The FX factor

The pound might have taken a dive but don't let it scupper your dream of buying in France, says euro mortgage expert **Fiona Watts**

The August Bank of England interest rate rise and the subsequent comments around the increased likelihood of a 'no deal' Brexit caused a sharp drop in the pound as it tumbled to a low of €1.1208. This immediately added an extra 0.34% onto the bill for the five million or so Brits holidaying in France this summer.

So, your daily croissant has increased by 5p, and your *demi-pression* by 3p. Not too much of a cross to bear, in return for a glorious couple of weeks enjoying all that France has to offer. But if you were thinking of buying in France, a fluctuating exchange rate is a much larger issue.

Looking at the average rate per month over the last 12 months, the purchase price in pounds of a €300,000 French cottage in Dordogne has varied from £261,888 (based on £1/€1.145 in April 2018) to £267,134 (£1/€1.123 on 5 August 2018). That's an increase of £5,246. Then you also have the relative increases in *notaire*'s fees (typically these are 7% of the purchase price, so in this example you'd be paying an additional £370).

Waiting game?

With this uncertainty, it's understandable that many of you might be thinking of putting your purchase decision on hold. However, how long are you prepared to wait? As no-one knows what the exchange rate is going to be next month, next year or in five years – are you really prepared to give up on your dream?

Luckily, you don't have to be able to predict the future to buy in France – there is a way you can mitigate the effects of a fluctuating exchange rate, and even reduce the relative cost of purchasing: buying with a French mortgage (a mortgage in euros arranged with a French bank).

The sterling cost of purchasing a property in France is only fixed when you transfer your currency from your home currency into the euro. Part financing your purchase with euros by taking out a euro mortgage will allow you to delay this currency transfer until markets and the exchange rate have recovered in your favour, while leaving your sterling savings and investments earning interest and growing in value.

Key differences

These mortgages work in the same way as a UK mortgage; the bank will take a charge over the French property and you will make monthly payments for the lifetime of the loan.

The key differences are at a product level, with fixed rate options starting at 2.15% (rates and LTV available will be dependent on your financial circumstances) and the ability to fix for the lifetime of the loan (up to 20 years).

There are also interest-only products, and capped variable and hybrid variants of both. The latter products often come with some built-in security against rate rises (as the French banks are more likely to increase the term of your mortgage rather than increase your monthly payments, should the rates rise) and come with no early repayment charges (ERC).

Even with the products that do have fees attached (typically the fixed-rate mortgages), the charges are never more than six months' worth of interest on the amount you repay (so €2,148 for a €200,000 balance, based on a rate of 2.15%).

Equity equations

The secondary benefit of buying with a French mortgage is that you don't lock your savings into your French home. Unlike the UK, it is impossible to release equity on a French property if you already own it outright (i.e. you don't buy it with a mortgage).

Once you have bought it in cash, you will only be able to get money out of it by selling the house.

Therefore, you need to be very certain that you will not need all or some of that money in the future (e.g. for university fees, children's weddings etc) before buying without a French mortgage.

With a French mortgage, you will obviously have monthly payments to make in euros. There are a couple of ways you can continue to mitigate the fluctuating exchange rate. One is by renting out your French property for a few weeks of the year and ensuring that you are paid in euros.

There is no such thing as a buy-to-let mortgage in France, you are free to rent out your property regardless of the mortgage product you choose. A French bank account is a requirement of taking a French mortgage, so if you get your holidaymakers to pay euros into that account, you will not need to lose any money on the exchange rate transfer.

The other way is to use a foreign exchange company. They will offer a much more favourable 'spot rate' (the exchange on the day you wish to transfer the money) than anything your bank will offer you and it is probable that the transfer fees will also be less.

They can also offer advice on setting up forward contracts where they will guarantee you a certain rate on a date in the future. This gives you piece of mind as the rate is secured for that future date, regardless of what happens to the exchange rate.

Buying overseas is never going to be something that you rush into, and it can be easy to put it into the 'too difficult' box, especially when we enter a period of political or economic uncertainty. However, it's important to remember that while no one can predict the future, buying in France doesn't need to be a step into the financial unknown.

Taking out a French mortgage, specifically with a fixed or capped product, and using a foreign exchange company can ensure that you are both protected from interest rate rises and hedged against exchange rate fluctuations. So, what are you waiting for? ■

CASE STUDY

The reason this is interesting is because this allows you to use the fluctuating exchange rate to your own advantage. Let us explain with an example.

Mr and Mrs Carlisle wanted to purchase a charming French holiday cottage. Their offer of €400,000 was accepted and they initially prepared to transfer all their sterling savings over to euros. With an exchange rate of £1/€1.12, the purchase price of their cottage was £357,143.

However, overnight the exchange rate moved to £1/€1.08 and the sterling purchase price of their cottage suddenly increased by £13,227 to £370,370.

So, they investigated taking out a French mortgage. They decided on a fixed rate interest-only product for seven years at a rate of 2.75% with a maximum LTV of 75% (a loan of €300,000). In total, they had to transfer €100,000 or £92,500 for their personal contribution and pay €688 each month for the mortgage.

After three years, the pound strengthened against the euro and reached 1.18.

At that point the Carlisles decided to repay the mortgage back in full. They owed the full balance as they had opted for interest-only, so had to pay €300,000 – but at the new exchange rate this was only £222,222.

Plus, as cautious investors, they had earned an average 4% interest on their savings so this more than offset the mortgage payments.

Even when considering the three years of mortgage payments and the ERC, the Carlisles have saved £31,000 by taking out the mortgage. That's the equivalent of a new pool or kitchen revamp.

Fiona Watts is the Managing Director and co-founder of International Private Finance
Tel: 0207 484 4600
internationalprivatefinance.com