Equity release – the facts
The term equity release describes the process of freeing available capital from currently owned property. Other terms for this type of loan include cash-out refinance, second mortgage, home equity loan or home equity line of credit.

There is some labeling confusion from country to country. In the UK, equity release is a product also known as a reverse mortgage. The client offers the title of their property to the bank in exchange for a lump sum payment and/or a regular stream of payments from the bank. The owner retains use of the property until death at which time the property is sold and the bank reimbursed. This is a popular method to supplement retirement income. The French banks do not offer this product to date, although there is a consumer movement to demand it.

In France, equity release or cash-out refinancing refers to a mortgage where the bank gives you cash and you pay it back in monthly installments. Currently, French banks allow for up to 70% of the value of the property to be released for use in other projects, if the property currently has an outstanding loan, that loan must be refinanced at the same time. The sum of the loan plus cash-out must not exceed 70%. This is because the bank will not accept being second in line behind another lender or claimant, in case the borrower defaults on paying the loan and the property has to be seized and sold.

Lending guidelines
Other general lending guidelines around French equity release include €70,000 to €100,000 minimum borrowing, a 30-year maximum loan term and proof of ability to pay monthly loan installments. Ability to repay is defined as total monthly debt payments that do not exceed more than one third of regular monthly income. Unfortunately, French banks will not grant an equity release to consolidate other debts to arrive at this one-third debt-to-income ratio after consolidation.

They can also be less willing to grant equity release to self-employed individuals, the concern being that funds released could be injected into the business to bail it out of trouble or finance growth – both extremely risky in the eyes of the French banks.

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