

Simplified information sheet

Prepared under the law on the accessibility
of products and services

Credit secured by financial instruments

This simplified information sheet is intended for you as an interested person.

You are a client of the bank or may become one.

The **ABBL** has prepared this sheet together with its members. The ABBL is the
Association des Banques et Banquiers, Luxembourg, (Luxembourg Bankers' Association).

The information sheet explains:

- What a credit secured by financial instruments is
- How the credit agreement works
- Your rights as a client
- Your obligations as a client

The information provided here is not legally binding. It does not create any obligation for you. It also does not oblige the bank to offer this service to you.

Some words are explained in the text. Underlined words are explained in a **glossary** at the end of this sheet.

By providing this information, the bank complies with Article 15 of the **Luxembourg law of 8 March 2023 on the accessibility of products and services** offered by companies.

This means that companies must provide clients with **easy access** to the products and services they offer. Clients should be able to understand and use the products and services, without assistance.

The aim is to enable **everyone to participate in social life.**

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1. What is a credit secured by financial instruments?

The bank grants you this loan in exchange for a guarantee on your financial assets (such as shares, bonds, fund units, or sometimes a life insurance policy). You do not sell these investments but use them as security for the loan.

The bank lends you a sum of money, the amount of which depends on the value and liquidity (ease of sale) of your investments. If the value of your investments increases or decreases, the amount of the loan may also change.

Depending on the bank, you can use this money to:

- buy other investments;
- finance a personal project;
- cover everyday expenses;
- or even for a real estate project.

In exchange for the money lent, you agree to repay the bank the loan amount and interest.

In the **following text**, the credit secured by financial instruments will simply be referred to as a “credit”.

2. What happens BEFORE signing the credit agreement?

Before signing the contract, the bank must explain you how the credit works.

This information is called “pre-contractual information.”

The bank must explain:

- the duration of the credit
- the total cost of the credit
- the interest rate
- how you repay the money (e.g., monthly instalments)
- the conditions for early repayment
- whether you have a reflection period,
- what happens if you do not make the payments
- if and how you can terminate the contract.

Depending on your country of residence and the purpose of the credit, this information may be provided to you:

- by your **bank advisor**;
- in the **SECCI form – Standard European Consumer Credit Information** form (if it is a consumer loan);
- in the **ESIS form – European Standardised Information Sheet** (if it is a mortgage loan).

The bank must also assess your **financial solvency**.

This means the bank **must verify if you** are able to **repay the credit**.

For this, the bank asks for information about:

- your income (salary, pensions, etc.);
- your expenses (rent, bills, other ongoing loans, etc.);
- your assets (money, real estate, etc.);
- any outstanding debts.

If you live in a country other than Luxembourg, the bank may check a database in that country. This database contains information about individuals' financial situation.

The bank then does a **credit analysis** and decides whether you will be granted the credit.

3. Do you have a reflection period?

The reflection period, is the time you have to consider a credit before accepting the credit offer. It depends on your country of residence and the type of loan.

If the law provides for such a reflection period, the bank must respect it. This period is clearly stated in the credit agreement, as well as in the **SECCI form** or the **ESIS form**, if one of these documents is used.

During the reflection period, the bank **cannot change** the terms and conditions of the loan offer.

4. How is the credit agreement concluded?

The bank sets the conditions of the credit with you, for example:

- the amount of the credit;
- the duration of the credit;
- the guarantees;
- the interest rate;
- and the repayment terms.

After that, the contract can be concluded and signed in writing.

5. How does the bank pay you the loan amount?

The credit agreement sets the conditions under which the loan amount is paid to you. The amount is disbursed once the required guarantees, have been put in place, such as your financial instruments.

6. How is the credit secured?

This type of loan always requires collateral, for example, your financial assets.

Depending on the amount of the loan and your ability to repay, the bank may also require additional collateral. For example, another person may act as a **guarantor** (personal security).

Before you sign the loan agreement, the bank provides you with pre-contractual information. This explains in detail which collateral is required.

If you fail to repay the loan or do not provide the **necessary additional assets** (see point 16.a), the bank is entitled to use your collateral. It can decide which collateral to use first – for example, by selling your financial assets.

The bank **will always inform** you before taking any action.

7. What interest will you pay?

When you **borrow money**, you must pay interest to the bank on the amount borrowed. This interest is called **debit interest**. The amount of this interest depends on the interest rate applied also known as the **debit interest rate**. There are two types of interest rates: **fixed or variable** (see points 8 and 9). The bank can agree with you on either a fixed interest rate or a variable interest rate.

8. What is a fixed interest rate?

A **fixed interest rate** stays the same for a specific period. This means: your repayment amounts (monthly, quarterly, etc.) do not change during this period.

The period is called the **fixed-rate period**.

The fixed-rate period can be shorter than the total duration of the contract. Once this period ends, the bank will agree with you on a new rate and a new repayment plan for the remaining amount.

9. What is a variable interest rate?

A **variable interest rate** can go up or down during the term of the contract. This means: your repayment amounts (monthly, quarterly, etc.) can also change. You will pay more if the rate increases, and less if it decreases.

10. What is the Annual Percentage Rate (APR)?

Depending on your country of residence and the purpose of the loan, the bank may be required to calculate an **APR (Annual Percentage Rate)**. The APR represents the total cost of the loan that you must pay.

The APR is expressed as an annual percentage of the amount borrowed. Its purpose is to allow you to easily compare different loan offers.

It will be stated in the **loan agreement** and, where applicable, in the **SECCI form** or the **ESIS form**.

11. How do you repay the credit?

You must repay the loan according to the terms set out in the contract.

The credit agreement may provide for repayment of the principal **through regular payments** (for example, every month) or repayment of the principal in a **single payment** at the end of the contract.

12. What happens if you do not repay the credit as agreed?

If you do not repay the loan as agreed, the bank may charge you late **interest and additional fees**.

If delays continue or you do not react, the bank may take further measures, for example, it can sell your securities.

The bank always informs you in advance of what it intends to do to recover the amounts owed.

13. Do you have a right of withdrawal?

If you signed the contract **remotely**, for example via the internet or by phone, you can **withdraw (cancel) the contract within 14 days**. That is called the withdrawal right.

The 14-day period starts from the moment:

- The contract is signed, and
- You have received all the necessary legal information.

The 14 days include weekdays **as well as Saturdays, Sundays, and public holidays**.

If you have the right to withdraw, the bank provides you with **clear information** about this right and how to exercise it. The bank provides this information **before you sign the contract**.

14. Can you repay the credit earlier than planned?

You can repay your loan **partially or in full** before the end of the contract — that is, before the agreed repayment date. This is called **early repayment**. However, you must first inform the bank in writing.

Attention: if you have a fixed-rate loan and you repay it early, the bank may require you to pay an early repayment fee, because this could cause them costs.

The amount of this fee is regulated by the Luxembourg Consumer Code or, where applicable, by the law of your country of residence.

15. Can you terminate the contract?

In principle, you may terminate the contract at any time, provided that you repay the **principal and the interest due**.

In this case, you must respect the **notice period** specified in your contract.

If you repay the fixed-rate loan early, the bank may charge a compensation, as explained in point 14.

The **bank** may also **terminate** the contract in certain clearly defined situations, subject to a notice period. These cases are specified in the contract. For example, the contract may state that the bank has the right to terminate the loan if you fail to meet your repayment obligations or in the event of the borrower's death.

16. What are the risks associated with the credit?

The loan gives you a certain degree of flexibility, but it also involves significant risks that you should fully understand before committing.

a) Risk of a decline in the value of your investments

The investments you use as collateral (shares, bonds, funds, etc.) may lose value during the term of the loan.

If this happens, the bank may ask you to:

- provide additional assets as collateral, or
- repay part or all of the loan immediately.

This situation is called a margin call.

b) Interest rate risk

If your loan has a variable interest rate, an increase in rates will raise the total cost of your loan.

c) Currency risk

If your loan is in a different currency from your investments or income, you are exposed to exchange rate risk.

For example, if the loan is in U.S. dollars and your investments are in euros, an unfavorable exchange rate movement could make repayment more expensive.

d) Risk of permanent loss of your investments

In the event of non-repayment or if you fail to meet a margin call, the bank may immediately sell the investments you have pledged as collateral — even if financial markets are falling.

e) Leverage risk

If you borrow money to invest even more, you could gain more if financial markets rise, but you could also lose more if markets fall.

Glossary

- **Auction / public sale:** A public sale where people bid for a property. The property is sold to the highest bidder.
- **Consumer Code:** A set of laws that protect consumers' rights, especially in credit contracts.
- **Debt interest:** The amount of money paid in addition to the borrowed amount.
Example: Marie borrows €1000. She must repay €1,000 plus €50 in interest.
- **Debit interest rate:** The percentage (%) of the loan amount that the client must pay as interest. It represents the cost of borrowing the money.
- **European Standardised Information Sheet (ESIS):** An official document that clearly explains the conditions of a mortgage credit. It helps you compare different loan offers easily.
- **Forced sale:** A sale ordered by a judge, often when the owner cannot pay their debts. The property is seized and sold to repay what is owed.
- **Guarantee:** A person (called the guarantor) agrees to pay on behalf of the borrower if the borrower does not repay the loan.
- **Mortgage:** The bank takes a guarantee on a property (for example, a house). This protects the bank if the borrower does not repay the loan.
- **Notice period:** The time between the announcement of termination (e.g., ending a contract) and the date when the termination becomes effective (when the contract ends).
- **Pre-contractual information:** Information that the bank must provide to the client before signing the credit agreement. This helps the client understand the conditions of the loan.

- **Standard European Consumer Credit Information (SECCI):** An official document containing all the key information about a credit (e.g., cost, interest rate, duration). All banks use the same document, making it easier to compare different credit offers.

A glossary is also available on the OSAPS website (www.osaps.lu)
You will find other banking terms explained there.