CREDIT SUISSE

Glossary

Acquiring property
Real estate can be acquired in different ways: through purchase, gift, or exchange. In each of these cases, however, the contract alone does not confer ownership. The contract first has to be officially notarized by a notary. An entry also needs to be made in the land records.

Additional collateral
Additional collateral to guarantee the mortgage loan, such as the pledging of cash or assets for the Pillar 3a account.

Affordability calculation
The affordability calculation is used to check that the recurring annual mortgage and real estate costs do not amount to more than one-third of gross income. Annual costs consist of calculated interest, repayments, and ancillary costs.

Amortization
Amortization comes from the French term meaning to pay off a long-term monetary debt. A mortgage loan is repaid in monthly, quarterly, semi-annual, or annual installments. Repayment of the second mortgage is compulsory: it must be repaid within 15 years, but no later than the borrower's 65th birthday.

There are two different amortization options, each of which has an impact on taxes in a different way.

- **Direct amortization:** With each regular installment paid to the lender, the mortgage debt constantly falls by the repayment amount paid in. This reduces the remaining debt and the interest owed on it. As debit interest is deducted from tax, this procedure reduces the potential tax savings.
- **Indirect amortization:** Instead of paying off your mortgage directly, you can opt to make a full or partial indirect repayment. Amortization amounts are paid into a Pillar 3a tied pension or life insurance policy (subject to the permitted maximum amount). During this period the pension account or life insurance policy is pledged to the lending bank. Only after an agreed period of time are some or all of these funds used to repay the mortgage debt. The mortgage amount and mortgage interest rates remain unchanged, resulting in consistent tax deductions. Meanwhile, you can also deduct Pillar 3a contributions from your taxable income – so you profit twice.

Ancillary costs
Costs that also need to be taken into account when buying real estate. They include existing and new insurance policies, electricity, heating, and water expenses, and the acquisition or participation in reserves in the event of condominium ownership. Credit Suisse estimates this at 1% of market value.

Borrowed capital
To acquire a plot of land, purchasers require the necessary financial resources. They therefore borrow the required funds in the form of a mortgage from a third party (usually a financial institution).

Builder's liability insurance
This insurance covers the statutory liability of the builder-owner if claims are made against him or her for bodily injury and property damage caused during the construction phase.

Building rights
Building rights permit you to erect a building on a plot of land that you do not own and then use that building. As compensation for these building rights, the building rights holder (or "superficiary") pays ground rent to the freeholder.

Building insurance
Covers damage to the building due to fire and natural forces. Most cantons have cantonal buildings insurance offices. In the GUSTAVO cantons (Geneva, Uri, Schwyz, Ticino, Appenzell Innerrhoden, Valais, Obwalden), policies are offered by private insurance companies.

Connection of services
A plot of land and the buildings that are to be constructed on it must have sufficient access; it/they must be supplied with enough water and power, and the disposal of wastewater and other waste must be guaranteed.

Consolidation of a construction loan
A construction loan gives you the option of converting partial amounts of a construction loan into a mortgage product prior to completion of the building work.

Construction loan
Mortgage-backed current account credit to finance a new construction or conversion project, which the borrower may access in line with the progress of building work.

Construction period insurance
Insurance for the building under construction – in the sense of building insurance – during the period of construction, conversion, or renovation. It covers damage caused by fire, storms, or flooding, for example.

Contract work insurance
Also known as fully comprehensive insurance for builders. It covers unforeseen material damage to the unfinished property under construction as well as to equipment and machinery at the construction site. In accordance with the "General Conditions

of the Swiss Society of Engineers and Architects (SIA)," the damages are borne by the policyholder or builder-owner.

Contractor's right of lien
If the seller of a property has not paid contractors' invoices, the latter can have a "contractor's right of lien" entered in the land records within four months of completion of the work. This enables them to protect their claim against the property owner.

Cost estimate
Estimated construction costs based on existing planning and any guideline estimates already available from contractors, subcontractors, and other building partners.

Early repayment penalties
If a fixed-rate mortgage is terminated before the end of the agreed date, an early repayment penalty becomes due. The costs are usually based on the estimated interest rates over the remaining life and the amount of the outstanding loan amount.

Easement
A charge on a plot of land in favor of a person (e.g. residential rights, usufruct) or in favor of another plot of land (e.g. access rights) that is entered in the land records. It is a right in rem that is charged on the plot and must be borne by the property owner.

Equity
If you are building or purchasing your own home, you usually have to contribute 20% of the purchase price as equity. A minimum of 10% of the purchase price must be equity that is not taken from the second pillar.

Fix mortgage
The Fix mortgage is also referred to as a fixed-rate mortgage. It is based on a fixed term and a fixed interest rate for a fixed amount.

Flex rollover mortgage
The Flex rollover mortgage is linked to the LIBOR rate (LIBOR London Interbank Offered Rate) or another agreed base rate. If the LIBOR or other agreed base rate is negative, a LIBOR rate or base rate of 0.00% will be used to calculate the interest rate.

Flexible pension provision (Pillar 3b)
Flexible pension plans (pillar 3b) are open to everyone, whether gainfully employed or not. The accumulated capital can be withdrawn at any time.

Forms of ownership
The legal position of the owner(s) differs depending on the form of ownership. The following forms of ownership are possible:

- **Sole ownership:** The property belongs to one person only.
- **Ownership in common:** A number of owners (e.g. a married couple) form a legal or contractual community and hold a property in joint ownership. Individual owners cannot dispose of their own share by themselves. The right to dispose of the property can only be exercised jointly with the consent of all owners.
- **Co-ownership:** Several persons each own a mathematically calculated proportion of a property. The property itself is not divided up; only the disposal rights and ownership rights. Each co-owner can freely exercise a legal right of disposal over his or her own share, in particular through pledge or sale. Co-ownership might also be the result of such a pledge.
- **Condominiums:** Condominiums represent a special form of joint ownership. When you buy a condominium, you buy a share of the plot and the building as a whole (an interest); you have the exclusive right to use certain units within the building, and to fit out the interior to suit your needs. This includes self-contained apartments with their own entrance, as well as ancillary areas such as cellars, attics, and garages.

Forward fix mortgage
The Forward fix mortgage is also known as a forward mortgage. It can be concluded up to three years prior to payment and is characterized by a fixed term and a fixed interest rate for a fixed amount.

Gross income
Monthly income before deduction of social security contributions.

Imputed rental value
The tax office sets the rental value of the owner-occupied residential property. This imputed rental value is added to taxable income.

Land records
Official public register that is kept by the land registry. The register shows all the rights to and encumbrances associated with a plot of land, with its exact location, size, usage, ownership, and any charges such as mortgages and rights of third parties to the land (rights of way or utility easements, etc.).

LIBOR
LIBOR stands for London Interbank Offered Rate. This is the interest rate at which banks lend money to each other in the short term, and is set by banks in London. The LIBOR determines the interest rates at which banks lend money to clients.

Lien on real estate
If a property serves as security for a loan, a "mortgage assignment" or mortgage note is set up. Claims secured by mortgage are entered in the land records.

Loan-to-value ratio
The ratio of the market value or purchase price of a property to the mortgage is known as the loan to value.

Example

Market value of a property	CHF 1 million
Mortgage	CHF 700,000
Loan to value	70%

Maintenance
The maintenance of a building is aimed at preserving the condition of the property. The necessary expenditures are considered "maintenance" or "maintenance costs." These costs may be incurred on an irregular basis.

Market value
The market value is the price that one can expect to obtain from the sale of a property within a year under normal conditions with unfettered supply and demand.

Minergie Standard
These days, new or modern buildings are increasingly constructed in compliance with the Minergie Standard. This includes sustainable construction (environmental protection, efficient use of energy, comfort ventilation, etc.).

Mortgage
Loan provided by the bank for the financing of a property and covering the difference between the equity and the purchase price.

- **First mortgage:** Covers up to 66% of the market value/ purchase price of the property. There is no obligation to repay the first mortgage using regular repayments.
- **Second mortgage:** Covers 66% to 80% of the market value/purchase price. There is a repayment obligation for a second mortgage. For an owner-occupied property, repayment must generally be made within 15 years but no later than the borrower's 65th birthday.

Mortgage interest forecast
Forecasts published monthly by Credit Suisse Research on future mortgage interest rate developments in Switzerland with current mortgage recommendations.

Mortgage note
The mortgage note is a security and collateral for a claim secured by means of a mortgage. There is a bearer mortgage note, where the respective owner is the creditor and a handover to the new buyer is sufficient. With the registered mortgage note, on the other hand, the mortgage note is in the name of the creditor and transferred to a new creditor by means of an endorsement. The registered mortgage note is a security-free "registered lien." It is set up as a registered mortgage note, and simplifies processing between the banks and the land registry offices by means of data-based electronic exchange.

Planning zones
Division of a municipality's territory into core, residential, industrial and commercial, agricultural, and reserved zones, as well as other communal areas. The zoning defines what buildings can be built and what uses are permitted.

Property damage insurance
Covers damage to installations that are an integral part of a residential building.

Property owners' liability insurance
Covers legal liability claims resulting from personal injury and damage to property that may be brought against the house and property owner and that are not covered by personal liability insurance.

Real estate gains tax
When a property is sold at a profit, a real estate gains tax is levied on the seller by the canton concerned.

Real Estate Study
Study published annually by Credit Suisse Research with information and analysis on developments and trends in the Swiss real estate market.

Taxable value
The taxable value is determined by the property valuation under the terms of cantonal tax law. This taxable value is the basis for assessing wealth, property, inheritance, and gift taxes.

Tied pension provision (Pillar 3a)
Pillar 3a tied pension provision is only available to persons with an income subject to AHV contributions. The annual maximum contribution is defined by the government and is deductible from taxable income. The pension capital can be used for owner-occupied residential property in the following situations: purchase and construction of the property, value-maintaining and value-enhancing investment in the residential property, repayment of the mortgage debt.

Transfer of ownership
Legally valid transfer of the ownership of real estate. The canton or municipality levies taxes and duties upon the transfer of ownership. Some cantons have abolished the real estate transfer tax, however. The costs of the transfer of ownership can be dealt with individually in the contract of sale. These are normally split equally between purchaser and seller.

Transfer of titleholder
Only after the transfer of ownership are the rights and obligations transferred to the new owner and the owner entered in the land registry. This procedure is carried out at the land registry.

Value-enhancing investments
Value-enhancing investments are measures that increase the value of the property. These include expanding the floor space area through extensions or renovations. Value-enhancing investments are not generally deductible from income tax. In terms of investments that increase a building's energy efficiency, however, many cantons make an exception.

Value-maintaining investments
Value-maintaining investments in real estate are measures designed to preserve the value of the property. They prevent or reduce depreciation. This includes regular maintenance work and investments to repair damage as well as wear and tear. Value-maintaining investments are generally considered tax-deductible maintenance costs.

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SMMI 1 2274 05.2019