The Estate Agency Times

Buying In France? Then Borrow In France

Why UK residents benefit from a French mortgage...
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Recent research from the Office for National Statistics (ONS) found that for UK residents, property in France remains the preferred location whether it is for a second home, an investment property or a permanent change in lifestyle.
Aside from purchasers who are willing and able to buy a property in cash, there are three ways to fund a French property purchase.
The first is to extend a current mortgage, the second is to borrow in the UK through specialist lenders for overseas property, and the third is to get a new mortgage for the French property. However, the current UK credit crunch is likely to make re-mortgaging an increasingly difficult option.
Recent statistics from the Bank of England found that in March 2008 the number of mortgages approved in the UK reached its lowest levels since the early 1990s.
An additional issue with re-mortgaging is that it can be difficult to raise more than 75 per cent of the second property's price. It also raises the concern that in the event of a repayment issue – both properties could be lost.
It's never a good idea to release too much equity on your principal residence as the recent round of foreclosures has proven. We advise our clients to use their home only to raise the down payment for the French property investment. As a result, for UK residents the best option is to finance their French property through a French bank.

More Competitive Interest rates
Borrowing in France represents the better option since, over the past few years French interest rates have been far more competitive than those in the UK.
Generally, interest rates in France are lower than sterling rates and are also more stable than rates in the UK since it is the European Central Bank that influences them. It is still possible to find mortgages in France as low as 4.60 per cent over 25 years.

The Currency Questions: The Euro or Sterling Mortgage
Borrowing in another currency raises questions and concerns about the impact of exchange rates. If the exchange rates are unfavourable, then costs can be more expensive than originally planned. For instance, the danger of a sterling mortgage to purchase a French property in Euros is that it risks having a liability to pay a fixed amount (the sterling mortgage) for an asset of a declining value (the French property) - should the value of the French property decrease.
Conversely, if you choose a French bank mortgage (payable in Euros) but work in the UK, fluctuating exchange rates could impact the amount you need to meet your payment schedule. To counter this dilemma, it is possible to buy currency at a fixed rate for several months ahead – and therefore have greater security over your budget.
Another strategy to combat currency fluctuation is to be ready to rent your property. Rental income in euros to offset a euro mortgage can be an excellent solution to getting through a tough period.

Additional Reasons
Another consideration is that unlike the UK, in France once a property is purchased, it is far more difficult to release the equity for every day matters or cash flow issues. Equity can only be released for very specific and somewhat limited reasons. Conclusion – save your UK home equity for punctual financing needs and secure the mortgage for your French property with your French property.
In addition to making financial sense in terms of liquidity, you will be able to reduce your taxable French rental income with the interest paid on your French mortgage. This is not the case with a UK equity release purchase in France.

About French Mortgages
The way in which banks assess mortgages varies slightly between lenders, with some having a higher minimum loan size or lower maximum loan to values. However, long before the sub-prime crisis, French banks tended to be far more cautious than their UK counterparts.