Simon Smallwood, Business Development Director, International Private Finance Ltd, looks at the international mortgage market.
Although the uncertain financial landscape experienced over the past few months has caused nervousness amongst international investors, it has also created opportunities, and overseas property purchases have remained a popular investment.

In recent years, the number of overseas property owners has significantly increased. This interest has primarily been fuelled by the booming property markets around the world, a reduction in travel costs, and a growing number of developers building properties targeting non-resident buyers in evermore exotic locations.
However, as a result of recent world economic change, overseas property investors and second home owners are reassessing which markets are currently the most attractive. There have been significant price drops around the world, meaning that those willing to take the plunge are securing deals and reduced prices that would not have been imaginable 12 months ago.
One of the key deciding factors is the availability of non-resident mortgage finance. A growing number of existing overseas home owners are taking advantage of current exchange rates by ensuring that debt is secured against a property portfolio in the most efficient way. For example, buyers are becoming increasingly interested in raising euro finance, secured against residential property in locations such as France, Spain, Italy and Portugal, and using these funds to reduce existing debts in the UK. They are taking advantage of a £/€ exchange rate of around 1.25 compared to a rate of 1.51 in February 2007.
Those keen to use their negotiating power to snap up a discounted property, but reluctant to purchase euros using sterling deposits, should consider taking out a flexible mortgage at the highest loan to value to complete the purchase. This provides the opportunity to redeem all or part of the mortgage at a later date, if and when the exchange rate moves in the client’s favour, and minimises losses from the current weak pound.

Market mayhem
With all the stories in the press regarding the turmoil in many mortgage markets around the world, it is interesting to look at how non-resident mortgage offerings have been affected in some of the most popular markets for second home ownership.
The mortgage markets in France, Spain, Portugal and Italy, four of the most popular markets for second home owners, work very differently to those in the UK or US. The first major difference is how affordability is calculated. Rather than using earnings multiples, as the majority of lenders do here in the UK, lenders overseas take a more cautious outlook, and base loans on the borrower’s debt burden. As a general rule, lenders allow between 30 – 40% of the borrower’s income to be taken up with repaying existing mortgages, loan commitments and the new overseas finance.
The interest rates payable on a European mortgage will depend on the index that the mortgage product tracks. In the majority of European markets most products are based on the Euribor (European Interbank Offered Rate) index of which there are a number of variations including the Euribor one month, three month, six month, nine month and 12 month options. These rates vary slightly, and will usually determine how often the mortgage product is revised and how long the initial rate will be fixed for – unless of course you have chosen a fixed rate product.

Interest index

The interest rate you pay will therefore depend on the index that is used by the lender plus the margin added to that figure. The margin remains fixed for the life of the loan and it is the base rate that moves. Margin ranges vary from country to country but as an example, a mortgage product that tracks the Euribor three month index - 5.345% at the time of writing - plus a margin of one per cent would give you an interest rate of 6.345%.
Additional costs payable when taking out an overseas mortgage include valuation fees - charged by the lender - an arrangement fee - charged by the lender - and the notary’s fee. Unlike here in the UK, where only the deed of the sale needs to be registered, in the majority of overseas markets the mortgage deed also needs to be registered. This therefore increases the legal costs associated with taking out an overseas mortgage and is one of the key reasons why the remortgage market hasn’t developed in the same way as in the UK, and also why the costs of remortgaging abroad are so much higher.
A relatively conservative approach to lending is one of the key reasons why lenders in these markets - with the exception of Spain - have remained relatively unaffected by the credit crisis. Some countries – notably France and Portugal - have actually recently improved and extended mortgage terms available to the non-resident market.
In most overseas markets both interest only and repayment mortgages are available. Many lenders prefer to offer an interest only period for a limited period rather than for the full term of the mortgage. Full term interest only products, however, are becoming increasingly common.
Equity release and capital raising products are available for individuals who own properties that are either unencumbered or where they are looking to increase the mortgage amount. Lenders will nevertheless generally be keen to understand what the funds are to be used for.
While the largest range of products is currently available to purchase property as an individual, there are also a variety of products available that allow you to purchase an overseas property within the name of an offshore company, an SPV or a trust structure. As a general rule, these options will be a lot more limited and will vary from country to country.

HNW International mortgage best buy table

Loan amount €1,500,000

Country	Type of mortgage	Maximum LTV	Starting rates from	Interest Only option available
France	Variable	80%	5.00%	.
Italy	Variable	70%	4.60%	
Portugal	Variable	80%	4.49%	.
Spain				

Variable		
60%	3.68%	.

Lower interest rates will be available at different LTVs (loan to values)
*Based on a 20 year term
Information provided by www.internationalprivatefinance.com
This information should only be used as a guide. All product specifications will depend on the individual’s financial circumstances. The products mentioned here are for non-resident clients, other products will be available for residents. For a personalised mortgage quote please contact International Private Finance Ltd or submit your information online. Information correct as of 02/10/08.

Tax troubles

One key consideration, particularly for HNW clients, is the tax implication of purchasing property either using debt or funds raised elsewhere. In many countries there will be tax advantages of having debt secured against an overseas property asset. A good example of this is in France, where wealth tax is paid on net assets with a value in excess of €770,000. It goes without saying that you should always consult a tax professional when looking at tax planning issues, as well as considering your tax position back in your country of domicile.
With so many options available and the added complication of arranging your overseas finance in a foreign language, it is not surprising that many people use the expertise of an overseas mortgage broker to arrange this transaction.
While some overseas lenders employ English speaking sales staff, an overseas broker with bilingual consultants will ensure you have access to the widest possible range of mortgage products from a comprehensive panel of lenders offering non-resident mortgages.
As discussed above, as a general rule, overseas lenders tend to have fairly tight lending criteria. Some favour large loan amounts, some prefer smaller loans, some offer a range of interest only options and likewise some only provide repayment mortgages. It can be very frustrating for clients to be turned down by one lender because they don’t fit their target profile and then mistakenly believe that raising finance won’t be possible.
In addition to being able to guide you towards the product most suited to your particular circumstances, an overseas mortgage broker will also be able to explain some of the quirky details associated with overseas mortgages that you may not have encountered here in the UK. For instance, once you have received your French mortgage offer from the lender, you are legally obliged to keep it for 11 days before you are allowed to return the signed offer to the bank. Forward thinking individuals sometimes post date the application form, sign it and return it to the lender. However, all that happens in such an instance is that the offer is re-issued and the eleven day cooling-off period starts again!
Current turmoil in the financial markets has undoubtedly affected overseas property markets and the confidence of those who are considering investing in a second home abroad. But it has also created some interesting opportunities and, with the availability of overseas mortgages still strong and remaining relatively unaffected, completing your purchase with an overseas mortgage is becoming an increasingly popular option. For those in the know, this allows you to minimise your currency exposure when purchasing a non-sterling denominated asset. It also gives additional peace of mind, as the lender providing the mortgage will have carried out legal

checks to ensure that the property is properly registered, and that the price agreed is fair in the current climate.