

Why a Euro Mortgage?

Once you have found the property you wish to purchase you have three choices; pay for the property outright, raise a mortgage in the UK against your UK property or raise a mortgage in France.

Paying for the property outright, provided you have sufficient capital, is one way of purchasing, although there can be advantages in some cases to raising a mortgage. For example, by purchasing a property outright you could be tying up all your available capital, restricting your future level of income. Hence the need for professional advice.

Borrowing in Sterling would mean that your repayments will not vary with exchange rates. However, exchange rate fluctuations could result in changes to the value of your property against your mortgage.

A Euro mortgage is designed for the purchase of residential property in France in the local currency.

Your property and your mortgage remain in the same currency and due to the attractive interest rate in France (on borrowing) the mortgage could cost you less.

If you have a UK property a Euro mortgage allows you to retain the equity you have built up in your UK property, without having to re-mortgage. If there is less equity in your property a Euro mortgage can provide the funds to enable you to purchase abroad.

Types of Mortgage

There are two types of mortgage product available in France, both of which are similar to those available in the UK. You can take out a Capital and Interest Repayment mortgage (capital repayment) or an Interest Only mortgage. The choice will be influenced by your objectives and requirements and we will be happy to discuss this with you.

Capital Repayment

The aim of a capital repayment mortgage is to repay the loan in its entirety, over a given term, with the outcome being that you become the sole owner of the property at the end of the term.

Interest is charged on the amount of the outstanding loan and every month your repayment will consist of an amount of interest and capital.

At commencement most of the repayment will consist of interest, with very little capital being repaid. As the loan progresses more capital is repaid.

It is important to ensure that you have sufficient life cover in place to repay the outstanding mortgage in the event of death.

There are two standard interest options available under the capital repayment mortgage;

Fixed Rate

For a certain period of the loan the interest rate remains fixed. After this period the interest on the loan will usually revert to a variable rate.

Variable Rate

This is the most popular option. The rate of interest varies throughout the lifetime of the loan, linked to the Euribor*.

If the interest rates change then your monthly repayment may be adjusted accordingly, although some lenders will alter the duration of the loan.

Interest Only

An alternative to capital repayment is rather than repaying the capital to the lender only the interest is repaid and the capital remains outstanding (to be repaid to the lender at the end of the term). The interest is calculated on a variable rate.

This option is less flexible than the Capital Repayment option, and you will need to ensure you have separate provision to repay the loan at the end of the term.

Some providers offer a combination of Interest Only and Capital Repayment. For the first 5 to 10 years of the loan only the interest is repaid and for the remaining term the monthly repayments are on a capital and interest basis.

*Euro Interbank Offered Rate is the rate at which euro interbank term deposits within the euro zone are offered by one prime bank to another prime bank.