newhome

Zuger Kantonalbank

Home Ownership

For greater happiness about your own four walls.

Wir begleiten Sie im Leben.

Contents

Build on our experience

Zuger Kantonalbank is your professional partner on the path to your own home. With us you benefit from comprehensive know-how and short-term decision-making processes. Thanks to our local roots you will also be able to enjoy a home advantage. If you want to realise your dream of owning your own home, at Zuger Kantonalbank you can count not just on attractive financing products, but also on well-founded advice.

For most people, buying their own home will be the biggest investment and one of the most important decisions in their lives. For this reason it is worth knowing that you have a competent partner at your side. We will help you place your dream of your own four walls on solid foundations.

At Zuger Kantonalbank, our focus is placed on your needs. Only once we know your current life situation and future plans, can we draw up a solution that is tailored to your requirements. The financing of residential property does not constitute a single isolated project. We would be happy to show you how a wide variety of topics come into play here and can be optimally tailored to one another. Your Zuger Kantonalbank advisor will support you from the outset with commitment, experience and expertise. And he will continue to provide you with advice and support after the purchase has been made.

This brochure is designed to guide you through this complex topic and contains answers to the most important questions concerning the purchase of a home. Please also consult the glossary on the last page.

We look forward to accompanying you along the path to your own home.

Choose a home that meets your requirements

The question of what characterises good residential property can only be answered individually. However, every decision has an impact on the price – over a long time.

Before you choose a home of your own, you need to think carefully about whether this property will meet your needs. For this reason you should consider not just aesthetic or price aspects, but also review your lifestyle, preferences and habits and ask whether this investment in your future will also be a source of pleasure in the long term.

Location and setting

The location and setting are the two most important price criteria for a property. You need to consider the residential quality and quality of life at your chosen place of residence as well as the actual setting at this location (e.g. built on an incline, road noise etc.). Other factors such as your commute to work or the route to school also play an important role and will exert an impact on the cost of living, the tax burden or the resale value.

Important criteria when it comes to choosing a location

- Distance to public transport
- Distance to kindergarten / schools / shops
- Aspect / sunlight
- Views
- Emissions (noise / odour / exhaust fumes)
- Tax base

Types of residential property

Owner-occupied apartment

In the case of an owner-occupied apartment (also known as condominium ownership), the condominium owner is simultaneously the co-owner of a multiple occupancy building and has special rights of use in respect of a specific apartment including cellar and possibly also a parking space. All other facilities belong to the community of owners, which is collectively responsible for their maintenance. The rights and obligations of the condominium owner are set out in the utilisation and management regulations of the property, and need to be studied carefully before the purchase is finalised.

Terrace house

Another popular form of residential property is the terrace house. The number of immediate neighbours – particularly if the property is not located at the end of a terrace – and any possible shared facilities call for mutual consideration. However, this form of residential property offers many advantages for families.

Semi-detached house

This form of residential property uses less land than a free-standing house. Provided the land is used efficiently, the investment cost is thus lower. Owners live independently, yet at the same time within a community. Because certain facilities such as the drive, garage, garden or heating system are shared, and many decisions have to be taken jointly, the parties need to be compatible.

Detached house

This promises independence and allows for considerable scope in the design of both house and garden. A sunny aspect, proximity to green spaces and generally lower emissions are not just desirable but also tend to be pricey as private living space has become expensive, demand is high and good land is rare.

Should you buy a turnkey property or build your own?

However you decide to approach this issue, we recommend that you first obtain a clear picture of your wishes and financial options. In a second step, find out about current offers, providers and possible strategies. View some completed properties that meet your wishes, and choose your future construction partner with care.

Buying a turnkey home

If you wish to buy a property that already exists, we recommend that you take a construction expert along to the inspection. Particularly when buying an older property, you need to ascertain how much renovation and possible conversion work will need to be carried out.

Home ownership

You can also engage a general or sole contractor to plan and build your home while you remain the builder-owner. However, as you transfer all or part of the responsibility to a third party, you should make very sure of his credentials, for example by obtaining references or investigating the experience of the general or sole contractor.

Cooperating with a general or sole contractor has many benefits. Nevertheless, it is important to us that we also make you aware of the risks.

Advantages

- You save time because the general or sole contractor takes charge of executing the project. A sole contractor also draws up the plans and manages the building project.
- You can delegate the responsibility as the general or sole contractor is responsible for the realisation (price, quality, deadlines, legal requirements, etc.) of your building.
- You benefit from simplified administrative processes as you sign just one contract for work and services for your property. The general or sole contractor signs the individual contracts with the craftsmen and is therefore liable to you for any defects in the work delivered by them.
- You could also benefit from bulk discounts passed on to you in part by the general or sole contractor.

Risks

- If the general or sole contractor should go bankrupt during the building period, you may run the following risks:
  - You will most probably lose any payments already made to the general or sole contractor.
  - To ensure that building work continues, you as the builder-owner must pay the invoices of the craftsmen.
  - If finished work delivered by craftsmen has not yet been paid, you as the builder-owner must pay these invoices to prevent the craftsmen from registering contractors' liens on the property, regardless of whether you have already paid the general or sole contractor for this work.
  - Guarantee claims against craftsmen can lapse.
- A builder-owner has limited leeway to act against a general or sole contractor during the building period. Within the limits of the contractual agreements, the general or sole contractor will focus on earning a profit. This can represent a conflict of interests.

With our experience and market knowledge we can support you in choosing your building partner and provide you with competent advice.

Please note

- The sole/general contractor agreement should reference the SIA provisions.
- The agreement must provide clarity as regards delivery deadlines, the relevant periods for the notification of defects, payment deadlines and the time at which the building will be ready for occupation.
- The process for the rectification of defects must be defined.
- Agreements regarding reduced and additional costs should be reached.
- Guarantee claims, with the exception of the bankruptcy of the general/sole contractor, must remain with the contracting party in order to prevent the building-owner renegotiating with craftsmen.

Learn about the most important legal aspects in good time

Purchase and building law

Purchase and purchase agreement

Outright (freehold) purchase is the method customarily used to transfer real estate property. It is established legally only when the purchase agreement is drawn up in the form of a public deed and recorded in the land register. The land register records all real estate properties, detailing the ownership relationships, dimensions as well as the rights and encumbrances pertaining to the property.

Leasehold and leasehold agreement

Instead of buying a building plot, you may also acquire land under a leasehold agreement. This entitles you to erect a building on land belonging to a third party and to retain this property under your own individual ownership. The building owner (leaseholder) compensates the landowner (lessor) by paying a ground rent. This can be fixed for a defined period or adjusted by indexing or revaluation to reflect changed circumstances. The leasehold constitutes an easement on a property. If the leasehold has been established independently and for a period of more than 30 years, it can be entered in the land register as a real estate property. In this case, the leasehold agreement must be drawn up in the form of a public deed. A leasehold may be established for a maximum of 100 years.

Reversion

Depending on the contractual provisions set out in the leasehold agreement, the building may revert to the landowner when the leasehold expires – with or without compensation for the building owner. When drawing up the terms of the leasehold, the parties may stipulate that – subject to certain conditions – they wish to negotiate a new leasehold agreement before the existing one expires.

Matrimonial property regime

Form of property ownership

Before buying a home, spouses need to decide whether they wish to acquire the property jointly or only in the name of one spouse. If they have not already settled their marital property and inheritance arrangements, the acquisition of a home should be seen as a good opportunity to do so. Cohabiting couples should buy the property as equal co-owners. This will enable each co-owner to contribute their own pension assets for the purchase or amortisation (which is not possible in the case of collective ownership). If cohabiting couples buy equal shares in a property, it is important that they also contribute the same amount of capital. If one partner contributes 80 percent and the other only 20 percent, and they nevertheless buy the property as owners of equal shares, this may among other things be viewed from a tax perspective as a gift of 30 percent from one partner to the other. For this reason it is advisable to specify the effective ownership ratio as "⅗ and ⅖ co-ownership". An even simpler approach is to settle such matters with a loan agreement.

Types of ownership of residential property

Sole ownership	As sole owner you will have the greatest possible freedom. You can dispose of the real estate property without restriction within the framework of the law. Sole owners can be natural persons or legal entities.
Co-ownership	A property can also be owned by two or more persons. Each co-owner has the rights and obligations of a sole owner in respect of their particular share. Each co-owner can sell or pledge their particular share. However, by law co-owners have a pre-emptive right to the shares of the other co-owners.
Collective ownership	Collective owners jointly form a community and can only dispose of the real estate property jointly. Frequent cases: communities of heirs, matrimonial community of property or a simple partnership. In contrast to co-ownership, no shares of the assets are separately attributed.

Prepare a comprehensive financing plan

How much will cost your home?

The financing of a property should be prepared and planned in detail. Firstly, you need to acquire a clear understanding of the financial consequences. This is because: home ownership costs do not only consist of the purchase price and mortgage payments.

Investment costs

In order to avoid unwelcome surprises, you need to include the following investment costs in your calculations before the start of construction work:

- In the case of a newly constructed building: land costs (including access), planning and preparatory works, building costs, landscaping costs, fees, building insurance, cost of construction loans
- In the case of an existing building: purchase price and any possible renovation/conversion costs

One-time costs

- Real estate transfer tax
- Notary's and land register fees
- Costs of establishing liens
- Fees (e.g. for utility connections)

A number of unforeseen costs are often also incurred:

- Planning permission fees, depending upon complexity
- One-time and separate taxation of pension assets
- Inheritance and gift tax
- Furnishings (furniture, lamps, curtains)
- Tools and equipment (for house and garden)
- Garden furniture, parasols, shelves and cupboards for cellar and garage
- Moving expenses

Recurring costs

- Mortgage interest and repayments are the largest annual costs. By repaying part of the mortgage you offset the reduction of your retirement assets. In addition, you reduce your financial commitments for the time, when your pension income will be lower than your current earned income.
- Depending on the age and condition of the property, service charges and maintenance costs normally amount to between 0.8% and 1% of the purchase price. You also need to think forward and set aside reserves for renovation as well as to replace equipment and fittings. In the case of condominiums, the owners regularly pay into a renovation fund. However, this fund is used only to renovate the shared areas of the property.

The affordability rule

When it comes to determining whether your home is affordable, it is worth observing a simple rule of thumb: the total costs for home mortgage interest rates, amortisation, possible loan costs, maintenance costs and service charges (heating, electricity, water, repairs etc.) should not exceed one third of your gross income. To ensure that the affordability criterion can be determined not only on the basis of a current interest rate, but also from a long-term perspective, Zuger Kantonalbank applies an average interest rate currently amounting to five percent.

How will you finance your home?

Now you know how much your future home will cost, the question arises of how you intend to finance it. As a rule, the capital used to acquire residential property consists of two parts: your own capital (equity) and borrowed funds (mortgage).

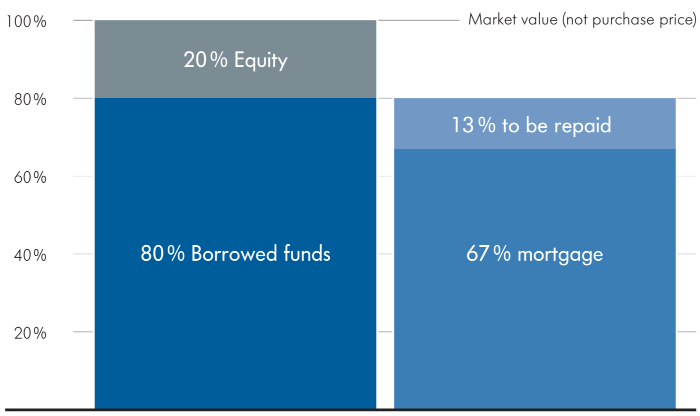
Equity

In order to ensure that the purchase of your new home will not be an excessive financial burden, you should finance at least 20 percent of the market value with your own capital. In addition, you can increase this equity with credit balances from the socalled 2nd pillar (e.g. pension fund, vested benefits account) or from pillar 3a (e.g. 3rd pillar savings, policies). At least 10 percent of the market value must be financed by "hard" assets (savings, securities, advance on an inheritance, gift, account balances or securities under a pillar 3a scheme). There are two drawbacks if you wish to arrange for pension fund assets to be paid out: the payout incurs tax and the insured benefits will be reduced (the precise provisions will be set out in your pension fund regulations). In addition, an alienation restriction will be recorded in the land register. You can avoid these drawbacks by pledging your pension fund assets to the bank. If your equity still falls short of 20 percent or if your income is too low, try to increase your equity by taking out a loan or with a gift or an advance on your inheritance.

Borrowed funds

You will receive the remaining 80 percent of the necessary capital from us, provided the affordability criterion has been met, in the form of mortgage financing. Financing for two-thirds (up to a maximum of 80 percent) must be repaid on a straight-line basis within 15 years (or at the latest by retirement age).

Division of financing



Use of pension assets

	Pillar 3a Early withdrawal	Pledging	**Pension fund (2nd pillar)** Early withdrawal	Pledging
Advantages	■ lower mortgage financing ■ lower interest burden	■ additional tax savings ■ capital remains in pillar 3a and continues to accrue interest	■ lower mortgage financing ■ lower interest burden	■ additional tax savings ■ continued full entitlement to 2nd pillar insurance benefits
Disadvantages	■ no additional tax savings, consequently lower liquid assets ■ capital tax on early withdrawal	■ higher mortgage, consequently higher interest burden	■ no additional tax savings ■ lower insurance benefits ■ capital tax on early withdrawal	■ higher mortgage, consequently higher interest burden

How do you wish to pay off your mortgage?

When it comes to repaying the mortgage debt, you can choose between two variants: You can either reduce the mortgage (and consequently the interest burden) directly, or you can repay it indirectly via a Zuger Kantonalbank 3rd pillar savings account (savings 3 account), thereby profiting from additional tax benefits.

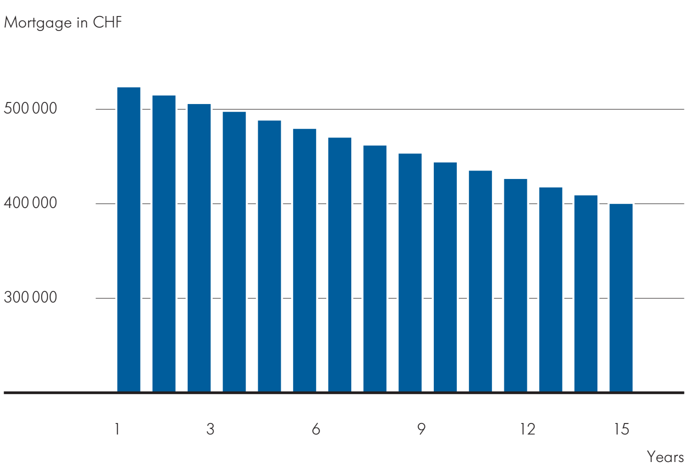
Direct repayment

The sum is repaid to the bank in annual instalments. This way you reduce your mortgage year by year, and consequently the financial burden of the mortgage interest as well.

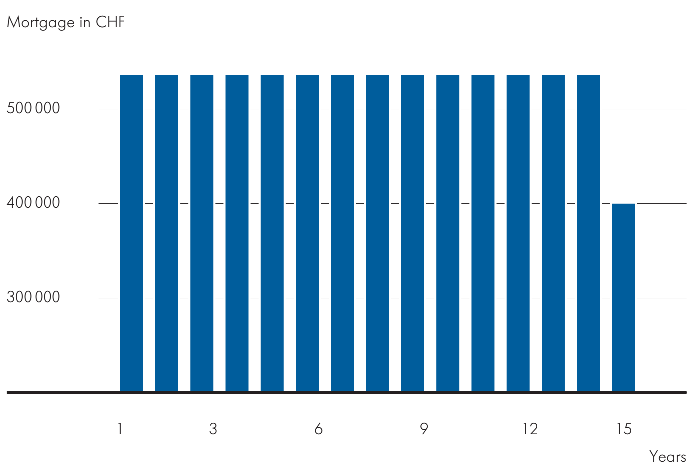
Indirect repayment

In this case you repay your mortgage not directly to the bank but by making regular payments into pillar 3a. As a consequence, the mortgage debt does not decline, and the debt interest remains unchanged. You earn attractive returns on the 3rd pillar credit balance, thereby enabling you to expand your retirement provision. Indirect repayment allows you to enjoy double tax benefits. In your tax return you can deduct in full the sums you pay into the restricted 3a pension plan from your income. And because the level of debt interest remains constant, you can also make maximum use of this tax deduction.

Direct repayment



Indirect repayment



Draw up an individual financing solution with us

It is not always easy to decide which form of financing is the right one. We therefore draw up a tailored solution with you that optimally reflects your personal circumstances and the current interest situation. While doing so we also show you how you can combine different mortgage products.
In the following section we present the most popular products.

Construction loan
This loan is used to finance the construction phase of a new building or conversion. You forward the incurred construction invoices to your customer relationship manager, enabling the payments to be settled from the construction account. The construction loan constitutes a current account loan only once the contributed own capital has been used up. Once the construction work has been completed, the loan is converted into the desired mortgage model (consolidation). Depending on the progress, part of the amount can be converted into mortgages during the construction phase, if this has been agreed (partial consolidation).

Variable rate mortgage
The interest rate is continuously adjusted to changes on the money and capital market. These can cause interest rates to fall or rise, making it difficult to budget precisely.

Fixed rate mortgage
This is taken out for a specific period of time at a fixed interest rate, making it possible to budget carefully. As a result, the risks of an interest rate hike during the term can be avoided.

SARON mortgage
This mortgage is taken out for a specific period. The interest rate is based on the money market and is adjusted at regular intervals.

Further mortgage models
We also offer other forms of mortgage. We would be happy to inform you about the ideal solution within the context of a financing proposal.

Insure yourself against unforeseen events

Regular payment of the mortgage interest is not a problem for you. But what would happen in the event of loss of earnings due to illness, accident or death?

With a thorough analysis of your retirement provision and the corresponding selection of the right insurance products, you can ensure that your family members and investments are properly protected. The insured sum can be used, for example, to reduce the mortgage debt so that the mortgage costs fall and your home remains affordable for your family members. In the case of cohabiting couples, life insurance policies are important. These can improve the partners' situation in terms of statutory succession.

Within the context of our needs-based consultancy services, we place an emphasis on all-round advice. In this respect, your long-term financial security and retirement provision are two key aspects that need to be considered in connection with the financing of home ownership.

Overview of the main types of insurance policies

Property insurance policies	
Construction insurance	A combined construction and builders' liability insurance policy covers unforeseen damage to the incomplete structure occurring during the construction phase and protects you from liability claims in the event of property damage and personal injuries.
Building insurance	Provides protection against damage to the finished building – for example, in the event of fire damage and natural hazards, water damage and possibly also glass breakage.
Liability insurance	All home owners are advised to take out a liability insurance policy. This protects them against often substantial financial consequences in the event of personal injuries or property damage suffered by third parties.
Household contents insurance	You also need to remember to bring your household contents insurance policy into line with the new circumstances. This will ensure that all your prized possessions are not under-insured.
Life insurance	
Whole life insurance	Ensures that your mortgage remains affordable for your family members and can continue to be repaid in the event of death.
Disability pension	Protects you against the financial consequences of illness or accident.

Avoiding misunderstandings

Maximum loan percentage
That portion of the financing provided by the bank that exceeds two thirds of the market value. As a rule, up to 80 percent. Must be repaid on a straight-line basis over 15 years.

2nd pillar
Denotes an occupational pension fund. May be used in part to finance owner-occupied residential property. The sum available is set out in the respective pension fund regulations. A withdrawal can be made every five years, at the latest up to three years before retirement.

Pillar 3a
Restricted personal retirement provision at banks or insurance companies. Can be used to finance owner-occupied residential property. A withdrawal may be made every five years.

Affordability
If the annual burden of interest, amortisation and service charges does not exceed one third of your gross income, your home is deemed financially affordable for you.

Cadastral survey
The cadastral survey records roads, plot boundaries and buildings. It is updated by the land register office every time a change is made to the real estate property.

Condominium owners regulations
Provisions governing the collective management and utilisation of the property as a whole and also listing the rights and obligations of the condominium owners.

Equity
Your own financing contribution. Should amount to at least 20 percent of the property's market value, of which 10 percent really is own assets*.

Imputed interest rate
Interest rate used to calculate long-term affordability. With your own home you invest in the future. Zuger Kantonalbank applies an imputed interest rate in order to ensure that the financing remains affordable for you even during phases of high interest rates. The actual interest costs deviate from the imputed interest costs.

Land register
This records all the important data relating to a real estate property: details of the ownership circumstances, location, plot boundaries, real estate liens (mortgages), easements (e.g. rights of way) etc. The transfer of ownership of real estate is legally established only once this has been recorded in a public deed and entered in the land register.

Land register excerpt
Contains precise information about a specific real estate property.

Loan to value ratio
The mortgage as a percentage of the purchase price or market value of a property. In the event of a purchase price of CHF 500 000 and a mortgage of CHF 400 000, the loan to value ratio is 80 percent.

Maintenance costs
Costs that as a rule are incurred by works such as renovation, repairs etc. and that are used to maintain the value of a real estate property.

Market value
The value estimated by an expert to reflect the market value. May differ from purchase price.

Purchase agreement
Governs the reciprocal obligations of the buyer and seller relating to the transfer of real estate ownership. Must be drawn up in the form of a public deed.

Repayment
Repayment of the mortgage debt. The share of the mortgage that exceeds two-thirds of the market value must be repaid within 15 years. For further details, see page 8.

* savings, securities, advance on inheritance, gift

Call us on 041 709 11 11 or contact your relationship manager directly. We look forward to accompanying you along the path to your own home.

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