Commission de Surveillance du Secteur Financier

Technical FAQ on Regulation CSSF No 20-08 on borrower-based measures for residential real estate credit as modified by Regulation CSSF No 24-10

VERSION OF 7 JANUARY 2025

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The Loan-To-Value (LTV) limits introduced by CSSF Regulations No 20-08 as temporarily amended by CSSF Regulation No 24-10[1] (hereinafter referred as "the CSSF Regulation") require borrowers to satisfy specific own funds requirements in order to qualify for mortgage loans granted for the purchase of real estate in Luxembourg. This FAQ aims to clarify the implementation aspects associated with the LTV measure in place.

1. How should own funds be calculated for the purpose of the LTV requirement?

The aim of the CSSF Regulation is to limit leverage. Thus, it is expected that the own funds part in financing a residential real estate property is made up by an actual equity contribution from the borrower according to the applicable LTV limit set out in the Regulation. For the purpose of the LTV computation, "L" refers to the sum of all loans or loan tranches secured by the borrower on the immovable property at the moment of loan origination, whereas "V" refers to the value of the property purchased. The difference between the value "V" and the loan amount "L" needs to be made up of actual own funds of the borrower.

Until 30 June 2025, cash collateral and the State guarantee on mortgage loans (hereinafter "the State guarantee") can be considered as own funds for the purpose of the LTV requirement but should only be permitted for loans that had an initial LTV requirement strictly below 100% in accordance with the maximum limits set out in the Regulation. For the cases where the borrower provides own funds for the compliance with the LTV requirement that consist of cash collateral and/or the amount corresponding to the State guarantee, these should be deducted from "L" for the purpose of the LTV computation calculated in accordance with the CSSF Regulation.

2. What type of collateral is included in the "V"?

The "V" refers only to the transaction value or the independently estimated value of the property purchased (whichever is lower). The "V" does not take into account the value of any other property given as collateral to secure the loan or the value of other types of collateral (e.g. a securities portfolio, cash collateral).

3. How are bridge loans to be treated?

Bridge loans are non-amortising real estate loans that are used to facilitate a transaction. They are used to finance a new property for a limited period of time until an existing property has been sold. It is common practice that a part of the own funds that are to be put down for the new property come from the sale of the existing property. Such practice remains compatible with CSSF Regulation.

When a borrower uses a bridge loan to purchase a new property while already owning a mortgage-financed existing property, the borrower needs to respect two LTV ratios:

[1] Please note that CSSF Regulation 24-10 is of temporary nature. All clarifications provided on this regulation will expire after 30 June 2025.

1) **the "global LTV"**, where L includes the loan secured by the new property purchased and the outstanding loan amount on the existing property (the one to be sold) and V includes the value of both the property currently owned and the property purchased. The global LTV limit has to be satisfied at the origination of the bridge loan;
2) **the "final LTV"** where L includes the loan secured by the new property purchased net of the own funds that were provided by the borrower and through the sale of the existing property and V equals the value of the new property purchased. This final LTV has to be satisfied at the time the former property has been sold and the proceeds put down as own funds contribution on the new mortgage loan.

A bridge loan is permissible to support the purchase of a new property under the condition that both the global LTV and the final LTV described above comply with the LTV limit as applicable. In addition, we request the lender to have a contractual claim on the funds to be perceived from the sale of the existing property. Until 30 June 2025, cash collateral and the State guarantee can also be considered as own funds for the purpose of the calculation of the "global LTV" and the "final LTV" requirements.

Bridge loans should not, in principle, exceed a maturity of 18 months and be non-renewable. In case of new constructions, bridge loans may extend to 24 months of maturity. In exceptional circumstances, the lender may extend the maturity of bridge loans, including those for new constructions, provided that this extension does not materially negatively affect the risk borne both by the borrower and the lender. Such an extension needs to be duly justified and well-documented by the lender. While unforeseen construction delays may be considered an exceptional circumstance, the extension of bridge loan maturities must not be driven by speculative motivations from the borrower as regards price developments in the real estate market.

4. What limits apply and how is the portfolio allowance to be calculated?

The LTV limit that applies in accordance with the CSSF Regulation is composed as follows:

Type of loan	**LTV limit**	**Portfolio allowance**
RRE loan First-time buyers	LTV ≤ 100%	0%
RRE loan *financing a primary residence non first-time buyers*	LTV ≤ 90%	Lenders can go beyond this limit for 15% of their annual production for these types of loans without exceeding, per loan granted, an LTV limit of 100%.
Other RRE loan, including buy-to-let	LTV ≤ 80%	For buy-to-let loans, until 30 June 2025, lenders can go beyond this limit for 10% of their annual production without exceeding, per loan granted, an LTV limit of 95%. 0% for other RRE loans than those mentioned above.

The portfolio allowance must be calculated as a share of the amount of new loans granted in this category over a period of a calendar year. For instance, for the case of RRE loans to non first-time buyers taken for the purpose of purchasing a primary residence, a maximum of 15% of the volume of loans granted to borrowers in this category can exceed the LTV limit that applies to this category (without, however, exceeding an LTV of 100% per loan granted). The LTV of these loans can thus range from 90% to 100%. Regarding the temporary portfolio allowance of 10% applied to buy-to-let loans, the LTV limit can range from 80% to 95%.

In case a bridge loan is used to facilitate a transaction, the total volume of the loans relating to the transaction, i.e. both the mortgage loan and the bridge loan, is to be taken into account in the calculation of the portfolio allowance.

5. How is the value determined in case of significant renovations or works and properties with constructions to be completed?

In the case of renovation associated with the purchase of an existing property the lender needs to assess the materiality of the renovations and whether they actually improve the value of the property.[2] This would include major renovations, like for example works that improve the energy efficiency of a property (i.e. to improve the "Energiepass"). To this end, the lender should request all the necessary information from the borrower for an estimation of the renovation costs and document the works appropriately (e.g. by storing the "offer documents" (devis)). Lenders should also ascertain and document that works have been performed as billed. The lender should define internal, sound and prudent policies to guide the assessment of how renovation costs translate into increased value V. Renovation works can only be taken into account in the calculation of V if they are completed within a reasonable timeframe of the purchase of the property, say 18 months, and cannot increase V by more than 80% of the cost of the renovation. In general, the value V, including renovation, shall not exceed market prices that apply to similar objects in the same location.

For the purchase of a property to be built, i.e. in the context of a VEFA ("vente en futur état d'achèvement") which includes the purchase of construction land and construction works, V corresponds to the selling price of the project as agreed in the notarial deed. Lenders may factor into V costs incurred subsequently to the notarial deed, under the same provisions as stated in paragraph one.

In some instances, there might be a time lag of several years, between the transaction on a piece of land and the construction of the real estate property on this same piece of land.

In case the borrower introduces a request for an RRE loan to construct the real estate property, and if the construction of the property does not start more than six years after the purchase of the land, the LTV could be calculated and complied with in aggregate as follows:

- L is the amount of the outstanding loan on the piece of land plus the amount of the "second loan" related to the construction of the property,
- V is obtained as the sum of the values of the piece of land and the construction costs of the real estate property.

[2] Loans granted for the renovation of a property and that are secured by a real estate property are also included in the scope.

6. To whom does the LTV limit apply?

The measure applies to any "private" borrower taking out a mortgage loan to purchase residential real estate in Luxembourg. Hence, the CSSF Regulation targets private use and does not apply to the financing of residential real estate for commercial purposes. If borrowers use a legal structure like a "société civile immobilière" to complete this transaction, the measures also apply. The LTV limits apply as well in the case of joint applications.

"Residential real estate" includes construction land, whether the construction work takes place immediately after the purchase or years after.

The LTV limits apply independently from the type of ownership (e.g. full ownership, usufruct, bare ownership). The measure also applies if a loan is granted to a borrower for purchasing a property with a long-term lease agreement (emphythéose).

The purpose of the real estate property may be as a residence or as an investment ("buy-to-let").

In the case of divorces where one of the partners takes over the credit on the initially jointly acquired property, the LTV limit does not need to be reapplied as there is no new transaction on the property.

The LTV limit also applies to mortgage loans repurchased from other banks. Those loans are considered as new loans. Nevertheless, the borrower keeps its "status", i.e. if the loan was initially given to a FTB, the LTV to be applied on the new mortgage loan at the new bank remains in the same category.

7. What is a first-time buyer (FTB)?

A first-time buyer is a borrower that has never contracted a residential real estate loan aimed at financing a residential real estate property located in Luxembourg. It implies that a borrower who has in the past contracted a residential real estate loan cannot be considered as a first-time buyer.

In the case of a joint application, all borrowers must be "first-time buyers" for the loan to be classified as a "first-time buyer" loan.

In the case of divorcees that have owned a property in the past and sold it after their separation, they are no longer to be considered first-time buyers when they repurchase a new property. If one partner has been paid out after the separation, this partner is no longer to be considered a first-time buyer.

8. If a borrower moves out of his primary residence to rent it out, does the loan have to be reclassified as buy-to-let?

No. The measures are to be applied strictly at origination.