Cash in the attic

BÉRANGÈRE HASSENFORDER TAKES AN IN-DEPTH LOOK AT HOW RELEASING EQUITY FROM YOUR FRENCH PROPERTY COULD GIVE YOU A BOOST

One of the many consequences of the current financial crisis is the difficulty for individuals and companies to raise finance. Indeed, since 2008, banks have been tightening their lending criteria in many jurisdictions, including France. A consequence of this is that finding appropriate finance has become harder.

The level of business turnover is under pressure, margins are lower, and there is greater competition from abroad, all of which squeezes a business' profit down, with the consequence that business-owners find it more difficult to guarantee their levels of income. Those looking to sell their businesses are hampered by fewer buyers. And in general, all incomes are under pressure, and yet the need for liquidity is ever greater. However, all is not lost. There are solutions!

National statistics show that property prices in many regions of France have continued to rise, meaning that the longer someone has held their property, the greater inherent profit there will be in the it. Even if there was an original loan on the property, the amount of free capital will increase, and it is this free capital that could be released and made available – and all while still owning the property. In other words, you could make available some of the liquidity locked away in the value of your bricks and mortar.

SECURITY

While banks will always look at the income of a borrower to ensure they can meet their loan repayments, they will also ensure that their loan is 'secure', and so will look at what other free assets the client may have.

The reason for this alternative security is quite simple – should the bank have to request the loan's early repayment, the funds can come from the client's other assets, so avoiding the bank having to repossess the property and make the borrower and his family homeless, not the best publicity for the lender!

Although ordinary loans exist, there is also the variant loan called an 'equity release' which can be a good alternative as it provides the bank with the level of security it needs on an existing property, and so removes the need to consider other assets as the security.

Equity release could be the key to securing finance

However, many people shun the idea of debt, particularly older people who grew up with the notion that you only buy something when you have the money available. But debt is frequently a useful tool when planning tax optimisation – and especially so with the various options available today – though, admittedly, the degree of success can depend on the country of tax residency and in which country the assets are located.

> *PROPERTY PRICES IN MANY PARTS OF FRANCE HAVE RISEN, MEANING THAT THE LONGER YOU HAVE OWNED A PROPERTY, THE MORE INHERENT VALUE THERE IS IN IT*

OPTIONS

Wealthier clients could benefit from a sufficient release of funds from their existing home to be able to secure the wherewithal for a second home or a rental investment. Or, for properties with a market value of less than about €1m, both interest-only and repayment mortgages with today's low fixed rates may prove to be most appropriate. The French also have interest-only mortgages that can be secured on an investment of only a fraction of the loan amount.

For properties valued at several million euros, a bank can more easily offer the equity release schemes mentioned above, since their margins on the operation make it worth their while. Evidently, a valuation of the property will be required, and the bank will also need to know the borrower's financial circumstances in order to establish their ability to pay the loan interest.

In these cases, the amount lent by a bank (as a percentage of the security offered) can be much higher than normal loans, sometimes even reaching 100% of the funds used as security. However, the amount lent by the bank will always depend on the nature of the security: a cash security can enable loans of 100% of the cash value, whereas only around 70% of government and corporate bonds can be lent, and about 60% of equities. Whatever the nature of the security, the point is that this same security can be made to work for you again. It can be used more than once, all to your advantage.

CAN WE FIX IT?

There is one issue on French mortgages to add, and this is that it is generally the case that the monthly mortgage repayment remains fixed during the term of the loan.

This is obviously useful when interest rates rise but when they drop, clients invariably want to reduce repayments. But, in the event of mortgage interest rates increasing, and if the monthly repayments remains the same, it is the term of the loan that is extended to compensate.

Conversely, if the mortgage interest rate drops, then the term of the mortgage reduces – and this reduction in the term of the loan can be quite significant as the extra monthly repayment goes to reduce the outstanding capital of the loan, and thus the interest due, for the entire remaining term of the loan. Clearly, therefore, the earlier on in the mortgage term that this occurs, the greater the eventual benefits.

However, rest assured, for those who might be desperate to reduce their monthly repayments, most lenders will allow the monthly repayments to be reduced by some 20% of the first repayment amount.

Loans of any type can not only be used as mortgages to buy property, they can also go a long way to reduce taxation and also contribute to the increase in your overall wealth.

This is an overview of the situation; only an analysis of your personal circumstances will ensure proper financial planning.

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