

How mortgages are evolving in France

Two new types of mortgage will soon be available in France, following a law voted in March 2006. They are:

Rechargeable equity release

This mortgage enables the guarantee already taken on the property to be reused for other loans. For example, you purchase your main residence for €300,000 using a mortgage of €250,000 over 20 years at a fixed annual rate of 3.8 per cent. Five years later, you will have paid off €46,824 of the capital. This is the amount you can re-invest in a loan, without having to go through any new formalities, provided it is written into the initial loan document.

The big advantage is that you can release cash to pay for expenses such as building works, or to buy goods.

However, you should be aware that this 'reborrowing' means there will be a new monthly payment added to the original one on the existing loan.

Given that the French purchase their main residence with a mortgage based on their maximum repayment ability (33 per cent of their income), we are remaining conservative concerning the number of owners who could benefit from this option.

The Retirement Mortgage

This option is aimed at retired

people (over 75) who want to release capital from their main residence. They can do this either in a one-off payment, in regular payments, or as a fluctuating credit line for the term of the loan.

One advantage is that it is a loan where the capital and interest are reimbursable on its maturity, in other words on the resale of the property or on the demise of the borrower.

To avoid 'negative equity' or 'crossover' problems, the debt contracted would be less than the value of the property. It should also include a loan margin, to anticipate the risk of a downturn in the market.

Given the cautious nature of French banks, the cultural reticence of the French to borrow, and the fact that the older generation consider they are morally obliged to leave their property to their heirs, we remain cautious as to how many will take this up.

There are of course many other ways, which are adapted for individuals or companies, in order to release liquidity and guarantee the loan with real estate.

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