Financing your real estate purchase

Getting into a real estate purchase is a long-term commitment. The sums are often substantial, the rates fluctuating and the risks existing. Such a project therefore deserves a good weighing of its interests, control of expenses and a detailed analysis of the situation. Reasons why it is important to keep a cool head, even if the object seems to correspond in all respects to a dream. Because dreams have a price, which must be calculated at the right time by putting the odds on your side to obtain financing and on the best terms.

Beyond the price of the object, we must not neglect the additional costs linked to a real estate purchase, such as notary, registration and schedule fees, as well as the tax impacts. The euphoria engendered by the desire for a perfect object should not obscure the other parameters, because in real estate as with any other purchase, warning is forearmed.

Before getting started, there are many questions to ask, the answers to which vary depending on the property and the personal situation of the buyers. For instance :

What is my ability to buy?

The ability to buy depends on both your equity and your income. But what is the calculation rule? What can you consider as equity? Is it possible to use a pledge?

How to choose my property?

It is customary to say that «Location, location and location» are the three major criteria for a property that will change hands over the course of a lifetime. It is important not to get the wrong target and to carefully consider whether it is a project for a couple, thirty-year-olds, parents whose children have left, retirees, setting up a self-employed person, of a rapprochement with his place of work or an investment.

How to get a mortgage?

Once your budget has been determined and the accommodation selected, you will need to apply for a mortgage loan from a bank or other lender. What are they ? Are their eligibility criteria the same? How to choose the duration and the type of rate? What is a good fundraising strategy?

So many questions that often have multiple answers, varying drastically from one case to another. Financing a real estate purchase requires in-depth reflection, in-depth knowledge of the different uses and, most often, outside help and advice. Not only for obtaining the loan, but also for the analysis of all the parameters related to a tight market.

For tailor-made services, Homequest Immobilier can call on groups of experts, including mortgage financing specialists who are familiar with the market and its fluctuations. In Lausanne, Daniel Borges, director of the Vaud branch of the company Resolve gave, with pleasure, some leads to better understand the challenges of a real estate purchase.

Daniel Borges, (DB) director of the Vaud branch of Resolve in Lausanne

HQ **How high are the equity capital needed to embark on a real estate purchase and how will the lender calculate on the one hand these funds but also the costs?**

DB When buying real estate as a main residence, you must bring at least 20% of the purchase price in terms of equity, of which at least half (10%) must not come from the LPP (2nd pillar) or from 'a loan. Do not forget that it will also be necessary to provide an amount for the payment of purchase costs (notary, taxes, land register and mortgage certificate) which differ according to the cantons. However, you can estimate these by taking a provision of 5% of the purchase price.

HQ **So we calculate his loan on the basis of 80% of the sale price?**

DB Theoretically, yes. In practice, it is also possible to pledge part of one's LPP, that is to say to pledge it, to obtain a mortgage loan up to 90%. At first glance, this strategy seems more expensive, but it allows, among other things, to keep your pension cover in the event of death, disability or retirement. Above all, it allows you to continue to make purchases in your pension fund. This practice is a huge tax lever that, in the majority of cases, saves more on taxes than the amount paid in additional interest.

HQ **What is the difference between a 1st and 2nd rank loan? And how is the ratio between expenses and debt calculated?**

DB The loan is generally divided into a 1st rank which represents approximately 65% of the value of the property and a 2nd rank which is equal to the difference between the amount of the mortgage loan and the 1st rank. The duration of the 2nd rank amortization is generally 15 years which must, in all cases, be amortized no later than the legal retirement age of the borrower. The 1st rank does not need to be amortized, but it can be, for example, to hold the charges at retirement.

The debt ratio, sometimes called the effort ratio, represents the ratio between the theoretical estimate of the charges related to the property (mortgage interest at 5%, amortization, maintenance costs) and the income of the borrower. In general, this should not exceed 33%.

HQ **Banks are no longer the only lenders. Who can you still ask for offers and who offers the best conditions?**

DB Traditionally, Switzerland is a country of banks with extensive experience in mortgage lending. These remain competitive and today represent the largest market share. Their main competitors are pension funds and insurance companies, which often offer better rates but generally have a more limited risk appetite (less flexible than banks).

HQ **Rather a big bank, or a cantonal bank? In his canton? Where can an offer be requested in neighboring cantons?**

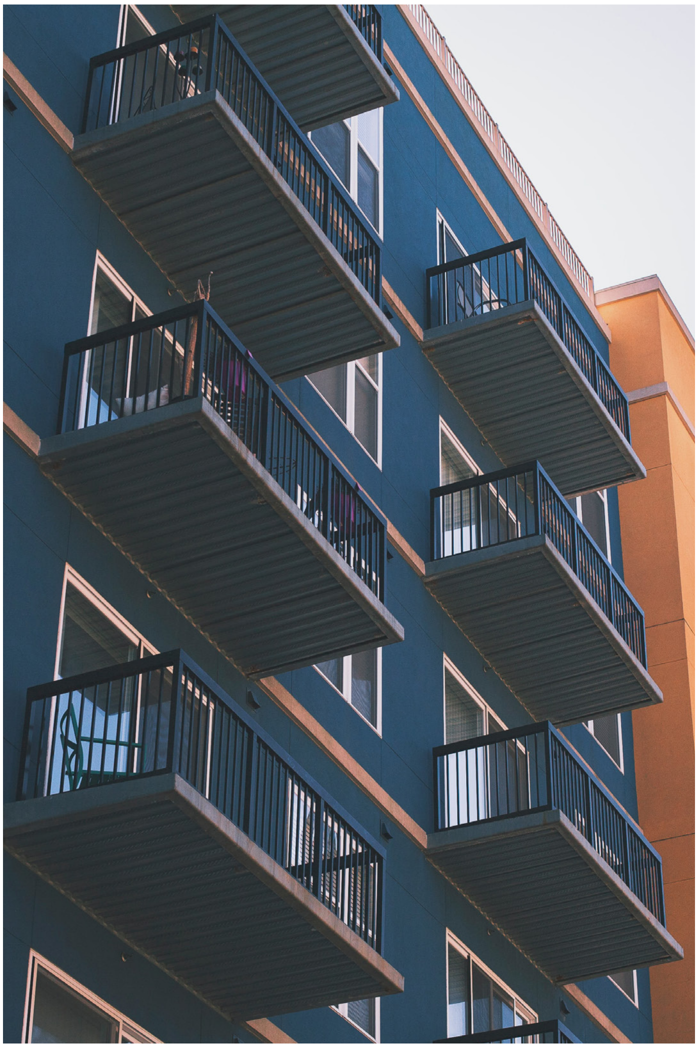
DB As in the case of banking or insurance, unfortunately there is no ready-made answer. Each financial institution has its advantages and disadvantages, whether in the flexibility of the financial package, the mortgage rate offered or knowledge of the local market (valuation of the property). It should be noted that local banks (cantonal banks for example) can be approached for properties located in neighboring regions, even if they prefer to concentrate on their main area of activity (main canton).

HQ **For the loan, is it better to take fixed, variable, or short-term rates (ex libor) as long as you are granted it?**

DB The rate duration strategy should be determined based on the client's vision and future plans. Long rates are often favored by customers looking for security and in order to have a vision of their budget over a long period to come. The rise in rates since the beginning of 2022 has resulted in customers starting to take shorter terms or moving towards a mix between fixed rate and Saron variable rate (ex-libor). The choice of durations is therefore specific to each life project and must be carefully defined at the start of the contract.

HQ **Why, when rates are currently hovering around 2% over 10 years, do bankers base their calculations on a 5% basis?**

DB Bankers have learned the lessons of a few real estate bubbles, in particular the crash of the 1990s. They have taken this basis of calculation in order to protect the market and its various players. This fictitious interest rate of 5% is therefore intended to guarantee that the borrower will be able to bear the costs of his mortgage loan in



in the event of a rise in rates (over the long term) and thus avoid a period of overselling which would result in a fall in prices and a new real estate crash.

HQ **Can you take out a mortgage once you reach retirement age? For example by pledging another real estate object?**

DB Recourse to mortgage financing is possible at any age, but it is true that a person's ability to finance decreases at retirement age. Indeed, the loan agreement of a financial institute is based on an expense vs income ratio, so there is an impact with the decrease in a person's income when they retire. This point can be covered if you get the right advice upstream so that you can keep your property without any problem when you leave your working life. Pledging real estate outside the operation may be a solution, but this is not possible in all cases for the reason mentioned above. Financing solutions exist for retired people and Resolve will be able to support them as needed in order to direct them to the right partners.

HQ **What are the advantages of going through a company like Resolve and by what percentage does it increase the price of the purchase?**

DB There are many advantages to going through a financing specialist. We know that becoming an owner is often the project of a lifetime. That's why we don't just find the best rate. Our algorithms perform more than 1000 calculations to validate a client's ability to purchase on a given project. Indeed, the ability to purchase can vary enormously from one lender to another, since they do not have the same criteria for granting a mortgage loan. A purely scientific matching results from this, between the potential buyer and the lender who best suits him. We will then determine the best financing strategy taking into account all the impacts. Our experts in mortgage financing, provident planning and real estate taxation offer totally personalized support from the beginning to the end of the project. They analyze all the temporal implications of a real estate purchase to help clients optimize their taxes over the long term and secure their future. The icing on the cake? This has no impact on the purchase price.