salle de sejour, outside terrace with adjoining pool, and a covered terrace protected from wind and rain.

In September 2005, the Reynolds began renovating, picking up where the previous owners had left off. The work continued until June 2007 and included substantial changes such as rewiring and plumbing the house and finishing off the interior and exterior.

During this process, they became increasingly frustrated with the original lender they had been working with. There were late payments to contractors, poor accounting practices and a real difficulty in communications. In 2007, they decided to refinance the property to recover some of the equity they had contributed to the renovations, and to switch to a new financial organisation. "France Home Finance presented us with several loan options, explaining the mechanics, risks and implications of each product," explains Jim.

"Because this was a renovation of an ancient ruin, our costs exceeded our estimate. Therefore, we undertook an equity release to defray some of these additional expenses," adds Marilyn. "After surviving a property purchase, renovation and undertakings with the French banking system, I'd recommend that anyone considering a property purchase does not attempt to navigate this system without reputable professional help. The end results have made it all worthwhile though – our house is everything we hoped for over all those years of visiting, dreaming and planning." ❑

To see the Reynolds' home, visit www.provencedreamhouse.com

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 dafaults 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-revenue 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.

> **"Currently, French banks allow for up to 70% of the value of the property to be released for use in other projects"**

Relative to personal loans, equity release products tend to offer much lower interest rates and, taken over 20 years rather than seven to 12 years, offer much lower monthly payments.

In the French market, there are a variety of equity release products available including both interest-only and repayment mortgages. Variable interest rates track the Euribor index (European interbank lending rate based on European Central Bank rates) plus a percentage bank margin. It is also possible to fix the interest rate for a number of years or even the full duration.

Choosing the product that is best for you depends on both your individual financial circumstances as well as the goals for the intended capital. It's important to remember that with an equity release, the bank will need to place an official claim or 'first charge' on the property for the funds released. This is known as a *hypothèque* and the process can only be done through a French notaire. If a borrower doesn't want to travel in person to France to sign this legal act, it can be done from a distance by a power of attorney with the signature witnessed by a local notaire or French consulate.

The fees to register this charge and taxes are generally 1.5% of the amount borrowed and there can be a bank filing fee or broker fee. These costs are often deducted from the amount of cash released so the client has no out-of-pocket expense for the operation. ❑

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