

## Requirements for Mortgage Transparency

Home ownership levels are low in Switzerland, with around 60% of residents renting their property, and most homeowners prefer to live in countryside. There are many explanations to this from rapid population growth in cities placing a pressure on housing supplies, to rising prices and bureaucracy that significantly delays property purchases.

### Eligibility for home buying

Switzerland has strict regulations on buying property and depends on the Swiss permit. Following are the list of eligibility:

- EU or EFTA national with a Swiss residence permit who resides in Switzerland
- Swiss C Permit.

In both cases, same rights as a Swiss citizen to purchase property such as investment properties, holiday homes or commercial premises and primary residence. However, in case of Swiss B Permit, can buy a property for only primary residence and higher interest rates.

The other categories, such as non-resident foreigners, foreign residents without a Swiss work permit (including those working for diplomatic missions, UN agencies and CERN) or workers on short term or seasonal work permits, may not be allowed to purchase property in Switzerland.

### Mortgage Rates

Historically, Switzerland's mortgage rates were between 4 to 5 percent, but they fell to historic lows in the last few years, estimate around 1%. Following some increase in 2018, rates dropped again in 2019, with average five-year rates dropping to 1%, and 10-year rates at just 1.35%.

Swiss banks mortgage the property up to 80% of the current market value and buyer must pay a deposit of 20%. At least 10% must be in cash and the other 10% (or more) can be organised using the pension fund. Time for repayment of mortgage in Switzerland can be incredibly long, between 50 to 100 years.

### Pension Fund

One of the main aspects of the Swiss mortgage system is that company pension or private pension can be used to finance the 20% deposit. The following rules need to adhere:

- The property must be for primary residence;
- Property owned by self, or with a spouse or registered partner;
- If default on mortgage payment, will also lose pension;
- Pension fund have enough deposit, that accrued a sum to pledge;
- Withdrawing the pension fund as deposit for the property or to pledge the fund

The advantage of withdrawing the funds and applying them to the mortgage will reduce the mortgage amount, thus reducing interest rate. Pledging the fund will allow to retain the benefits and size of the pension fund but will not reduce the interest rate.

## Getting two Mortgages on One property

Swiss mortgages are usually divided into two mortgages.

The first mortgage will typically:

- cover up to 60–70% of the purchase price and have an indefinite repayment period.

The second mortgage will typically:

- cover the gap between the first mortgage and the deposit, for example, if the first mortgage is 60% and the deposit is 25%, the second mortgage will be 15%;
- have a fixed repayment period, usually up to 15 years or the owner's retirement age;
- have a higher interest rate, typically 1% higher than the first mortgage.

## Components of Monthly EMI for Mortgage

In Switzerland lenders require that the monthly household income is at least three times the amount required to repay the mortgage.

However, Swiss banks also include maintenance or insurance charges in this calculation, so the level of income require may be a bit higher. The following example explains the components of monthly EMI:

Property Value (in Chf)	800,000
Deposit 20% (in Chf)	160,000
Mortgage Amount (in Chf)	640,000
Interest 5% (in Chf)	32,000 per year / 2,666 per month
Principal payment 1% of loan amount/year (in Chf)	6,400 per year / 533 per month
Maintenance 1% of property value (in Chf)	8,000 per year / 666 per month
Total Cost (in Chf)	46,400 per year / 3,866 per month

Swiss banks consider thrice of total mortgage cost, that means a minimum annual salary of 140k require to avail this mortgage.

### Additional Expenses and Rules:

- The salary is paid 12 or 13 times per year for mortgage evaluation.
- Whether the minimum salary requirement is gross (before tax) or net (after tax) varies from bank to bank.
- Other living costs, such as charges for shared services or communal areas. In Switzerland, such charges often apply to detached houses as well as apartments, and cover communal parking areas, private roads and similar maintenance issues.

## **Legal cost of getting a Swiss mortgage**

When buying a home, will usually need to pay property transfer tax (similar to stamp duty), part of it payable to the canton and to the commune. Most cantons in Switzerland charge stamp duty, though six cantons (Aargau, Glarus, Schaffhausen, Uri, Zug, and Zurich) choose to instead charge change of ownership fees and registration fees. Property transfer tax also varies from region to region.

## **Notary Role and Expenses**

In Switzerland, a property transfer is handled by a notary, who is a public officer working for both buyer and seller.

The notary will typically provide following services:

- Draw up the contract
- Hold the buyer's funds in escrow;
- Complete the official transfer of the property;
- Register the change of ownership;
- Ensure that all legal formalities are completed;
- Ensure the legitimacy and legality of a transaction.

The notary fee is 5% of the purchase price. The fees cover the following expenditure:

- The notary's fee (0.2–1%);
- Property transfer tax (varies from canton to canton, between 0–3.3%).
- Registering the sales deed with the land registry office (depend upon canton between 1-1.5%)

## **Tax exemptions**

In Switzerland property is subject to both wealth and income tax because it is an asset. The property's estimated rental value is added to the taxable income. Mortgage interest, maintenance costs and indirect amortisation in connection with the pension, in-premises construction are all income-tax deductible.

## Reference

<https://www.expatica.com/ch/housing/buying/your-guide-to-swiss-mortgages-108440/>

<https://www.expatica.com/ch/housing/buying/buying-a-swiss-property-100026/>