web.pdf

A serious financial commitment: things to keep in mind

Do not take on too much debt

A mortgage is a significant, long-term financial commitment for both the borrower and the borrower's family.

From the moment you submit your application you must consider whether your income is sufficient to make the repayments. During the mortgage period unforeseen expenses could arise (medical costs, home-related or child-related expenses) or your income could fall (job loss, redundancy, illness).

Before applying for any mortgage or loan, you must always consider whether you are taking on too much debt. You should also know that, once the contract is signed, the mortgage is recorded in a variety of credit information systems, such as that managed by the Bank of Italy called the **Central Credit Register** (> Mortgages from A to Z). Banks and other financial lenders can access the data in its archives. You can also ask to see the information recorded on you in this register. Access is free and you can check online quickly and securely (https://www.bancaditalia.it/servizi-cittadino/servizi/accesso-cr/).

Check that the rates applied are not exorbitant

At the moment the contract is signed, the interest rate cannot exceed the **usury ceiling** (> Mortgages from A to Z), a limit determined on the basis of the **Average Overall Effective Rate (AOER)** (> Mortgages from A to Z) – in Italian: *Tasso Effettivo Globale Medio* (TEGM) – and published on the Bank of Italy's website (http://www.bancaditalia.it/compiti/vigilanza/compiti-vigilanza/tegm/index.html).

If, at the time of signing, the interest rates indicated in the contract do amount to usury, the clause is deemed null and void and no interest is owed.

Make your payments on time because the consequences could be serious

If payment (total or partial) is more than 30 days late, the lender must notify the borrower of the consequences of missing payments (for example, application of an arrears charge, loss of ownership of the mortgaged property) and any support measures available (such as public or industry programmes).

Arrears charges are added above the amounts owed.

In the most serious cases, the lender can terminate the contract.

If the lender is a bank, it can terminate the contract due to:

- failure to make even one payment,
- being more than 180 days late on even one payment, or

- being between 30 and 180 days late on more than seven payments.

If the bank terminates the contract, the borrower must immediately pay the outstanding debt. If the borrower is unable to do so, the lender can foreclose on the mortgaged property and sell it at auction.

The guarantor, if there is one, is also liable for the amount owed. Missed or late payments are also noted in the Central Credit Register maintained by the Bank of Italy and in other credit information systems managed by private operators (such as by CRIF). In the most serious cases of breach of contract, these systems may classify the borrower as '**in default**' (> Mortgages from A to Z). This could have a negative impact on the ability to obtain a new loan in the future.

Beware of the possible consequences of borrower default

At the signing of the contract the bank and the borrower can establish, in a specific clause known as the **Marciano Pact** (> Mortgages from A to Z), that if the borrower fails to pay an amount equivalent to 18 payments, the bank acquires ownership of the mortgaged property, or obtains the proceeds from the sale of such property, without having to seek recourse to the court system. In case of transfer of the property to the lender, the borrower has the right to receive any amount that exceeds the value of the property (estimated by an independent expert chosen by agreement between the parties) or the proceeds of the sale less the outstanding debt.

The transfer of the property or of the proceeds from its sale settles in full the debt owed by the borrower, even if the value of the property transferred (or the amount of the proceeds from its sale) is less than the outstanding debt.

The lender cannot make acceptance of this clause a condition for concluding the contract. If the contract contains this clause, the borrower will receive free advice on whether the contract containing the clause makes financial sense.

If the amount of the mortgage instalment payment becomes too high for you, discuss the problem with your lender

If you are unable to make your mortgage instalment payments regularly and on time, you should immediately contact your lender to try to find a solution together.

Some ways in which borrowers in difficulty can be helped include:

1) total or partial loan refinancing,

2) amending the mortgage terms and conditions, possibly by

   a) extending the term of the mortgage;

   b) changing the type of loan; for example, a contract that requires the repayment of both principal and interest in each instalment could be changed to require an interest-only payment for a certain period of time;

   c) total or partial deferral of payments;

   d) **renegotiation** (> Mortgages from A to Z) of the interest rate, or

   e) temporary suspension of payment.

It is possible at any time to transfer the loan to another lender, without any additional cost or penalty. **Portability** (> Mortgages from A to Z) makes it possible to pay off the mortgage using the sum granted by the new lender and transferring the original lien. The amount will be repaid on the terms and conditions agreed upon with the new lender. The original lender cannot impede or block the transfer of the mortgage. Moreover, the borrower should not be charged any costs (for example, fees, expenses, charges or penalties) either to settle the loan with the old lender or to be granted the new loan.

Beware!

If you have trouble paying off your mortgage, avoid seeking help from operators that are not listed in the official registers.

In certain circumstances provided for by law, you may have access to public support funds, such as:

- the Usury Prevention Fund (*Fondo di prevenzione dell'usura*),
- the Solidarity Fund for Victims of Usury (*Fondo di solidarietà per le vittime dell'usura*), or
- the Mortgage Suspension Solidarity Fund (*Fondo di solidarietà per la sospensione dei mutui*).

Need clarification? Have a complaint? Useful contacts

You can contact your lender's call centre for information.

You can also file a written complaint with your lender by registered letter with return receipt or by e-mail.

The telephone numbers and addresses are printed at the end of this Guide.

The lender's Complaints Office must respond within 30 days. If you are not satisfied with the response or you do not receive an answer, you can file a complaint with the Banking and Financial Ombudsman (Arbitro Bancario Finanziario - ABF).

The ABF is a dispute resolution system that offers a simpler, quicker and cheaper alternative to the courts. The proceedings are conducted in writing and no attorney is needed.

For more information you can visit the ABF's website (https://www.arbitrobancariofinanziario.it/), which publishes the decisions of the arbitrator, arranged by topic, and the report on the ABF's activities.

You can also report irregular or unfair practices by a bank or other financial company to the Bank of Italy free of charge and with no need for legal assistance.

The Bank of Italy considers complaints by borrowers to be a source of information for the conduct of its supervisory activity. It does not, however, make a decision concerning the contractual relationship between lender and borrower.

Complaints can also be filed online at www.bancaditalia.it/servizi-cittadino/servizi/esposti/index.html.

For further information go to the Bank of Italy's website.

> Amortization

The process of gradually paying off a loan through periodic instalment payments made according to a plan called the 'amortization schedule'.

> Annual Percentage Rate of Charge (APRC),
in Italian: *Tasso Annuo Effettivo Globale* (TAEG)

Indicates the total annual cost of the mortgage and is expressed as a percentage of the amount of the loan granted. It includes the interest and all the other expense items, such as loan processing, collection of payments, taxes, ancillary services necessary to obtain the mortgage, or to obtain it under the terms and conditions offered (for example, an insurance policy). It also includes, where permitted by law, the costs of opening and maintaining a current account when this is required to receive the loan under the terms and conditions offered. If the mortgage rate is variable, the APRC shown is only an example, as it can change based on the performance of the indices.

The APRC includes the costs of valuing the property securing the mortgage. It does not include notary fees or any penalties owed for breach of contract.

> Arrangement fees

The costs of processing and of completing the formalities necessary for mortgage disbursement, which the borrower is usually required to reimburse the lender.

> Average Overall Effective Rate (AOER)
in Italian: *Tasso Effettivo Globale Medio* (TEGM)

The rate based on which the usury ceiling rate is calculated; usury is prohibited by law. The AOER indicates the average effective rate applied by the banking and financial system to homogenous categories of credit operations (for example, current account credit lines, personal loans, leasing, factoring, mortgages) over the two previous quarters. The AOER by category of operation and the related usury ceiling rate are announced every three months by the Ministry of Economy and Finance and published on the Bank of Italy's website; lenders also post the AOER on a noticeboard at their locations and on their websites.

> Capitalized interest

Occurs when the interest is not fully repaid with the instalment payments and is instead added to the total amount of the outstanding loan.

> Central Credit Register

An information system managed by the Bank of Italy in which loans for more than €30,000 are registered based on obligatory reporting by lenders. If the borrower, owing to a serious breach of contract, is classified as ‘in default’, this fact is also recorded in the Central Credit Register for loans under €30,000.

The data in the Central Credit Register are available to lenders, who can view the total amount of loans granted to each borrower by banks and financial companies, not limited to Italian lenders. Lenders can therefore learn whether the loans have been paid regularly and whether there have been any missed or late payments. You can also ask to see the information recorded on you in this register. Access is free and you can check online quickly and securely. (see https://www.bancaditalia.it/servizi-cittadino/servizi/accesso-cr/).

The data in the Central Credit Register are confidential.

> Creditworthiness

Before signing the contract or being bound by an offer, the lender performs a thorough evaluation of the borrower’s ability to repay the loan. The evaluation is based on adequate, proportionate and appropriately verified information on the borrower’s financial situation provided by the borrower (including through credit bureaux) and on information that may be obtained through databases. In the latter case, the lender must inform the borrower in advance.

> Default

A credit whose collection is not certain (for banks and financial entities that have disbursed the loan) since the borrower is assessed as being insolvent (i.e. is irreversibly incapable of paying the debt) even if not judged insolvent by a court of law. A bank or financial intermediary assesses the borrower’s overall financial situation when classifying a borrower as being in default.

> Early repayment

Termination of the contractual relationship by repayment of the principal outstanding – in a lump sum – before the mortgage end date.

> Euro Interbank Offered Rate (Euribor)

An interbank rate set at the European level that can be used as an index for variable-rate mortgages.

> Euro Interest Rate Swap (Eurirs or Irs)

An interbank rate set at the European level that can be used as an index for fixed-rate mortgages.

> European Standardized Information Sheet (ESIS), in Italian: *Prospetto Informativo Europeo Standardizzato* (PIES)

Document containing customized information on the mortgage that is needed for the borrower to compare different offers on the market. The ESIS is provided free of charge, soon after the customer provides the lender with information on their requirements, financial situation and preferences, and in any case sufficiently in advance of the customer becoming bound by a mortgage contract or offer. The contents of the contract must be consistent with the information contained in the ESIS.

> Foreign currency mortgage

If the mortgage is in a foreign currency, the borrower has the right to convert it into the currency in which they receive most of their income or the legal currency of the European Union member state in which they are resident at the time the contract is signed or at the time conversion is requested. The right can be exercised when the change in exchange rates is equal to or more than 20 per cent of the rate prevailing at the time the contract is signed. To exercise the right of conversion the borrower may be required to pay an all-inclusive fee if provided for in the contract. It should be noted that a euro-denominated mortgage can be considered a foreign currency mortgage if, when the contract is signed, the borrower receives most of their income in a different currency, or resides in an EU member state that uses a different currency.

> General Information Sheet for Mortgage Customers

A document that lenders provide to mortgage customers. It contains information on the lender, and the terms, conditions and main features of the loan.

> Guarantee

The commitment to personally guarantee to the lender the payment of the debt of another person. The guarantee is personal because the lender has recourse to the full assets of the guarantor.

> Interest rate

The index, in per cent, measuring the compensation (interest) owed to the lender disbursing the loan. For marketing purposes, lenders may offer a particularly attractive interest rate for the first few months of the loan ('introductory rate') and defer determination of the final rate ('standard rate') until after the loan is disbursed. The difference between the introductory rate and the standard rate can be considerable. It is therefore important to be aware of the temporary nature of these incentives and the criteria used to calculate the standard rate.

> Lien

A security interest in a specific asset, usually real property. The owner, who has applied for the mortgage, may continue to reside in the mortgaged property, rent it or sell it. If the borrower cannot pay the debt, the lender may foreclose on the property and sell it to use the proceeds to retire the debt.

> Marciano Pact

The clause can be agreed at the time of signing the mortgage contract. In this clause, the bank and the borrower establish that in the event the borrower fails to pay an amount equivalent to 18 payments, the bank acquires ownership of the mortgaged property, or the proceeds from the sale of such property, without having to seek recourse to the court system. The bank will also return to the borrower any amount that exceeds the value of the property (estimated by an independent expert) or the proceeds of the sale less the outstanding debt. The lender cannot make acceptance of this clause a condition for concluding the contract and must notify the borrower of the advantages and disadvantages of inserting the clause in the contract.

> Mortgage instalment payment

A payment that the borrower makes periodically, as frequently as stated in the contract (monthly, quarterly, half-yearly) to repay the sum borrowed. Each payment is generally composed of principal, namely repayment of the amount borrowed, and interest, consisting of interest owed on the loan.

> Notary's report

The document in which the notary certifies that the seller is the actual owner of the property and the legal status of the property to be mortgaged, for example, the existence of any prior liens.

> Portability

Operation that enables the borrower to extinguish the mortgage by signing a new loan agreement with another lender for an amount equal to the outstanding mortgage, without the original lender's consent being necessary. By law, the settlement of the old loan and granting of the new loan are entirely free of charge.

> Primary residence

The home in which the borrower or family members 'habitually reside', that is, where they live. This definition comes from the tax laws and is used by the Revenue Agency to determine eligibility for tax breaks.

> Reflection period

A period of at least 7 days in which the borrower can compare different offers, consider their terms and conditions, and make an informed decision. The 7-day period starts when the borrower receives a binding offer from the lender.

> Renegotiation

An agreement in which the borrower and the lender amend one or more components of the original contract, for example, the mortgage term, the system for indexing, the index, the spread or the fees connected with the mortgage.

> Spread

The difference between the index (for example, the Euribor or Eurirs) and the interest rate agreed with the borrower.

> Usury

A crime that consists in loaning money at interest rates considered illegal because they are exorbitant and which therefore make it very difficult or impossible to repay the loan. The usury ceiling rate indicates the point starting at which the rates are deemed illegal (see also the definition of 'AOER' above).

> Valuation

A report that indicates the value of the property to be mortgaged, prepared by an expert, chosen by the lender, applying reliable standards.

My rights

When making your decision

- Obtain a free copy of this Guide and bring it with you.
- Obtain a free General Information Sheet for Mortgage Customers at any time and bring it with you.
- Get the General Information Sheet for Mortgage Customers and the Guides from the lender's website.
- Obtain the ESIS, free of charge, before being bound by a contract or by an offer or after having provided the lender with information about your requirements, preferences and financial situation.
- If it is possible to sign the contract online, obtain the ESIS before doing so.
- Understand the mortgage's APRC.
- Consult the AOER envisaged by the 'anti-usury law' posted on the lender's noticeboard at its locations and on its website.
- Evaluate the costs of the insurance policies proposed by the lender to guarantee the mortgage and check if there is a better offer on the market.
- If the contract is offered or marketed as part of a package that includes other distinct financial products or services, ask whether you can withdraw separately from each of the contracts included in the package and the effects of doing so.

At the time of signing

- Receive on paper or other durable medium a binding offer that includes the draft of the mortgage contract and the ESIS, if the latter has not already been delivered or if the features of the offer are different from those set out in the earlier ESIS.
- Consider the loan offer for a period of at least 7 days, which starts from when you receive the lender's binding offer. During the reflection period the offer is binding on the lender and can be accepted by you at any time.
- Check that the terms and conditions of the contract are not less favourable than those contained in the General Information Sheet and in the ESIS.
- Choose whether you want to communicate online or by letter. If you choose e-mail communication, the lender cannot impose fees for communications to which you have right by law.

- Receive a copy of the contract, signed by the lender, and a copy of the ESIS to keep for your records. If the contract is signed online, you will receive confirmation that the contract has been concluded, a copy of the contract and the ESIS.

During the contractual relationship

- Receive periodic statements on the status of the loan, at least once a year. The borrower can challenge the periodic statements within the time period provided by law, i.e. within 60 days of receipt.
- Receive in advance from the lender any proposal of changes to contractual terms and conditions, a right usually provided for in the contract. The proposal must state the reason for the amendment. The change can never affect the interest rate. The proposal may be rejected; in this case the borrower must repay the principal outstanding and the contractual relationship is terminated.
- Transfer the contract to another lender without paying any penalty or charge: this is mortgage portability.
- Continue the contractual relationship, even in the case of late payment of one instalment by no more than 180 days, in the circumstances provided by law.
- Obtain at your own cost, within 90 days of the request, a copy of the documentation pertaining to each operation in the last ten years. The request can also be made upon extinguishing the mortgage.
- Pay off in advance, in full or in part, mortgages signed for the purchase or renovation of buildings intended for residence, without paying fees, charges or penalties.
- Convert a foreign currency mortgage into another currency when the change in the exchange rate is equal to or more than 20 per cent of the rate prevailing at the time the contract was concluded, as provided by law. The lender may require, where provided by contract, the payment of an all-inclusive fee to convert the mortgage.

After the contract is terminated

- Receive the statement summarizing all the operations performed.

Mortgage checklist

- Estimate my disposable income, net of fixed expenses.
- Calculate the maximum monthly payment I can make, equal to about one third of my disposable income.
- Consider the best type of interest rate and mortgage term given my financial situation today and what I expect it to be in the future.
- Take advantage of specialized search engines to choose a mortgage.
- Obtain from lenders this Guide and the General Information Sheet and take my time to review the different products.
- Choose a short list of lenders and provide them with the information and documents needed to assess my creditworthiness.
- Receive the ESIS and compare the proposals taking into account taxes and all costs.
- Check whether the timetable for granting the loan is compatible with that needed to purchase the property.
- Review my amortization schedule, including the tax savings year by year.
- Verify that the interest rate indicated is not exorbitant (usury).
- Compare the life insurance offers proposed by the lender with others available on the market.
- Choose the lender, and when a binding offer is received from the lender, before signing, consider it carefully over at least 7 days. The offer can also be accepted before the 7 days are up.
- Check that the terms and conditions are consistent with those shown in the General Information Sheet and do not differ from those in the ESIS.

Only now should I sign

page to be customized by lender

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– ensuring the transparency of banking and financial services
– improving the public's understanding of financial topics
– helping the public understand the most common products and make informed decisions.

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