MORTGAGE LENDING IN ALBANIA

WHAT YOU NEED TO KNOW WHEN TAKING A MORTGAGE LOAN

BANKA KOMBETARE TREGTARE

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Educational Mortgage Lending

(Second Edition)

PURPOSE OF PUBLICATION

This new edition is a significant improvement and enlarged version of an already publication that has been prepared by Banka Kombëtare Tregtare on February 2009 aiming to give educational information on mortgage lending.

Targeted customer group of this mortgage education guide are those, who are first time home buyer, looking for refinancing, house construction, home improvement, shop loan, or in the market for the second home or investment property, considering a possibility of taking a mortgage loan. It provides brief and relevant information on residential properties that can be mortgaged and requirements to a potential borrower. It covers the mortgage-related expenses and lists several practical advices.

This second edition provides updated information and additional information and materials related to mortgage lending. There is a new section related to the topic should I buy or should I rent a house. Main advantages and disadvantages for both options are mentioned in order to better focus the customer to take the best decision. All sections of the previous version are enriched with additional information and a new appendix is added: Pre-contractual information for Mortgage Loans.

This education guide contains a mortgage glossary and gives some theoretical insight into mortgage lending terms. All this should be helpful in the readers' communication with banking credit officers.

This education guide has been prepared to give information on mortgages for non-professional audiences and public education purposes only. In case of making a final selection of a mortgage loan, readers should seek professional advice from authorized loan officers in banks.

At first the process of applying for a mortgage may seem somewhat daunting, but actually, this process is relatively straight forward. The difficulty typically lies in the applicant gathering together the necessary information and documentation to support their mortgage application. Individuals that are organized and keep good records should have little trouble pulling together the necessary supporting documentation. Individuals who are not organized, or who do not save account statements, may haveto spendmore time collecting together the necessary documentation. But in any case, bank officers will be next to them, showing all the efforts and trying to solve any difficulty.

As the saying goes, “We are here helping you make the right choice”.

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Introduction

To the vast of majority of the general public the purchase of a home is the single, largest financial transaction they will ever make. In addition, obtaining a mortgage loan to finance this house purchase is likely one of the most significant financial decisions you will make in your lifetime. Asking the right questions before you choose a loan can mean the difference between obtaining a loan you can afford and losing your home to foreclosure. With the expansion of the mortgage marketplace over the past few years and the creation of new products and programs, it is important to understand the terms of the loans being offered to you so you can make intelligent choices. If you are thinking about getting a mortgage loan, we urge you to take the time to learn about your options. So, you're interested buying a home? Great! But be careful. It can be a dream, but without proper planning and good information, it could turn into a nightmare. You certainly don't want to see more of your hard-earned money leave every month than is absolutely necessary. How can you combat this? Well, the first thing that you can do is educate yourself because knowledge is power.

In this short mortgage guide, you will be provided with the relevant information you need to know to get familiar with mortgage lending, to be able to choose the optimal lending conditions and avoid excess costs.

You will gain some theoretical background which will enable you to talk to a credit officer on equal terms, you will learn for what purposes residential mortgages can be granted and what documents you will be required to provide to get a mortgage; you will also learn how to prepare these documents and how to calculate your mortgage-related expenses, etc.

Remember, as the saying goes, "Knowledge is power". In this case, knowledge can also be money saved!

1. WHAT IS MORTGAGE?

The word mortgage is believed to originate from the Old French words mort (meaning "dead") and gage ("pledge"). If the borrower failed to pay what was owed, then the lender would receive the pledged property, thus making that property "dead" to the borrower. If the borrower paid the debt, then the pledge would be dead with regard to the lender.

The Civil Code of the Republic of Albania defines the mortgage as follows:

"The Mortgage is a concrete right that is put over the property of the debtor or of a third party, in the interest of the borrower, to guarantee the fulfilling of an obligation."

In this Code is defined also, that the objects that can be mortgaged are the real estates, which are the land, the buildings (house/apartment) and everything that is connected permanently and continually with the land or the building.

When a person makes a request to take a loan in order to purchase a house or an apartment, the client can offer to mortgage the real estate.

The immovable properties are registered according to the law. In the administrative centers of every zone of the registration of real estates, operates the respective Office of the Registration of the Real Estates of the zone, which is a juridical person. In the registration office are taken registers of the real estates that are situated within the territory of this administrative division.

In the frame of this law, owner is the person, whose name is registered as proprietary of the real estate. The ownership of a real estate is certified by a document issued from the RERO (Real Estate Registration Office), called "title deed". Attached to the document of the ownership are the card and the map of the real estate.

Acceptable ownership title's origins taken in consideration are; ownership transfer contract, the court decisions, the inheritance acts and other legal documents that raises claim onto ownership.

If it is taken a loan for purchase of house or apartment, the property is registered in the name of the buyer, who has to sign a mortgage contract also. The mortgage contract is registered in the respective sector of the card of the real estate and is used as collateral for the fulfilling of a contractual obligation.

The Mortgager/owner of the collateral cannot transfer the ownership title, to a third party until the moment, the borrower liquidates completely the loan toward the Creditor/Bank which through a Notary Declaration agrees for the cancellation of the mortgage burden or gives the approval for the transfer of the ownership title, keeping the "mortgage burden".

Now that you have a clearer understanding of exactly what a mortgage loan is, let's take a closer look at its components.

A mortgage loan has three components, without which the loan would not be viable. Each component must have a value, or the loan cannot be computed. These three components are:

- The size
- The interest rate
- The maturity

The size of the loan simply refers to its face value; in other words, the amount of money that you wish to borrow. The interest rate is the regular cost that the lender charges for the borrowed funds. It's usually expressed as a percentage of the loan, and it is calculated on an annual basis. It has a direct impact on the size of your monthly payment. The lower the interest rate, the lower your monthly payment will be; the higher the rate, the higher your payment. The loan's maturity refers to how long it will take to fully amortize, or pay off, the loan. It may be expressed in months or years.

2. SHOULD I BUY OR SHOULD I RENT

Buying your own home is a huge decision. So before deciding for a mortgage loan you really have to think and decide whether you want to buy a residential property or you want to continue living in rented premises. It's important to weigh up the pros and cons of owning first. Some homebuyers may wonder if their decision to purchase a home is the right decision for them since the average person changes their mind regarding their decision. While taking this information into consideration, many people do wonder if purchasing a home is the best option for them.

However, there are many advantages to purchasing a home. Yet there are disadvantages, which means renting may be the better option for them. The best way to know whether buying or renting is the better situation; the individual must look at their situation in order to make the right decision. Affordability must be taken into consideration when deciding to buy or rent, despite the plans of a person to stay in a home for a long time.

Before moving into your new home, you'll need to put some thought into how much it's going to cost you to stay there after you take up residence. Many financial experts suggest that your monthly mortgage payment not exceed 28% of your gross monthly income and that your total monthly debt payments not exceed 36% of your gross monthly income. If you go beyond these limits, you may run into trouble because, in addition to paying the mortgage each month, you have to factor in home maintenance. From carpet to window coverings, everything costs money and nothing lasts forever.

Renting may be a little easier on the pocketbook because it provides a fixed-amount cost for monthly expenditures, which are paid simply with the rent. Besides perhaps increasing from year to year, the rent remains steady. Instead of spending your money on house maintenance, you can invest it or spend it as you like.

If you're thinking about buying a home here are few questions to consider:

• Do you plan on living there for at least some years?
• Do you have a budget, good credit and emergency savings?
• Do you have enough for the down paymentand related expenses?
• Do you have steady income?
• Can you cover the recurring cost of owning a home?

Moreover, you need to know and have necessary information before choosing to purchase a home. Also you should consider the main advantages and disadvantages of buying through mortgage loan. Below are listened some main ideas.

Main things to consider when buying a home:

- Think long-term and think re-sale: Are you planning to have kids? Will you be taking care of elderly relatives? You might be planning to live in your first home for only a few years. In that case, who is your target audience when it comes time to sell the house? If you buy a house on a very busy street, when you are ready to sell the house, most families with children will be out of your list of potential buyers.
- Make a list of items to check: Home-buying is an emotional process. Ideally, you should set aside all your emotions when evaluating a house. Make a checklist of your must-haves, nice-to-haves and other essentials. Every time you visit a house, take the checklist along with you; take photographs so you can cross each item off your list. If you fall in love with the house and your checklist shows that the house has none of your must-haves, it will at least make you pause and think.
- Look at all the expenses when you are budgeting for the house: When budgeting for the house, don't stop with principal, interest, taxes and insurance; add in utilities, cost of commuting and upgrades. Budget all of these expenses and see if

you can still afford the house.

- Be sure to read your contract before you sign it: A house is probably the largest purchase you will ever make in your life, so make sure you understand the terms of your contract. If you don't understand any of the terms, ask your mortgage officer or your real estate agent.
- Learn about the neighborhood demographics: If you are buying a house in a neighborhood full of renters, it only takes a few bad renters or bad landlords to drive the neighborhood down fast.

Advantages of Home Buying may be as follows:

- There are instances in which the cost of ownership can be less than renting.
- You are going to acquire your own house, rather than wasting your money on rent expenses.
- You have control of the property and realize that the acquisition of the home is a capital gain.
- You have "forced" savings, which can be important when the buyer pays down the balance by a substantial amount.
- You have experiences personal freedom by being able to redecorate, remodel, or make improvements as they see fit.
- You experience fewer restrictions. There are a fewer number of rules that the homebuyer must abide by.

Main Advantages of Renting may be as follows:

The initial investment to rent a home or apartment is quite low.

- Renting costs less money. The funds that would normally be used toward a down payment or higher mortgage payments can be invested into savings accounts that give higher returns. This is especially true in situations where the property is lived in by the renter for short period.
- The renter has limited responsibility because they do not have to take care of repairs. The landlord is responsible for these tasks. When owning a home, the owner is responsible for all repair costs.
- The renter has less of a tax impact on their financial situation. The renter is not impacted by such items as property taxes that can fluctuate often.
- The renter may be able to budget easier. Rent is an amount that is fixed and may even include utilities in the rental amount. A fixed amount can allow the renter to set a budget easier because the renting cost is set.
- The renter has more mobility and flexibility to move since leases tend to be short-term.
- The cost to move in is lower. There may be no down payment and less deposit required.

On the other hand there are some Main Disadvantages of renting your home:

- You won't get any equity gains in the property you're renting. Even though you're paying for a service (i.e. somewhere to live), your rent money is basically dead money. The real beneficiary is the landlord who earns an income and has his or her debt paid off by you.
- Not all landlords are nice people. You may come across someone who is difficult to deal with or unwilling to, say, make repairs in a timely manner;
- You may not be able to renew your lease on the same or similar terms and conditions. This may result in an unplanned rent increase or having to vacate the property;
- You'll be unable to renovate or make changes to the property to suit your needs, and there may be restrictions on things like pets;
- There is no incentive to improve or decorate the property from a financial perspective as any gains go straight to the landlord;
- Each time you relocate (either through choice or need) there will be a cost - moving.

Once you have decided that you vote in favor of buying other than renting, you have to make another analyses and consider the pros and cons for a mortgage loan:

Main advantages about buying through mortgage are as follows:

- By obtaining a mortgage loan, the borrower employs one of the most basic principles of real estate purchasing: using leverage by buying with other people's money. This eliminates the need to use precious cash to buy the home; potentially depleting reserves which could be used for other purchases, emergencies, or other investment opportunities. And equally important, you may not possess enough cash to the buy the real estate.
- You can use the property value as collateral for a second loan in the coming future.
- Mortgage loan can serve as proceeds for various purposes, such as: buying a home, buying a shop, construction of a house, construction of a summer cottage, refurbish of your primary dwelling, etc.
- The property financed can be used as a secondary residence or you could lease it out. Where you can repay the monthly installment from the rent generated incomes.
- A mortgage is a cost-effective way of borrowing; Interest rates on mortgages tend to be lower than any other form of borrowing because the loan is secured against your property.

However, taking a mortgage is associated with certain disadvantages:

- It's a big commitment – you need to be sure you can afford what you're taking on.
- There is a risk of default, because of unemployment, disease or another unforeseeable event which is not covered by insurances undertaken.
- You might face the risk of property value reduction; as a result, the future price of your property may turn out to be lower than your debt to the lender.
- The interest rate may fluctuate as loans are granted with variable interest rate. If the interest goes up, the monthly payment on the loan will increase.
- You are carrying an enormous debt over a long time.
- If you stretch your budget when you buy you may not have money for meals out, holidays and entertainment.
- The market and home prices fluctuate. The appreciation or depreciation of the property value depends on when the home was bought, whether during a boom period or a bust period. The property may not appreciate at the rate the homeowner anticipates, leaving the homeowner with no profit when planning to sell it.

3. HOW TO ASSESS YOUR OWN ABILITY TO PAY AND OPTIMAL LENDING CONDITIONS.

You need a mortgage loan to purchase your dream home. Lenders need to make loans in order to profit and stay in business. Each party needs to feel comfortable doing business with the other. Lenders will go to great lengths to find out all that they can about you, and rightly so. But it is not, nor should it be, a one-way street. You'll want to find out as much about them as you can, as well.

The first step in the loan application process should be for you to do a little homework. Shop for mortgage loans among several banks. Competition is fierce among lenders, and although rates may not seem to vary too terribly much, the costs that lenders charge for their services in the way of fees can vary a great deal. Shop around to see who may have the best deal for your unique circumstances. Hereafter, narrow your choice of lenders to one or two of good reputation, which have a number of loan programs available.

When you are ready to actually apply for the mortgage loan, you will normally meet with a credit officer who will help you to complete the application. The officer will require a good amount of information from you. But once again do not forget that this is your opportunity to interview the lender, as well. Write down pertinent questions that you would like to ask. After this first contact you have to be ready in and well prepared for the coming interview.

First of all, start doing some simple calculations. Calculate your monthly income and expenses. By doing this exercise you will be able to assess your financial circumstances, but also enable you to save time when filling application forms at the bank.

Begin the analysis with your family monthly income and expenditures in detail because this exercise is crucial for future financial security of your family. You spend money for food, clothes, transport, entertainment (these are regular everyday expenses), utility services, tuition, car maintenance, refurbishment costs and maintenance of your home, repayment of the loans you took earlier, etc.
Once all family budget lines have been calculated, you are ready to determine the family cash surplus i.e. the difference between the monthly income and expenditures. At the same time, based on the amount you get following your calculations, you may calculate approximately the loan amount that is affordable to your family.

The internal procedures of banks stipulate how much the monthly payment on long term loans maximum may make up of the borrower's gross monthly income as a percentage. This percentage can vary between 30 and 50. Some banks have in addition guidelines of minimum amount for consumption for each member of the household.

For an illustrative example of self-assessment of the ability to pay, see attachment 1.

4. WHAT INFORMATION DOES A POTENTIAL BORROWER NEED TO HAVE TO MAKE A FINAL DECISION ON TAKING A MORTGAGE LOAN?

After the self-assessment of the ability to pay, you may be conscious of the maximum loan amount you may expect to be granted, you are ready to take the next step i.e. to visit one of bank branches, the one which suits you best. But start doing your own research, pay attention to our advice.

When searching for the best mortgage, here are some important questions that you'll need to consider:

Which mortgage loan maturity is right for me?

Most mortgage loans are created on the basis of a 20 years repayment plan, but they can vary from 10 to 30 years. When you consider the maturity you want, decide how much you can comfortably pay each month. The shorter the maturity you choose, the higher your overall monthly payment will be, but the more you'll save in interest charges over the life of the loan. For calculating the loan repayment schedule, see attachment 2

What's the interest rate of the loan?

Interest is essentially the price you pay the lending institution for the use of their money. Of course, the lower the interest rate the lower your monthly- and overall payments. Lenders typically compete fiercely in the marketplace, so shop around for the lowest interest rate that you can get. Be careful in understanding the difference between nominal and effective interest rate, The nominal rate as frequently communicated in TV's spots does not include other credit cost (commissions, fees, insurance premiums, etc) , whereas the effective interest rate takes those additional credit costs into account. The effective rate allows home buyers to compare different types of mortgages based on the annual cost for each loan.
What is the minimum down payment?

Sa është minimumi i këstit të parë? (Kapari)

It depends on the bank but minimum is often between 15 and 40 per cent of the price of real estate. The down payment amount is usually generated from family savings. It is necessary to know that the new house will require also other expense such as furniture expenses. In order to afford also these expenses, one can liquidate the minimum down payment amount required and to use part of the savings for buying furniture or liquidating other expenses. If the customer participation is lower the monthly installment will be higher.

What is the mortgage loan amount?

The mortgage loan amount is the amount of money you are borrowing. When buying a home, this amount is usually the price of the home plus any fees and costs minus your down payment. The lower the dawn payment amount is the higher the mortgage loan amount required. If you are refinancing, the amount of your refinance loan should be the payoff of your current mortgage plus any fees.

What is a credit register inquiry?

When you apply for a mortgage loan the bank credit officer should obtain a release from each applicant, co-borrower and surety in order to obtain a copy of his/her credit report from the Credit Registry. The Credit Registry is an electronic database on borrowers/sureties from the Albanian banking and financial system. The borrower's/sureties report generated by the Registry contains information on the loan amount, repayments, amount on arrears, collateral, credit lines when the borrower is a related person and loan status history over the last two years. You should be very careful in the repayment process to be as regular as possible in order to have a good credit history. Customers with bad credit history may find difficulties if they want to be refinanced.

How much will my total monthly mortgage payment be

How is this payment divided between interest and principal for the term of the loan?

You need to know your total monthly payment amount to decide whether you can afford a particular loan. Just because a lender says you qualify for a certain loan amount does not mean that loan would be affordable. Some loan products offer "teaser rates" low interest rates for a short period that later increase, resulting in significantly higher monthly payments.

Do the monthly mortgage payments include property and life insurances?

When the lender tells you the "monthly principal and interest" payment, it does not include the amount you need to pay every month for life and property insurances. Most of mortgage loan contracts contain a requirement that the borrower pays both insurances. If the monthly payment that your lender quotes does not include a portion for insurance, you need to add in those costs to determine your total monthly housing payment

Is the interest rate on the loan "fixed" or "adjustable"?

The rate can in principle be a "fixed rate," meaning that it remains the same throughout the entire term of the loan, but this loan product is not applicable in Albania yet. There are also variable or adjustable rate mortgage (ARM) loans where the interest rate can change during the loan term. Often, an ARM offers a lower interest rate at the beginning of the loan term, which results in a lower monthly payment. However, the interest rate may go up or down, and you may then have a higher or lower monthly payment that you for the former may or may not be able to afford.

What are the closing costs of the loan and to whom are they paid?

Closing costs may be difficult to spot because often they are paid at the disbursement date from the loan that you are getting and not out of your pocket—but you are still paying them! Some of the closing costs are disbursement commission, property and life insurance, etc. Make sure you understand what each cost item is and to whom the money is being paid. For details, see enclosure 4

Does the loan contract contain a prepayment penalty?

A prepayment penalty is a fee you will be charged if you pay off your loan early. Actual prepayment penalties applied by the banks based on Bank of Albania regulation are 2% of the prepaid loan amount in case the period between the prepayment and the loan maturity is more than 1 year and 1% of the prepaid loan amount in case the period between the prepayment and the loan maturity is less than 1 year. Although some banks may apply 0% prepayment penalties.

What currency should you select in mortgage lending?

A home currency mortgage is a mortgage which is repayable only in Lek, rather than foreign currency mortgage which is repayable in a currency other than Lek. Borrowing in Lek is one of the fundamental advantages of mortgage loans, since you may easily make your repayment plan in advance for the all year and have no surprises during this period. By borrowing in Lek will easily manage your own portfolio and minimizing the risks related to your daily or monthly expenses. Even though the sale price on the contract may be in foreign currency, you are advisable to take the loan in Lek and do only one FOREX transaction rather than doing it monthly till the loan to maturity.

The interest rate charged on a foreign currency mortgage is based on the interest rates applicable to the currency in which the mortgage is denominated and not the interest rates applicable in LEK. Foreign currency loans involve a number of additional risks to the borrower as well as the lender (i.e. the bank). For the borrower, taking on debt denominated in foreign currency without the appropriate information is ultimately a special form of currency speculation which exposes the borrower to exchange rate risk

Foreign currency mortgages are for risk-aware speculators. The currency market is famously unpredictable and by borrowing money in a foreign currency you're effectively betting that it will either stay stable against the LEK or fall against the LEK.

Foreign currency mortgages require careful consideration. In case of emigrants who have their income and main assets in for instance Euro, it may make sense for them to take a mortgage loan denominated in foreign currency.

Actually credit officer encourage people to take mortgage loan in ALL currency mainly for two reasons; T-Bill interest rate has been decreasing and also the spread of the loan in general has been decreasing and the interest rates in Lek and Euro are nearly the same.

In attachment 3 you will find a number of useful information related to mortgage loans terms and conditions offered by commercial banks including the interest rate regime.

Do I need to understand all the clauses in the signed documents?

You should carefully read and understand the loan agreement, the mortgage contract, and the insurance policies in order to understand your rights and liabilities at the same time. You may find difficulties in understanding the loan terms and conditions, so do not hesitate in asking the other party (credit officer) or your personal lawyer to explain them in details.

Be careful to ensure that everything you have discussed and accepted during the loan origination process is materialized in the legal documents. What matters in the end to solve future problems is only that

Can I transfer the mortgage loan outstanding to another bank?

You have the possibility to transfer the outstanding loan amount to another bank due to better terms and conditions that the other bank can offer. This is a result of the continuous decreasing of the interest rate (base rate and spread). In any case you should take into consideration the costs of the transfer and make the analyses if the transfer of the loan is worth; comparing the costs and benefits. The costs may be: closing penalty, loan and mortgage contract expenses, mortgage expenses, property and live insurance (if applicable) and other costs. The main benefit for transferring the loan is lower interest rate. Other benefits may occur depending on bank products characteristics.

What is Pre-Contractual information for mortgage loans?

After you have discussed with the loan officer all the terms and conditions of a mortgage loan and have agreed on these terms, the loan officer must give you all the information discussed in a written form, as per Bank of Albania regulations. This information is included in the pre-contractual form (see enclosure 4) and it is tailored according to the terms you decided to choose. The agreed terms and conditions don't change for a short period of time. You should take this document from different banks and compare the terms and conditions of mortgage loans in order to choose the best loan terms for you.

5. WHAT DOCUMENTS ARE REQUIRED TO TAKE A MORTGAGE LOAN

The requested documents may vary from bank to bank but in general the following is required:

- Recent Identification Documents
- Family Certificate
- Documents to justify your incomes
- For individuals: salary draft
- For Self-Employed Professionals and Juridical persons: Legal documents of their activity, company (extract from NRC) and financial statements.
- Certificates from Court and prosecution office
- Collateral Documents: “Certificate of Ownership” or “ownership title”.
- Credit object documents if different from collateral

6. INSURANCE TYPES IN MORTGAGE LENDING

A risk is an event that could lead to some unexpected losses. Some main risks you may face here include a risk of damage to mortgage property, and default risk due to death. In order to reduce the burden of uncertainty, banks have cooperated with insurance companies, which insure against some of your life’s unpleasant surprises.

Shop around, look for better offers from other insurers, you do not need to look for a specific insurer since banks have signed contractual agreement with certified insurance companies offering insurance products for mortgage lending purposes. Do not just shop around for best offer (price) but also for the best insurer. The price is important but not substantial, since the insurer creditworthy and affordability to repay the covered risks is very important.

Insurance policies asked by banks operating in Albania are as follow:

Property Insurance

Property insurance is a product that insures borrowers and lenders against loss or damage of the property offered as collateral.

Insurance of property is mandatory under mortgage contract. If the property you have purchased with borrowed funds is damaged or ruined, you will suffer a loss on the collateral. In other words, property insurance policy makes sure that even if the property is burnt to ashes, in any case the debt under loan will be covered by an insurance company.

The property insurance required by some banks will at any time at least cover the outstanding balance and accrued interest. That means that as the loan is amortized the sum insured is being reduced. That is fine for the bank but not for you as a borrower. If the property for instance burns, you will need to erect a new property which is likely to cost more than the outstanding balance of the loan. Therefore it is highly recommended to take out a policy covering replacement value.

Since property insurance is there to provide protection for lenders then they are naturally the first ones to benefit from property insurance. Not to be left out, homeowners also benefit from property insurance.
Actually, property insurance covers two basic groups of accidental risks. These are flame-related risks (fire, gas explosion, stroke of lightning) and earthquakes. In other words, the insurance covers both in case of natural catastrophes as well as in case of human mistakes.

Life Insurance

Mortgage protection life insurance is simply an insurance that is meant to pay off your mortgage in case of your death while the mortgage is not fully paid. The original type of mortgage life insurance follows the mortgage balance so, as your mortgage obligation decreases, so does the sum insured.

The mortgage life insurance, however, is not provided strictly for the bank's benefit. Should you pass away, the remaining household may be unable to continue making payments on the mortgage. One way of protecting them from the financial hardship and of maintaining their standard of life is by purchasing life insurance as it is not possible to predict what will happen to a borrower in 10 to 30 year time. If a borrower dies without life insurance, and the remaining household is unable to repay the mortgage loan, the lender will have to foreclose on the property of the late borrower, evict his/her family, and sell the property. If your life is insured, it will be the insurance company who will repay the mortgage, and your survivors can continue to live in the property. Although the borrower may choose to have life insurance premium or to take a higher interest rate of the loan.

7. HOW TO ACT IN A DELINQUENCY CASE

Some difficulties you might encounter over your loan contract period. You are not able to comply with the loan repayment schedule any longer. During the period of the loan contract you may find yourself in difficult situations which preclude you from fulfilling your obligations under loan.

If so, the very worst thing you can do is keep silent.
If your employer has not paid your salary timely, if you are facing redundancy, or if you are in the process of being divorced or any other incidents of what we may call negative life events that are going to have an impact on your ability to pay the mortgage, then you need to be talking to your lender openly.In such situation, it is better to apply for loan rescheduling immediately. To this end, you need to go to the bank, file an application for rescheduling (in most cases it is prepared in a free form) and explain the reasons behind the application to a credit officer. Since lenders are interested in having borrowers comply with their payment schedules, there is a big chance that your lender will revise your payment schedule so that it is convenient for you. Usually, banks make a decision on rescheduling within a reasonable time.Honestly: they won't be particularly charitable because they aren't a charity, but they can show understanding and they may be able to help with payment holidays, payment rescheduling and so on. If lender's decision is positive, you will have to visit the bank office and sign a supplementary contract.Do not be surprised if the lender charges a relevant fee or slightly raises the interest rate.In addition, if you are in a delinquency situation, but you have actually been keeping your lender well-informed there is a good hope they are likely to be rather less heavy-handed with the legal action to recover the money. Keep your lender in the loop and you stand much more chance of actually keeping your home and avoiding a negative record in your credit history.

8. MORTGAGE GLOSSARY

Annuity Amortization
Means loan payment by equal periodic payment calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance.

Adjustable Rate Mortgage (ARM)
When the lender discount the interest rate on the mortgage loan by lowering the interest rate during the first few years of the loan. While the payments are initially low, they will increase when the discount expires.

Appraisal
An estimate of the value of property, made by a qualified and authorized professional appraiser by bank authorities called an “appraiser”. The appraiser prepares an appraisal report in which he/she estimates two values for the property; ILV- Immediate liquidation value and OMV – Open market value

Borrower (Mortgager)
One who receives a loan in the form of a mortgage.

Collateral
Property which is used as security for a debt. In the case of a mortgage, the collateral may be a house, an apartment, Land and building or Land.

Co-borrower
Any additional borrower(s) whose name(s) appear on loan documents and whose income and credit history are used to qualify for the loan.

Contract note:
A contract between purchaser and a seller of real estate to convey title after certain conditions have been met.

Credit Report
A report documenting the credit history and current status of a borrower’s credit standing. The report is issued by Central Bank of Albania.

Coverage Ratio
The relationship between the appraised value of the collateral and the amount of the mortgage loan expressed as a percentage.

Debt-to-Income Ratio
The ratio: borrower’s monthly payment obligation on long-term debts divided by his or her gross monthly income (as a percentage).

Default
Failing to meet legal obligations in a contract, specifically, failure to make timely monthly payments on a mortgage.

Delinquency
Failure to make payments on time. This can lead to foreclosure.
Down Payment

Effective interest rate
Is the interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account other credit cost, such as origination fee. The effective interest rate allows home buyers to compare different types of mortgages based on the annual cost for each loan.

Foreclosure
A legal process, by which the lender enforces a sale of a mortgaged property because the borrower has not met the terms of the mortgage contract.Also known as, repossession of property.

Guaranty (Surety)
A promise by one party to pay a debt or perform an obligation contracted by another if the original partyfails to pay or perform according to a contract.

Mortgage Insurance
Insurance that protects mortgage lenders against lost in the event of default by the borrower

Loan
Money you borrow from a bank with a written promise to pay it back later. Banks charge you fees and interest to borrow money.

Loan-to-Value Ratio
The relationship between the amount of the mortgage loan and the appraised value of the property collateral, expressed as a percentage.

Loan Officer
Loan officers are mortgage specialists; they will use your credit, financial, and employment information to see if you qualify for a mortgage, and then come up with mortgage financing options that match your financial capacity.

Liabilities
Your debts and other financial obligations.

Market Value (MV)
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Mortgagee
The lender/the bank providing funds for a mortgage. Lenders also manage the credit

and financial
information review, the property review, and the mortgage loan application process through closing.

Mortgager
The borrower or homeowner of collateral

Origination Fee (Flat fee)
The fee charged by a lender to prepare loan documents, make credit checks, inspect and sometimes appraise a property; usually computed as a percentage of the face value of the loan.

Power of Attorney
A legal document, authorizing one person to act on behalf of another.

Principal
The amount of money borrowed from the lender to buy your house or the amount of the mortgage loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owned on the loan minus the amount you have paid.

Real Estate Agent
Real estate agents can help you find the kind of home you seek, examines comparable homes, and compare different neighborhoods.MORTGAGE

Title Deed
A document that gives evidence of an individual's ownership of property.

Underwriting
The process and decision whether to grant a loan to a potential home buyer based on criteria related to the credit worthiness of the customer, such as employment, credit history, net assets, etc. on the one hand, and offered collateral value and collateral marketable on the other hand.

Treasury bills
Is a negotiable debt instrument with a maturity of up to one year, issued and guaranteed by the Government of the Republic of Albania.Treasury bills are issued in the national currency (Lek) and have maturities of 3, 6 and 12-month.

TRIBOR (Tirana Interbank offer rate)
Is fixed interest rate calculated based on quotations of the reference banks to place deposits in the
interbank money market.

Attachment 1

Example of Self-Assessment of the Ability to Pay

We are going to use the following example of a family willing to take a mortgage in order to illustrate the calculations of self-assessment of the ability to pay a mortgage loan.

The family consists of six members, living in their own house in Tirana. They have been thinking of taking a mortgage loan in order to buy a larger house since the actual one is not much comfortable and convenient, so they want to move in a larger house.

Family: Mr. Agim Mali (47 years), and his wife Mrs. Lindita Mali (45 years), two children, a son Ermal (23 years) and a daughter Anduela (17 years). In addition the husband's parents also resides.

Employment: Borrower is a marketing specialist at a mobile communication company, and his wife works as a Professor at University of Tirana, Economics Department. Their son has just graduated and has start working as credit officer in a bank. The husband's parents pay all utility costs.
Family's assets: ALL 2,000,000 deposits at yearly interest rate, ALL 500,000 in cash; a new car. Family income: Borrower's monthly salary is ALL 80,000. There are quarterly and yearly bonuses which are 10 percent (ALL 2,666 monthly) and 20 percent (ALL 1,333 monthly) of the basic salary, respectively.

Borrower's wife receives Lek 59,000 per month and the son receives Lek 44,350.

Family's expenditures and liabilities: ALL 500,000 car loan to be repaid over four years by ALL 15,000 monthly payments; ALL 10,000 utilities payments; ALL 100,000 is the yearly tuition fee (the borrowers' son studies to get the master degree); ALL 10,000 is spent every month for daughter's extra classes.

Let's start with incomes. The table below shows family's monthly incomes from all sources:

Source of income	Amount(ALL)
Borrower's salary income	80,000
Bonuses	4,000
Borrower's spouse salary	59,000
Interest on deposit*	12,500
Borrower's son income	44,350
Total income	199,850
Total income (excluding interest on deposit)	187,350

* Interest on the deposit is excluded from consideration because most probably the borrower will withdraw this money for the down payment purpose.

The bonuses incomes were calculated over the applicant income:
Quarterly bonuses - ALL 80,000* 10%=ALL 8,000*4(quarters)=ALL 32,000/Year. Yearly bonuses – ALL 80,000* 20%=ALL 16,000/Year
Total bonuses = Quarterly + Yearly bonuses=32,000 + 16,000= ALL 48,000/Year Monthly total bonuses= Total bonuses/12 months= 48,000/12= ALL 4,000
Now it is time to calculate family's monthly expenditures and liabilities.

Expenses	Amount (Lek)
Essential expenses(food, clothes, etc)	40,000
Utility bills	8,000
Car maintenance (garage, parts, oil)	3,000
Tuition fee **	8,300
Children Tutor	8,000
Payments under car loan	15,000
Total expenses	82,300

1. Expenses for house repair and maintenance are assessed as zero, given that a family buys a newly-constructed property. In addition you should also allow certain funds for unforeseen expenditures.
** The tuition fee is counted as an expense, since the Mr. Agimi's son is following a master degree paying a yearly tuition fee of ALL 100,000. The monthly expense is 100,000/12=ALL 8,300

Family's ability to pay a mortgage is the difference between its incomes and expenses. In the given case, it is ALL 187,380 – ALL 82,300 = ALL 105,080

Attachment 2

Calculating the Loan Repayment Schedule

When determining the loan amount, you should compare two figures:

1 The loan amount you will be able to repay based on your ability to pay;
2 The loan amount needed, say, to purchase an apartment or a house (this figure depends also on down payment).

The smallest amount of (1) and (2) will be a rough estimate of the size of a loan that a bank would grant. Below is an illustration of the monthly payment based on selected years of maturity and loan amount.
Monthly payment on a fixed interest (for one year) rate loan as a function of loan size and maturity.

Interest: 2.9% per annum

Loan amount			Maturiy		
(ALL)	10 years	15 years	20 years	25 years	30 years
2,000,000	ALL 19,220	ALL 13,716	ALL 10,992	ALL 9,381	ALL 8,325
3,000,000	ALL 28,830	ALL 20,573	ALL 16,488	ALL 14,071	ALL 12,487
4,000,000	ALL 38,440	ALL 27,431	ALL 21,984	ALL 18,761	ALL 16,649
5,000,000	ALL 48,050	ALL 34,289	**ALL 27,480**	ALL 23,451	ALL 20,811
6,000,000	ALL 57,660	ALL 41,147	ALL 32,976	ALL 28,142	ALL 24,974
7,000,000	ALL 67,270	ALL 48,005	ALL 38,472	ALL 32,832	ALL 29,136
8,000,000	ALL 76,880	ALL 54,863	ALL 43,968	ALL 37,522	ALL 33,298

Note: The data in the table is based on a nominal interest rate of 2.9% and disregard the loan origination fee.

The monthly installment is fixed for the first 12 months or up to January 01, of the following year. The nominal interest rate (2.9 %) is calculated based on the interest rate on a one year treasury bill (bono thesari) plus a margin of, i.e. in this case the interest rate on the Treasury bill is 1.4%, and a margin of 1.5%. Some banks apply also minimum interest rate after 1 or 2 years from the disbursement date. Some banks adjust the interest rate on the loan every January 01, based on the interest rate on the one year Treasury bill at that time and some banks adjust the interest rate each 12 months from the disbursement date.

Let us come back to the example used in attachment 1 with the Mali family.

Let us assume that the contract price for the house is ALL 7,000,000, and the deposit of 2,000,000 is used for down payment. The family will thus need a loan of ALL 5,000,000 which is equal to 71% of the purchase price.

Based on attachment 1, the family's monthly difference between its incomes and expenses amounts to ALL 105,080. The family prefer a 20 year loan and from the above table, you will find that the monthly payment to a loan of ALL 5,000,000 and with that maturity is in bold in the table), and which is well below the ALL 105,080. Assume that the bank in this example requires that the monthly payment on the loan does not exceed 30% of the gross family income. 30% of the gross family income is equal to All 56,205 (30% of ALL 187,350) and as the monthly loan payments amounts to ALL 27,480, the customer is eligible for a loan.

Attachment 3

Mortgage loan conditions offered by commercial banks

Currency/Term s of loan	ALL	EURO	USD
Collateral	The credit subject or another property	The credit subject or another property	N/A
Interest rate*	T- Bill + 1.3% – T-Bill + 3.2%	Euribor + 4% -Euribor + 6%	
Maturity	Up to 30 years	Up to 20 years	
LTV ratio	60 % - 85%	60 % - 85%	
Max amount of loan	50,000,000	400,000	
Down payment	15 % - 40 %	15 % - 40 %	
Loan origination fee/ disbursement fee	0% - 1.5%	0% - 1.5%	
Early Prepayment Fees	1% - 2 %	1 % - 2 %	
Notary fee	ALL 2,000 –ALL 15,000	EUR 15 - EUR 110	
Appraisal fee	ALL 10,000 –ALL 25,000	EUR 70 - EUR 180	
Life insurance premium**	0.45 % - 0.65 %	0.45 % - 0.65 %	
Property insurancepremium***	0.07% - 0.14 %	0.07% - 0.15 %	
Mortgage expenses	ALL 15,000 – ALL 25,000	EUR 110 – EUR 180	
Product types	Home Purchase Home Improvement Home Construction Shop Purchase	Home Purchase Home Improvement Home construction Shop Purchase	

Data in the table above present mortgage loan conditions of banking sector in Albania as per end of April 2017.

**The second level banks mainly use as a base rate for calculating the interest rate of the loans, Treasury Bills with 1 year maturity and sometimes use TRIBOR. Generally TRIBOR is higher than Treasury Bills and the customer should take into consideration this difference before they decide to choose the mortgage product.*
***Life insurance premiums depend on the age of the applicant, gender and the requested loan amount.*
****The property insurance premiums are calculated based on the building type and the requested loan amount.*

Atachment 4

Pre-Contractual information for Mortgage Loans

Items	Description
Introduction	Pre-Contractual information document is not a mandatory legal offer. Presented confidential figures are a reliable presentation of the bank products that will offer due to current market terms and conditions, based on given information. However, these figures can fluctuate according to the market conditions. Giving the information does not intend that the bank is obliged to provide loan.
1. Bank	Name of Bank Geographical address to be used by the consumer Web Adress E-mail Phone number
2. Purpose of product	Mortgage lending aim is to satisfy the individuals personal needs (home and shop purchase, house construction or reconstruction).
3. Product description	This section should provide a brief and clear description of the product. This product will be used for the purpose foresight in point 2 and as guarantee the bank will ask mortgage of a real estate property. Real estate properties to be mortgage are Land, buildings and any other solid properties that are incorporated, stable and continuosly part of the land or building. The property to be mortgaged can be different from the property credit subject. The appraisal report of the mortgage will be prepared by independent appraisal authorized from the bank and this expense will be covered by the applicant. The loan repayment will be performed on equal monthly installments (principal + interest) according to the repayment schedule and not as a lump sum payment at the end of the maturity.

4. Interest rate for Home Loan/House Construction Loan/ Shop Loan	This section should provide interest rate types and duration of the define period, different offers and CCY ALL/EUR. Also, it can provide interest rates bases on different customer categories depending on bank categorizations.
5. Effective interest rate	The effective interest rate (EIR) defines the total cost that the client will afford for the loan, including also interests, commissios and any other expenses that the client affords regarding the loan contract, within its conditions. For the purpose of calculating the EIR, the total cost does not include expenses that are not known at the time of the calculation, expenses to be paid by the customer in case of failure to comply with the terms stated in the contract, costs payable by the customer regarding the loan contract about third parties (for example, the notary, the Tax authority, the Real estate registration office) and any other expenses obligatory for the registrations and guarantees; expenses for isurance and/or guarantees not mandatory, expenses for commissions applied in case of unused funds and commission expenses for changing the contractual coditions. EIR will be calculated with the assumption that: - the loan contract is valid for the maturity as agreed and - the parties fulfill their obligations according to the conditions and date as given in the loan contract and - the interest rate and other expenses that are included in the EIR calculation will remain unchanged (fix) till the end of the loan maturity.
6. Loan amount and its currency	Minimum and Maximal Loan Amount Loan Currency – ALL / EUR
7. Loan contract maturity for Mortgage Loans	Maximal period for Home/ House Construction/Shop Loan in LCY and FCY Maximal period for Shop Loan in LCY and FCY
8.Loan disbursement	- As condition for loan disbursement, the borrower should open one or more current accounts - Loan withdrawal will be done through: cash withdrawal, electronic withdrawal, issuing a Check from the client to the bank, payment-request by handwriting in favor of third parties. During the disbursement period, if the Bank determines that the borrower has not fulfilled the predetermined conditions as provided in the Loan Contract signed by both parts, Bank has the right in the resolving of this contract by associating with the repayment of the borrowed amount used up to that moment and also the relevant interest.

9. Number and frequency of payments	The loan repayment will be performed on equal monthly installments. The number of installments varies due to loan to maturity.
10.Loan’s instalment amount	Installment = Principal amount + interest amount
11. Repayment schedule (repayment plan) EIR calculation Table (Efective Interest Rate)	This section shows a table of an example of the repayment plan and IR calculation depending on the loan terms (loan amount, loan maturity, type of customer) and different commission such as Life Insurance Premium, Property Insurance Premium, etc.
12. Additional costs irreversible in cases when they are applicable	For example: expenses for the appraisal report. This expense is done before the approval of the loan and is covered from the applicant, regardless the final decision. This expense cannot be avoided from the applicant. This service it’s not offered from the bank but from the authorized experts.
13. Other additional costs	Other additional costs may be Legal and Notary Expenses, Life insurance premium, Mortgage Expenses, Collateral insurance premium and Disbursement commission. The above mentioned loan origination related costs are considered as post approval loan application costs. These costs are inevitable and mandatory for the applicant before the disbursement date. The expenses of mortgage, notarization of the loan contract and the commitment commission will be paid only at start; meanwhile the life insurance and property will be repeated on yearly basis.
14. Prepayment (if applicable)	Penalty of the prepaid loan amount.

15. Official communication between parties	All notifications and communications between the parties will be made in writting and with the consent of both parties, delivered directly to the person or by registered mail in the address specified in the Loan contract or when posible through stable means of communication (e-mail address specified in the loan contract, disc, CD-ROM, DVD). The borrower/Guarantor declares and admits that all notifications made through these addresses will be considered as received. The client may present to the Bank his reclaims about the notification, within 15 calendaric days. The borrower/Guarantor is obligated to inform the Bank in case of any change regarding his addresses within 15 calendaric days. For as long as he did not inform about the new address, he has no right to contest the notifications / communications made to his previous address.
16. The right to withdraw from the loan contract	The client has the right to withdraw from the Loan contract within a period of 7 calendaric days from the date of the signing of the contract. In case when the loan amount has been disbursed in the client's account and he decides to withdraw from the loan contract, then he commits to repay the principal amount and all interest/penalties obligations, as well as other possible bank expenses with other third parties as a result of this disbursement.
17. Internal schemes of complaint	- Present a written complaint in any branch. - Visit in any branch - Through phone/call center - Through e-mail, etc

18. Other Penalties	-If the bank finds that the customer has not used the loan for the stated purpose it may ask for the total liquidation of the outstanding loan amount and accumulated interests or otherwise if it finds appropriate it can apply a commission over the disbursed loan amount. - If the borrowerfails to pay commission and interest, the bank has the right to charge a commission, on monthly basis over the unpaid commissions and interest amounts. - If the borrower cannot pay in time the matured installment (interest or principal), the Bank apart of the normal interest rate, has the right to apply a penalty on monthly basis, calculated on the unpaid due installment (inters + principal) for the period in which he is in delay, based on terms and conditions of this contract.
19. The validity of the pre contractual information	The pre contractual information is valid for a period of 7 calendaric days from the date of the signing of this information by the client.

Albania

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Dega	KASTRIOTI FIER	Tel: +355	34-233-801
Dega	BERAT	Tel: +355	32-236-470
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