CASH CLINIC

"What is the best way for us to finance the final phase of a project to renovate a French farmhouse?"

By Tahminae Madani

Q: Three years ago my husband and I purchased a partially renovated farmhouse in France. Our plan was to use the property as a family vacation home as well as a source of rental income.
Due to a variety of factors, the renovations remain ongoing and as a result, we have been unable to rent it out for any income as yet.

We are now looking for the best way for us to finance the final phase of this project. What do you recommend?

A: Based on the details provided, I would suggest you consider an equity release product.

The term 'equity release' describes the process of freeing available capital from currently owned real estate. 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 labelling confusion from country to country. In the UK, equity release is a product where 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.

In France, equity release or cash-out refinancing is referring to a mortgage where the bank gives you cash and you pay it back in monthly instalments.

Currently, French banks allow for up to 75% of the value of the property to be released for use in other projects. If the property currently has a loan outstanding, that loan must be refinanced at the same time. The sum of the loan plus cash out must not exceed 75%. This is because the bank will not accept to be second in line behind another lender or claimant in case the borrower stops paying the loan and the property must be seized and sold.

Other general lending guidelines around French equity release include a €70,000 to €100,000 minimum borrowing, a 20-year maximum loan term and proof of ability to pay monthly loan instalments.

Ability to repay is defined as total monthly debt payments and cannot 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.

A variety of equity release products are available, and choosing the one 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 lien is known as a *hypothèque* and the process can only be done through a French *notaire*. If a borrower does not 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 notary or French consulate.

I would suggest that your next step should be to speak with a professional adviser who will help you determine the most suitable product.

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