



The Spectrum IFA Group

Independent Financial Advisers

Guide to French Mortgages, the basic facts...

The single most important element in successfully getting a mortgage in France is *INCOME*...

There are no 'self certification' loans and there are no non-doc ("sub prime") loans in France, and you will need to prove that you are receiving a regular income that it covers all of your debts three times over. This is because of strict Banque de France lending laws state that your total debt cannot exceed more than 1/3 of your total income, in some circumstances depending on the bank you may get a slightly larger margin but this is never more than a few percent. So if you earn €3,000 per month as a salary then your mortgages (including the new one), credit cards, loans and other debt repayments cannot come to more than €1,000 per month.

EXAMPLE

Purchase price	€300 000
Deposit of 15%	€45 000
Notary fees (approx 8%)	€24 000 (total cash needed €69 000)
Mortgage	€255 000

The repayments for this mortgage over 25 years at 4% would cost €1345 per month, plus approximately €80pm life insurance. This would mean that you would need to prove an income, after all other debts, of €4000pm or approximately €48,000p.a. Depending upon which bank you approach will depend upon this figure being your Net or Gross figure.

The notary fees tend to work out as: 6.3% in government taxes (like stamp duty), plus 1% in notary administration fees and approximately 1% of the mortgage amount assignment fee if you are taking a mortgage to assign the bank's legal interest in the property. At the moment EU residents may be able to borrow up to 100% of the property purchase value (i.e sale price less estate agency fees), but depending on their nationality Non EU residents may only be able to borrow up to 75/80%. The loans can be for up to 30 years, depending on age and bank chosen. As the buyer you need to fund the deposit (minimum 15%) plus the notary costs (approximately 8%).

All mortgage interest rates in France are linked to the Euribor (Euro Interbank Offered Rate) which was introduced at the beginning of 1999 along with the European single currency (the Euro), because European banks considered that it was necessary to establish a new interbank reference rate within the Economic and Monetary Union. See the following link for more information - <http://www.euribor.org/default.htm>



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Variable interest rates

These are based on the lending bank adding a margin to one of the Euribor indexes, normally the 3 month or 12 month rates are the most common used. They are typically fixed for anything from the first 3 months to 5 years, then go up or down as the market index moves. Some banks do offer variable rate mortgages that can safeguard against rises in the interest rate by capping the maximum rate, or by extending the term of the loan rather than raising the monthly payment. Most products also give you the option to convert to a fixed interest rate at any time.

Fixed interest rates

The repayments with this type of mortgage are fixed for the whole term of the mortgage, so you know exactly what you will be paying each month over the whole term of the loan. However fixed rates are usually higher than variable rates because of this, and there are normally larger penalties for paying off your mortgage early than would have with a variable interest rate.

Interest only mortgages

Hugely popular in the UK and US, interest only deals are becoming more available in France if you want to reduce the monthly repayment to a minimum. There are however differences with the products in other countries:

Assurance Vie Linked (In Finé) - With this loan instead of placing your deposit into the property you take a 100% Interest Only loan and are obliged to place the deposit (minimum of 20%) into a French investment scheme which runs along side the mortgage. These schemes can have significant inheritance planning advantages and can offer flexibility if you are going to buy and sell a lot of properties as they can be kept as the deposit for the next purchase.

Dual Phase - Some banks also offer a product which is Interest Only for 5 or 10 years and then becomes a repayment loan for 10 to 25years. This is particularly useful if you believe you will pay off large sums in the first period.

Asset Backed - One bank now offers an 80% Interest Only product which does not require a deposit into an investment scheme and does not have a second repayment phase. You simply need to provide evidence of your other net assets up to a value of between 120% and 150% of the loan amount. This is a very good and popular product especially to those who own other properties. These products are now available with fixed rate periods or 3months, 1 year, 2 years, 5 years or 10 years.

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Buy to let mortgages

For anyone looking to purchase on a buy to let basis this type of mortgage does not really exist in France. Future rent can be taken into account but the bank will normally devalue the property by 10% and then lend 85% of the 90% valuation, meaning a larger deposit is needed. The bank will also only take 80% of possible 'long term, unfurnished' rental income into account, which is considerably less than what you will probably achieve through seasonal weekly lettings.

Bridging Loans (Prêt Relais)

This is a mortgage aimed at those purchasing a property in France who have yet to complete the sale of their existing French property. In most circumstances the loan is available for up to two years pending the sale of the existing property as long as there is enough equity in it. The loan will normally only be for up to 60% of value of present home, although if the lender considers the risk a manageable one you may be able to secure a larger amount. The borrower generally only pays the interest element of the loan, with the capital being paid off on sale of their present property.

Additional Tax benefits for mortgages on your main residence

As part of La Loi 'TEPA' (Law n°2007-1223) in 2008 the French Government have introduced a policy aimed at helping more of France becoming home owners. If you meet the criteria for this then for the first 5 years of your mortgage you will be entitled to a tax credit based on the percentage of the interest paid against your loan. If your net income tax liability before the deduction is less than the deduction then the French Revenue will repay you the difference.

With effect from 2010 the French Government has amended the criteria for being able to benefit from this scheme. This is mainly in regards to newly constructed property as the government has decided that over time mortgage tax relief should only be payable on such properties if they meet the low energy consumption standard. However the rules on existing properties remain unchanged.

- Tax Relief only applies to the first 5 years of your mortgage.
- Applies whether you are buying a house/apartment or building a house.
- Is available for 1st time buyers and existing home owners who are buying a new main residence.
- The relief is granted at the rate of 40% of interest incurred in the first year, followed by 20% of interest paid for the remaining four years.

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Additional Tax benefits for mortgages on your main residence (Cont)

- Maximum reimbursement available for a mortgage in a single name is €3,750 over 5 years (€750 per annum), if this person is registered disabled then the limit rises to a maximum reimbursement of €7,500 over 5 years (€1,500 per annum)
- If the mortgage is in joint names then the maximum reimbursement is €7,500 over 5 years (€1,500 per annum), if one of the couple is registered disabled then the limit rises to a maximum reimbursement of €15,000 over 5 years (€3,000 per annum)
- There is also the possibility of additional sum of a maximum of €500 over 5 years (€100 per annum), for each person residing within your main residence for whom you officially have financial responsibility for i.e. Children, Parents. With regards to children where the parents are divorced and have joint access the maximum available would be €250 per child over 5 years (€50 per annum)

With regards to newly constructed property if the property is constructed to the *Bâtiments Basse Consommation (BBC)* low energy standard, then the relief is granted at a rate of 40% for 7 years. To qualify to the BBC standard depending on what region it is in and the properties altitude they are required to achieve an average energy consumption no higher than 50 kWh/m² per year. For those new properties that do not meet the BBC standard, the relief will reduce to 30% in the first year and 10% in the four subsequent years, in 2011 the this will lower again to 25% and 10% and from 2012 the relief will be 15% and 5%.

From 2013 only properties that are energy positive (*BPOS*) will be entitled to 40% relief over seven years, and all other new property will need to meet the BBC standard in order to obtain the relief of 40% in the first year, and 20% for each of the subsequent four years.

This information is only provided as a guide and is based on our understanding of current French legislation at the time of writing the article, if you need assistance in this area you are strongly advised to seek the help of a specialist in this field as each individual case is different.

If you have a question, want to arrange for a free financial review or just want further information I can be contacted on +33 (0)325461631, via my website www.financialexpat.com or via e-mail steven.grover@spectrum-ifa.com

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