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French Mortgages

Introduction to French Mortgages

Affordability criteria

One of the most important things to understand when buying a property is how much you can afford. In France, lenders calculate how much you can borrow differently to lenders in the UK and Ireland. How much you can borrow in France is therefore not based upon income multiples, as it is in the UK.

The affordability criteria require all your monthly contractual financial outgoings, PLUS the prospective French monthly mortgage payments, not to exceed 35% of your net monthly income.

However, for high earning applicants, buy to let investors or applicants with more than 20% deposit, the 35% debt ratio can be relaxed slightly. If you have any doubt, do not hesitate to [contact us](#).

The term contractual financial outgoings, relates specifically to debt servicing payments including mortgages/rent, car loans, bank loans and maintenance payments. The term net income refers to your take home pay (after tax and national insurance contributions).

Whether you are salaried, self employed, a home owner or tenant, Edison Ford can find the right French mortgage solution for you.

Income

The simplest income to judge is a salary. Self employed borrowers however, will have to evidence their income by tax returns and company accounts. Bonuses and dividends are taken into account if they can be proven on a regular basis, over a period of several years. Pension income can also be taken into account. If you own buy to let properties, then we will need to see proof of rental income (lease contract, rent receipts) for any lender to take it into account, although they do not all include this income in their calculations.

If you are buying the property with another person, then all names must be on the mortgage too.

Timing

You need to start applying as soon as you have reserved your property. It is important to respect this as the vendor generally sets a specific timescale for you to get a mortgage. French banks do not do pre approval but we can help you with this by giving some idea as to what you could afford, so that you are not worried about raising a mortgage.

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Once you have provided the list of required documents we will send you at least 2 mortgage options in order to select the most appropriate lenders. Your case will then be transferred to the lenders for a formal decision. You will also have to fill out a questionnaire for life assurance in France, as it is compulsory for any sale with a French mortgage. You will also need a French bank account, from which your mortgage payments will be taken, and if you are buying a leaseback property, this is where you will receive your rental income. We will also be able to organise this for you.

Once the mortgage application has been made and the required documents provided, you can expect the whole process to take around a month, although if necessary we can get a decision in principle within days.

Mortgage types

Most of the mortgages available are classic repayment mortgages with monthly payments of capital and interest being directly debited from a French bank account. The amount of interest is calculated against the reducing monthly capital balance. This means that during the loan term the balance of capital owed reduces to zero. There are two basic methods of charging interest: fixed and variable rates, the latter including a wide range of schemes.

The fixed interest rate mortgage:

The rate charged remains the same throughout the term of the loan.

Advantages:

- The amount of your monthly repayment remains fixed for the duration of the loan
- Budgeting is made simple. If you are planning to let out the property, a fixed interest rate makes forward business planning easier with less need for contingency plans against rising payments due to rising interest rates.

Disadvantages:

- Since interest rates are fixed, profit cannot be made from any fall in rates.
- An early redemption penalty is applicable, generally 3% of the remaining capital due.

The variable interest rate mortgages:

They are based on adding a margin to an interest rate index like the Euribor(*) index. The advantage of variable rates is that they are the lowest on the market. They are typically fixed for the first 3 months to one year then go up or down as the market index moves. The interest rate increase can be capped or limited to a percent of inflation. The monthly payment amount can also be fixed. If interest rates go up, the term of the loan is extended rather than raising the monthly payment. Most products give you the option to convert to a fixed interest rate at any time.

(* EURIBOR stands for the Euro Inter Bank Offered Rate. This is the rate at which European

banks can borrow from each other for a set time period, 3, 6 or 12 months.)

Advantages :

- In the vast majority of cases, no early repayment penalty
- If interest rates fall, in certain cases it is possible for the loan to naturally be repaid faster.

Disadvantages :

- There remains the possibility (in certain cases) of an early redemption penalty.
- Less stable repayment schedule.
- Possible losses from rising interest rates, (limited in the case of a cap mortgage).

Interest only mortgages:

You pay only the interest expense for a period, and then you either repay the amount you borrowed in full or switch to an amortised loan. The advantage of interest only loans is that you conserve your ability to spend or make other investments each month. For example, you can put the money you save into another investment that generates a higher rate of return than your interest rate on the loan. An interest only loan also makes sense if you expect the value of your home to rise substantially over time and you plan to sell before you would have paid off the loan in full.

Loan to Value (LTV)

We can easily get an 80% mortgage (with no obligation to refund the VAT back into the mortgage on a leaseback property). Then depending on your application and the property you are buying, we can finance 90% and up to 100% of the property price.

Loan duration

Maximum loan duration depends on the lender, but is usually 20 - 25 years. However, the maximum loan term should be complete before any borrower's 75th birthday. Mortgages are possible beyond this age, but the life assurance premiums would increase significantly or you wont be insured after 75.

Life assurance

In all cases, life assurance assigned to the lender is compulsory. Depending on the bank, this life assurance will be arranged by themselves by means of a flat premium group policy for all their borrowers, or it will be left to the borrower to organize a suitable policy in France.

Normally, where the life assurance is arranged by the lenders themselves, the monthly life premiums are included in the monthly payments quoted in the mortgage offer. In normal circumstances, the premiums paid are fixed, no matter what the age, sex and smoking habits of

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the borrower. In some cases, insurance against disability or temporary injury is provided. The borrower is usually assured for either 50% or 100% of the loan amount in accordance with the significance of their contribution to the mortgage payment. The policy is not independent of the mortgage and is not owned by the borrower and will lapse upon redemption of the loan.

The costs involved in arranging a French mortgage

Bank arrangement fee

Fees are based upon a charge of 1% of the mortgage amount. We do have signed agreements in place with some banks to limit the fee to 400€ or 600€, with some other banks however, it will be 1%.

Edison Ford and it's associates charge a set fee depending on the mortgage amount:

Amount of the mortgage:

Up to €152.450 inclusive: €1,300

Up to €350.000 inclusive: €1,600

Over €350.000: €,000

Frequently Asked Questions

Do I need to travel to France to arrange a mortgage?

No, we can arrange everything for you over the phone or by email as long as you are able to provide all of the necessary paperwork to support your application by post to our associates offices in France.

How does a French mortgage work if I am purchasing an off-plan property?

If you are buying an off-plan property, a "grace period" is drawn into your mortgage offer which is a period of between 1 and 2 years during which you do not have to repay the loan (but simply pay the life insurance payments) whilst you are waiting for the property to be completed. Thus, you do not have to worry about paying out mortgage repayments for a property that isn't yet bringing you in any income. For off-plan properties that are paid in stage payments, funds are drawn down from the mortgage only as they are needed and it is only the drawn down funds that accumulate interest. However, there is a small charge made by the bank each month for releasing the funds in this way. These costs are very low and are calculated on the basis of the diminishing balance.

Is there a maximum number of applicants allowed?

Each purchaser named on the reservation contract must be included on the mortgage application

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form and supporting paperwork must be provided for each purchaser. The bank has the final say on the maximum number of applicants allowed. If there are more than 4 applicants, the bank will decide if there is a real connection between those people and if the risk is acceptable.

Can my partner, who is unemployed, apply with me?

If you are both purchasing the property, you both need to be included on the mortgage application form. As long as there are no serious past credit issues, a non-earner can apply jointly with an earning applicant. The bank will decide how best to insure the applicants in this situation (normally they will only insure the earning applicant). All of the necessary documentation requested by the bank will have to be provided by both applicants irrespective of whether they are employed or not (although the unemployed borrower will obviously not provide payslips).

Do I have to employ a solicitor or lawyer?

There is always a legal representative that oversees every sale in France called a Notaire. You do not choose the notaire; he is allocated and is usually local. Therefore many people like the comfort of using a UK based, French speaking expert lawyer to assist in the purchase process as well. Whilst not strictly necessary it can save you money by ensuring that the purchase is structured in a way that is both tax efficient in France and the UK. This service will cost around 1% of the property price.

Would not it be simpler to just take a loan with my own British/Irish bank?

It would be a shame to miss out on interest rates as low as 3.8% in France. With Edison Ford assisting you throughout the whole mortgage process, applying for a French mortgage is not as daunting or as difficult as it may seem at first. By taking a French mortgage for this investment it leaves you with the possibility of making another investment using any equity or funds you are able to find in the UK. And if you still need another reason, if you have a French mortgage then you will benefit from tax relief on mortgage interest to offset any rental income you make from the property.

But how long is it all going to take? Will it slow down my purchase if I have to apply for a French mortgage?

Applying for a French mortgage should never affect the date at which you can sign the title deeds to your property as we are fully aware of the timeline and deadlines of the purchase process and can liaise with other parties to make sure we keep to these deadlines.

There is normally a wait of at least 4 months following the signing of the reservation contract before the title deeds are signed and this is more than enough time to set up your mortgage. We have a good relationship with all of the lenders we use and can always make sure they speed up an application if necessary.

But couldn't I find a better deal at a bank that you do not use?

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Over the years we have researched into all of the mortgage packages offered by all of the main French banks and the reason we don't work with certain lenders is that we have found that their packages are not best tailored to our clients. We will however research into any lender you would prefer to use to ensure that their package is not better-tailored to your needs. We are not tied to any one bank so we can always work with new banks if we do find that they have a good package to offer our clients.

What happens if the mortgage I apply for is not accepted?

If your application is unsuccessful with one lender we are always able to resubmit your application to another of the lenders we work with. If this is still not successful it is not the end of the world. As long as you kept your side of the bargain and did your very best to apply for the mortgage within the given deadlines then you should be able to obtain a full refund of your reservation deposit. All you will need to do is send the developer the official letter provided by the French bank stating that you were refused a mortgage.

What's Involved?

List of documents to supply for the mortgage application

(per borrower, guarantor or partner for any personal documents)

APPLICANT(S) DETAILS

- Photocopy of your passport(s)
- Photocopy of birth & marriage certificate(s) + specify how many children you have and how old they are
- Proof of residence i.e. Utility bill
- Three months' personal bank statements illustrating income & outgoings declared

CONFIRMATION OF INCOME

If Employed

- Confirmation of employment i.e. contract or reference from your employer(s) stating income, your position and start date of employment
- Three most recent pay slips and last 3 P60s

If Self-Employed

- Last three year's audited accounts
- A letter from a chartered accountant confirming the figures and personal drawings
- Last two year's tax returns for UK borrowers
- Last two Tax Form 11's for Irish borrowers

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- Last two Tax Declarations for US borrowers.

Other sources of income

- Last 2 year's tax returns
- Copy of tenancy agreement if rental revenue to be included
- Annual statement of pension or retirement payment details

CONFIRMATION OF OUTGOINGS

- Most recent annual mortgage statement and written up-to-date proof of the current monthly repayment, information on initial amount and duration.
- Copy of tenancy agreement if renting currently
- Copy of any loan agreement(s) in place
- Copy of most recent credit card statement

PROPERTY DETAILS

- Copy of the Sales Agreement (Compromis de Vente)
- Copy of the Acte de Vente if property is already owned

ADDITIONAL REQUIREMENTS

Proof of personal contribution to the purchase (savings statements) .Recommendation letter from home bank stating for how long you have been banking with them, that you have always paid mortgage repayments and loans on time if applicable and that you are trustworthy. If your bank will not provide you with a reference then please include their contact details as the French bank will ask them directly.

The process

Edison Ford and it's associates specialise in French mortgage solutions for residents and non residents. Our expertise lies in being able to obtain the best mortgage solutions for our clients, (interest, duration, insurance covers...) according to your priorities, personal circumstances and investment strategy. Due to our experience we are even able to offer exclusive mortgage solutions.

The mortgage application process

1. Contact Edison Ford to find out how much you can borrow.
2. Find your ideal French property with Edison Ford and reserve it.
3. Compile all your documents and submit them.
4. We will study your your application, give you initial feedback with at least 2 mortgage options and send your file to various lenders.

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5. We will provide you with the different mortgage proposals available. You decide which one you want to accept.

6. We will then inform the lender whose proposal you have accepted, preparing the following documents:

- Bank account opening documents
- Direct debit form (so the mortgage monthly repayment is taken from your French bank account)
- Life assurance questionnaire

7. Once you have filled in and returned these documents, the lender will edit the loan offer and send it to you. We can then assist you with a translation of the main terms and conditions.

8. On receipt of the loan offer, you need to wait 11 days before sending it back. It is crucial that every page of the loan is initialed and filled in properly. If you have any doubt, do not hesitate to contact us.

Once you have accepted your mortgage offer, it will be transferred to your Notaire, so he can prepare the next set of documents (the draft copy of the title deed) for the signature of the title deed.

You will then proceed with your purchase, having the funds available for draw-down, when required.

The above information was provided by our mortgage partners, the French Mortgage specialists at CLV Finance. If you would like to discuss how Edison Ford and CLV finance can assist you with a French mortgage, [contact us](#) today. You can also find out more about CLV finance by visiting their [website](#), or contacting the very helpful [Nicolas Hamon](#).

The above information is prepared to the best of our knowledge. Edison Ford accepts no liability for errors or omissions.