

BANCO DE SABADELL ADHERES TO THE CODE OF BEST PRACTICES

Royal Decree-Law 6/2012 of 9 March, on urgent measures to protect mortgage debtors without resources (amended by Law 1/2013 of 14 May 2013, Law 8/2013 of 26 June, Royal Decree-Law 1/2015 of 27 February, Law 25/2015 of 28 July, Royal Decree-Law 5/2017 of 17 March, Law 5/2019 of 15 March and Royal Decree-Law 19/2022 of 22 November), establishes a series of mechanisms to allow the restructuring of the mortgage payments on a primary residence for people who are in a situation of extraordinary difficulty ("exclusion threshold") in order to be able to pay off the mortgage. At the same time, it establishes a Code of Best Practices, to which Banco de Sabadell, S.A. has adhered along with other institutions, which foresees a first phase of action aimed at the viable restructuring of mortgage payments and, if this measure is insufficient, institutions may offer a complementary debt reduction measure. Finally, it enables the possibility for the debt to be definitively cancelled through the application of a substitute measure (payment in kind of the mortgaged property).

The following is a summary of the requirements, formalities and documentation required to be able to take advantage of the benefits of this regulation and its main characteristics:

Applicant requirements

1 - Debtors of a credit or loan secured by a mortgage on their habitual residence will be considered as within the "exclusion threshold" when all of the following circumstances are applicable to them:

- a. That the total income of the members of the household¹ does not exceed the limit of 3 times the annual Multi-Purpose Public Income Index (IPREM in its Spanish initials) for fourteen payments.
Said limit shall be 4 times the annual IPREM of fourteen payments in the event that any of the members of the household has a declared disability of more than 33%², a situation of dependency or an illness that is proven as permanently incapacitating for work. It will be 5 times said indicator in the event that a mortgage debtor is a person with cerebral palsy, with mental illness, or with intellectual disability, with a recognised degree of disability equal to or greater than 33%, or a person with a physical or sensory disability, with a recognised degree of disability equal to or greater than 65%, or in cases of serious illness that certifiably incapacitates the person or their caregiver to carry out a work activity.
- b. That, in the 4 years prior to the date of the application, the household has undergone a significant alteration in its economic circumstances, in terms of the effort to access housing (i.e. when the mortgage burden on the household income has increased), or circumstances of special vulnerability have arisen in this period for a family member, such as:
 1. Large family in accordance with applicable legislation.
 2. Single-parent households with dependent children.
 3. Households with a minor.
 4. Households in which any of its members has a declared disability of over 33%, a situation of dependency or an illness that is certified to have permanently incapacitated them to carry out a work activity.
 5. Households where there is one or more persons living in the same dwelling who are related to the mortgage holder or their spouse by kinship up to the third degree of consanguinity or affinity and are in a certified situation of personal disability, dependency or serious illness that temporarily or permanently incapacitates them to carry out a work activity
 6. If the household has a victim of gender-based violence, trafficking or sexual exploitation
 7. Debtors over 60 years of age, even if they do not meet the requirements to be considered a household according to paragraph a).
- c. The mortgage instalment is more than 50% of the household's total net income earned by the all its members. This percentage shall be 40% when any of these members is a person in the circumstances referred to in the second paragraph of sub-paragraph a).

¹ "Household" shall be understood as the unit comprising the debtor, their spouse (not legally separated), or registered partner and the children, regardless of their age, residing in the dwelling, including those linked by a relationship of guardianship, care or foster care.

² For the purposes of points a) and b) of this paragraph, social security pensioners recognised as having a permanent disability to the total, absolute or severe degree of disability, and public servant pensioners recognised as having a retirement pension due to permanent incapacity for service or redundancy, shall be considered as having a disability of 33% or more.

2 - These protection measures can also be accessed by mortgage and non-debtor guarantors of the main mortgage holder with respect to their habitual residence and with the same terms and conditions as those established for the mortgagor. In addition, non-debtor guarantors, mortgage guarantors and mortgagors who are within the exclusion threshold may demand that the bank exhausts the principal debtor's assets, without prejudice to the application to the latter, where applicable, of the measures provided for in the Code of Best Practices, prior to it claiming the endorsed debt, even if they have expressly waived the right of excussion.

Subject to the Code of Best Practices

1. The Code of Best Practices shall apply to those mortgages secured under loan or credit guarantees, when the acquisition price of the mortgaged property does not exceed 20% of that which would result from multiplying the size of the property by the average price per square metre for non-social housing shown in the Housing Price Index prepared by the Ministry of Development for the year of acquisition of the property and the province in which the property is located, with an absolute limit of €300,000. Properties purchased before 1995 will take the average reference price for 1995 as the reference price.

2 - For the application of the complementary and alternative measures foreseen in the Code of Best Practices, which will be detailed below, the following requirements must also be met.

- a. That all the members of the household lack any other assets or equity rights sufficient to pay the debt.
- b. That the loan or credit is secured by a mortgage on the only home owned by the debtor(s) and granted for the purchase of said property.
- c. That it is a credit or loan that lacks other guarantees, collateral or personal guarantors or, in the case of the latter, there are no other sufficient assets or property rights with which to meet the debt.
- d. If there are co-debtors who are not part of the household, they must be included in circumstances of paragraphs a), b), and c) above.

Proof of the "exclusion threshold" status

The customer must submit the following documents to the bank:

1. To prove the receiving of income by members of the household:

- a. Certificate of income and, where applicable, certificate relating to the filing of wealth tax, issued by the Spanish Tax Authority (AEAT) or the competent body of the autonomous community, where applicable, in respect of the last four tax years.
- b. Last three payslips received.
- c. Certificate issued by the entity managing the benefits, showing the monthly amount received as unemployment benefits or allowances.
- d. Certificate as proof of receipt of social welfare income, minimum job-seeker's wage income or similar social aid granted by the state, autonomous communities and local entities.
- e. In the case of self-employed workers, if they are receiving unemployment benefit, the certificate issued by the managing body showing the monthly amount received.

In addition, and on a voluntary basis, the "work history" document issued by the Ministry of Employment and Social Security may be submitted as a certifying document.

2. To prove the number of people living in the dwelling:

- a. Family record book or document as proof of registration as a domestic partner.
- b. Certificate of census registration relating to the persons registered in the dwelling, with reference to the time of presentation of the supporting documents and to the previous 6 months.

c. Declaration of disability, dependency or permanent incapacity to work.

3. To prove the ownership of the assets:

- a. Certificates of ownership issued by the Property Registry for each member of the household.
- b. Deeds of sale of the dwelling and of the constitution of the mortgage collateral and other supporting documents, if applicable, of the rest of the collateral or personal guarantees constituted, if any.

4. A “[certificate of compliance](#)” must be provided regarding the debtor’s compliance with the requirements to be considered as falling within the exclusion threshold according to the standard form approved by the commission set up to monitor compliance with the Code of Best Practices.

In the event that the creditor institution has in its possession data or documentation certifying any of the points referred to in the previous letters, the debtor shall be exempt from having to certify them before the institution. Similarly, for the purpose of certifying the eligibility conditions are met, the debtor may authorise the bank, expressly and in writing, to obtain the information directly from the Spanish Tax Authority (AEAT), Social Security Management Entities and Property and Commercial Registries.

Phases of action envisaged in the Code of Best Practices

1 - PRE-FORECLOSURE MEASURES: DEBT RESTRUCTURING

The debtor may apply to the bank, up to the time of the announcement of the property auction if he/she is in foreclosure proceedings, to restructure his/her mortgage payments in order to achieve medium and long-term viability, for which he/she must provide the documentation indicated in the previous section "Proof of the exclusion threshold situation".

Within one month of submitting the application and all the required documentation, and provided that the applicant proves that the requirements are met, the bank will notify and offer the debtor a restructuring plan through the joint application of the following measures:

- i. Five-year grace period on capital repayments. The capital corresponding to the instalments of this period shall be prorated in the remaining instalments. However, if the increase in the effort represented by the mortgage burden on the family income has increased by less than 1.5 and the household does not have a member in one of the circumstances of special vulnerability, the grace period will be two years.
- ii. Extension of the debt repayment period up to 40 years from the date the loan was granted. However, if the increased effort represented by the mortgage burden on the family income has risen by less than 1.5 and the household does not have one of its members in circumstances of special vulnerability, the debt repayment period will be extended up to seven years, without exceeding the period of forty years from the date the loan was granted.
- iii. Reduction of the interest rate applicable during the grace period to Euribor less 0.10. In any case, for fixed-rate loans, the current fixed rate shall apply during the grace period. However, if the increased effort represented by the mortgage burden on the family income has risen by less than 1.5 and the household does not have one of its members in circumstances of special vulnerability, the applicable interest rate during the grace period will be such that there is a 0.5% reduction in the current net value of the loan in accordance with current legislation.
- iv. Non-application, indefinitely, of the clauses limiting the lowering of the interest rate provided for in the mortgage loan contract, if such exist.

The bank may also consolidate all the debts incurred by the debtor.

In addition, the applicable default interest will be adjusted, becoming the result of adding 2% of the outstanding capital to the interest rate agreed in the loan or credit.

Furthermore, early repayment of the credit or mortgage loan requested within 10 years of the approval of the restructuring plan will not entail any compensation costs.

The bank will warn, if necessary, of the non-viability of the restructuring plan, understood to be a plan establishing a monthly mortgage instalment of more than 50% of the income received jointly by all members of the household.

The debtor may submit a proposal for a restructuring plan to the bank at any time, which must be analysed by the bank and, in the event it is rejected, the bank must inform the debtor of the reasons for its rejection.

A debtor in such a restructuring plan who, at the end of the grace period for capital repayment, is situated in the exclusion threshold as defined in this Code, may apply for a second restructuring plan, provided that the end of the grace period is not the decisive factor for being in this exclusion threshold. In this case, within 1 month of the debtor submitting a new application, the entity shall update the debtor's solvency and, if it is viable as required above, draw up a new restructuring plan under the terms of the Code. This restructuring plan will consist of a five-year grace period on capital repayments and the scheduled rate as indicated in point iii above.

2 - COMPLEMENTARY MEASURES

If the application of the previous measures is deemed non-viable (due to a restructuring resulting in a monthly mortgage instalment of above 50% of the income received jointly by all the members of the household), the debtor has the option of requesting a debt reduction of the capital pending repayment, under the terms set out in the Code of Best Practices, which the bank will have the power to accept or reject within one month from certifying the non-viability of the restructuring plan.

This measure may also be requested by the debtor who is in foreclosure proceedings in which the auction has already been announced, and also by the debtor who, being within the exclusion threshold, cannot opt for payment in kind because the home is encumbered by liens subsequent to the mortgage.

3 - FORECLOSURE RELIEF MEASURES: PAYMENT IN KIND OF THE PRIMARY RESIDENCE

Customers found on the exclusion threshold and for whom neither the previous debt restructuring measures nor the complementary measures described above are viable, may request payment in kind for their primary residence, within 24 months of their request for restructuring, under the terms set out in this section.

In these cases, the bank will be obliged to accept the handover of the mortgaged property by the debtor to the bank itself or to the third party designated by it, thus definitively cancelling the debt.

Debtors who have an approved and ongoing restructuring plan and become aware of their inability to make payments 24 months after the request for restructuring may also submit such a request. In this case, the institution will consider the possible handover of the mortgaged property by the debtor to the institution itself or to a third party designated by it, thus definitively cancelling the debt.

Payment in kind entails the total cancellation of the debt secured by mortgage and of the personal liabilities of the debtor and third parties against the bank on account of the same debt.

The debtor, if so requested at the time of requesting the payment in kind, may remain for a period of 2 years in the dwelling as lessee, paying an annual return of 3% of the total amount of the debt at the time of the payment in kind. During this period, non-payment of the rent will accrue a late payment interest charge of 10%.

The bank may agree with the debtor the assignment of a part of the capital gain generated by the sale of the property, in consideration for the cooperation that the debtor may provide in this transfer.

This measure shall not apply in the event that the property is in foreclosure proceedings where the auction has already been announced, or where the property is encumbered by subsequent liens.

Only those mortgages secured under loan or credit guarantees may take advantage of the payment in kind measure, when the acquisition price of the mortgaged property does not exceed the amount resulting from multiplying the size of the property by the average price per square metre for non-social housing shown in the Housing Price Index prepared by the Ministry of Development for the year of acquisition of the property and the province in which the property is located, with an absolute limit of €250,000. Properties purchased before 1995 will take the average reference price for 1995 as the reference price.

4. RIGHT TO RENT IN THE EVENT OF FORECLOSURE OF THE PRIMARY RESIDENCE.

The foreclosed mortgagor, whose foreclosure has been suspended in accordance with the provisions of Article 1.1 of Law 1/2013 of 14 May on measures to strengthen the protection of mortgage debtors, debt restructuring and social renting, may request and obtain from the foreclosing creditor of the property, or person acting on its behalf, the rental of the property for a maximum annual rent of 3% of its value at the time of the approval of the auction, determined according to the appraisal provided by the foreclosed party and certified by an approved appraiser.

The application referred to in the previous paragraph may be made within twelve months of the entry into force of Royal Decree-Law 19/2022, of 22 November, which establishes a Code of Good Practice to alleviate the rise in interest rates on mortgage loans on primary residences, amends Royal Decree-Law 6/2012, of 9 March, on urgent measures for the protection of mortgage debtors without resources, and adopting other structural measures for the improvement of the mortgage loan market, for those foreclosed who were already beneficiaries of the suspension and from the time of the suspension for those who benefit from it subsequently.

This lease shall be for a one-year period, which may be extended at the discretion of the lessee for a period of five years. By mutual agreement between the contractor and the successful applicant, it may be extended annually for an additional five years.

5. EXAMPLE

The following example is presented in order to exemplify the different effects that the application of each block of measures could have on the same situation:

Example: Mr. Díez was granted a 30-year loan of €180,000 at a variable rate, the reference interest rate having risen after the last review to 3.018%. If Mr. Díez complies with the requirements established for this purpose, he could request that one of the 2 existing Codes of Good Practice be applied, depending on his economic and personal situation.

Depending on which one he could apply for, his final situation might be the one shown in the table below:

EXAMPLE TABLE

Initial loan: €180,000 Initial term: 30 years Outstanding monthly payments when applying for measures: 200 CURRENT NIR (after the last review): 3.818% Euribor in force after the last review: 3.018%	NCBP 19/2022	CBP 6/2012	
		Affordability rate Effort at least 1.5	Affordability rate Effort less than 1.5
Situation with no measures applied			
Instalment payable in June - 2022 €	€490	€490	€490
Subsequent instalment (after raising the interest rate to 3.818 %) without restructuring, €	€1,217.90	€1,217.90	€1,217.90
Situation if any measures were to be applied			
Grace period to be granted, in months	12	60	24
Extension of the maximum term, in years	7	10	7
New term after maturity until novation (years)	24	27	27
Instalment to be paid during the grace period, €	€496.14	€437.70	€533.69
Interest rate applicable during the grace period, %	3.308%	2.918%	3.558%