



OVERSEAS MORTGAGE FINANCE

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Purchase Guide - Spain

When purchasing property in Spain it is important that you understand the way in which the purchase process is structured. We have put together this guide in order to give you a brief introduction to the market and the criteria that needs to be taken into account when making an application to a financial institution.

We feel it is important that before you make a decision on a property you discuss your ability to qualify and the set criteria for borrowing with one of our international mortgage advisors.

Process

Spanish property is sold in a variety of different ways; privately, via estate agents and in some instances directly from Banks own property portfolios.

Once you have found the right property and you have an understanding of your lending capability, you will be in a position to make an offer. Once you have decided on the property you would like to purchase and your offer has been accepted by the vendor, you will be asked to sign a reservation contract known as the 'Documento de reserva' and pay a preliminary deposit in order to remove the property from the market.

Before signing the reservation contract it is advisable that you appoint an independent solicitor to check the terms of the contract and the legal situation of the property before signing any agreement. The initial deposit is refundable if the vendor decides not to proceed along with a fee for an equivalent amount of the deposit. If the buyer does not proceed, the deposit is forfeited.

In relation to the reservation contract, it is possible to add conditional or annulling clauses eg. To make the contract dependent on your ability to obtain a mortgage. Your solicitor will make land registry searches against the property to confirm ownership, boundaries and whether it is free of charges and encumbrances such as mortgages. This search will also confirm that the vendor has paid all their obligations including community fees, all utilities and taxes. The local town hall will advise upon request by your solicitor if the property has the necessary planning permission and the licence of the first occupation is in place.

After signing the contract your solicitor will assist in obtaining the obligatory Fiscal Number 'Numero de identificacion de extranjeros' and any other documentation necessary to complete the transaction eg. A power of attorney. Once the legal checks have been completed, you will sign a binding contract (Contrato de compraventa) which states the description of the property, the price,



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breakdown of payments, the date set for signing the agreement before a public notary (completion) and the consequences of breaching the contract. If you are successful in achieving a binding mortgage offer from the lender, you will have a 10-day 'cooling off' period in which you are able to withdraw from the purchase, without penalty. There are conditions to this 'cooling off' period and it's always best to discuss with your international advisor.

Reports

Once your fully supported application has been submitted to the lender and an assessment has been made on your ability to borrow, the lender will instruct one of the surveyors to carry out a full report on the property. It is usually the obligation of the buyer to cover the cost of this.

Deposit Funds

You will be expected to deposit funds, plus any additional monies in Euros. If you would like to speak to one of our preferred partners, please notify your international mortgage broker.

Eligibility

The majority of mortgages that we source are in Euros and the banks legal charge is secured against Spanish residential property. Spanish banks require all prospective clients to provide supporting documents to accompany a full status application, this is to provide total transparency of your financial circumstances. Financial institutions in Spain assess your ability to repay the mortgage by measuring 35% of your gross monthly income, this should be sufficient to cover your existing outgoings (Mortgages, rent, personal loans, higher purchase agreement's etc) in addition to covering the monthly cost of your new mortgage commitment. Should you receive any additional incomes from buy to let property, investments, bonuses etc, a percentage of this income will be used to increase your borrowing power. There are exceptions to this rule and on these occasions we will discuss your case in detail with the Spanish lending committees.

Ownership

There a number of options regarding the way ownership of a property can be held, the most common being directly in your name although, it may be beneficial to purchase through some form of company entity. In order to maximise tax efficiency, it is essential to consider taking advice regarding the acquisition structure within the early stages, and certainly before signing into any pre-sale contract.



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Criteria

In order to supply the Spanish lender with adequate information for them to make an informed decision on your case, you will be expected to supply a number of documents:

- Proof of residence
- Evidence of deposit

- Proof of income & outgoings
- Bank statements
- Notary Details
- Solicitors details
- Property Details

Each case is individual and specific requests from the lender will be made once the initial underwriting has been carried out.

Types of mortgages

There are a number of mortgage options available that range from **variable**, **fixed** and **capped** rates, these are available on a repayment basis only. The term of your loan is dependent on affordability and individual lenders underwriting policies:

- Acquisition Finance (Purchase)
- Construction Finance
- Home improvement / Renovation Finance
- Re-Mortgage

Home improvement (Renovation) and construction loans are available however, estimates will be required at the time of application and will only be accepted if they are provided by registered builders. Once the mortgage is approved, funds will be released by the lender directly to the builders following the submission of invoices. In the case of construction loans more detailed information on the project will be required, please speak to one of our advisors for more information.



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Re-mortgaging is available although, this will incur costs from both the notary and the new lender. We recommend that you check with your existing lender whether any redemption penalties, with early repayment charges, will be payable for cancelling your existing mortgage.

Life assurance

Life assurance is not mandatory with the majority of Spanish lenders, however it is advisable that a policy is assigned to your Spanish mortgage. If you would like to receive a quote please let your advisor know.

Buildings insurance

This is a compulsory requirement when taking any mortgage and must be in place for completion. This will be detailed in your mortgage offer.

Bank account

You will be required to open a Spanish bank account before completion, in many cases the lender will be able to offer you this service (if they are a retail bank), if not, we can put you in touch with a reputable bank who will be able to help.

Completion

Mortgage funds will be released by the lender to your notary for completion of the purchase.

Time frame

Following an initial discussion with you including confirmation of your personal and financial information, we will source a number of options from a panel of Spanish lending institutions. Once we have discussed these options and you have decided on the way you wish to proceed, we will require you to sign the completed mortgage application form and any other necessary documentation, we will forward this to the lender, who will then assess the file and return with any queries or requests for further information.

Costs

- English speaking solicitor: usually 1% of the purchase price
- Valuation: Typically, 0.15% of purchase price.
- New dwelling purchases: IVA (Spanish VAT) is charged at around 10%.
- Stamp Duty – Buyers proportion only
- Legal fees – Banks proportion only



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- Re-sale property: Property Transfer Tax varies in different regions of Spain, but it is generally between 4-11%.
- Bank arrangement fee: Typically, between 1 - 2% of the loan amount. But can be negotiated with certain lenders.
- Property agent fees: In some instances these fees can be included within the loan figure, or the seller may pay.
- Overseas Mortgage Finance fee: We charge an administration fee once we have all requested supporting documents and feel confident to submit a full application. Our broker fee is based on the successful completion of your loan and typically 1.5% of the loan amount.

As of February 2019, the following fees are now covered by the lender

- Notary Fee: In Spain the notary fees are fixed by law and calculated on a sliding scale.
- Land Registry fee: In Spain the Land Registry fees are fixed by law and calculated on a sliding scale.
- Stamp Duty – Lenders proportion only.
- Legal Fees – Lenders proportion only.
- Gestor Fee
- Transfer tax and Stamp Duty are regulated by the regional governments (Comunidades autonomas). This means that the above percentages are not fixed and are dependent on the location of the property.

Name (PRINT):

Signature:



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Date:

Disclaimer

The above information is provided for guidance only, Overseas Mortgage Finance Ltd accepts no liability as to the accuracy of the information detailed. You should obtain specialist legal and tax advice relating to your circumstances.

Your home may be repossessed if you do not keep up repayments on your mortgage.