

Good News, and Some Bad, on European Mortgage Rates

For buyers of European real estate, rates are far lower than they are in the U.S. But they come with some pretty expensive fine print

JUNIO ARRIOLA



ROB WILSON



SAVED



SHARE



AA
TEXT

By **Katy McLaughlin**

Nov 7, 2019 10:53 am ET

With U.S. mortgage rates near historic lows, American buyers can be forgiven for thinking this is as good as it gets. But the mortgage rates in other parts of the world, including many European nations, make U.S. rates look downright usurious. The European Central Bank reported average rates in September for eurozone home-purchase loans with fixed terms of over 10 years at 1.44%. In the U.S., the average rate in September for 15-year mortgages was 3.12%; 30-year loans averaged 3.61%, according to Freddie Mac data.

While European rates might seem like a pipe dream stateside, Americans in a position to buy vacation homes in Europe are able to access something close to them. European brokers who specialize in mortgages for nonresidents say that in recent years, more Americans are taking out loans to buy pieds-à-terre in Paris or Barcelona, beach houses on the French Riviera and Spanish coasts, or Italian farmhouses.

Amaury de Monclin, founder of Bluesky Finance, a Paris-based mortgage broker for foreigners buying in France, said he has recently secured American clients 20-year fixed-rate loans for between 1.35% and 1.9% interest. In Spain, Kevin Monger, co-founder of Mortgage Direct, a Valencia-based broker, said he has recently found American buyers 20- to 25-year loans with a 1.75% fixed rate. In Italy, Alessandro Corsi, managing director of Top Italian Mortgage, said his American clients are getting 20-year fixed loans for 2.5% to 2.7%.



EURO LOANS

A few basics for leveraging a year in Provence or a place under the Tuscan sun:

- American borrowers who are nonresidents in Spain, France, or Italy can finance between 60% and 80% of a property, depending on the country and the buyer's qualifications.
- Closing costs—which can represent an additional 7% to 13% of the purchase price, depending on the country and region—must be paid in cash.
- Ageism is legal in the European mortgage market. Banks in France begin gradually applying less of a borrower's income to the debt-to-income ratio at 55, said Mr. de Monclin. Lenders in Spain, France and Italy all have their own cutoff ages—usually between 70 and 80 years old—by which point a mortgage term must end.

cash. Taxes and fees in Spain add 9% to 13% on top of a property's price, while in France, mortgage brokers cited a range of between 7% and 12%, depending on the region. In Italy, it is 9% of the assessed value for resales, and 10% of the purchase price for new homes, said Mr. Corsi. Annual property tax is generally lower than in the U.S.

European lenders are generally more conservative than American lenders, said Mr. Conn. In many European countries, "30% to 35% of your net income after tax has to cover all your existing debt, including the one you're about to take on," he said.

Rental income—even if you have been collecting rent for years on a residential property—is unlikely to count toward income, Mr. Conn said.

Small blips on a credit report are also a big turnoff to European lenders, he added: "If you bounced a check five years ago, you will have a problem in France."

Americans can also forget about speedy closings. Getting a loan is typically a three-month process, said Kathryn Brown, director of operations for Paris Property Group, a brokerage specializing in foreign buyers.

Another peculiarity of the French system, by American standards, is that getting a mortgage in that country requires that borrowers take out a life-insurance policy and name the lender as the beneficiary.

Mr. de Monclin said he recently arranged a policy for a New York woman on a €540,000 (\$598,000) mortgage. She got a 20-year-term insurance policy with premiums of about €107 (\$119) a month.

Even Americans who know European customs can be jolted by the system.

Anthony Scotti, a New Yorker, has lived in Spain with his wife and children for 14 years and owns Perfect Spain, a real-estate brokerage and relocation adviser. But he got a surprise when he researched a loan for an investment property in Valencia.

"I was 54 at the time, but they told me the longest term I could get was 19 years," said Mr. Scotti, now 55. "Apparently, after that I would be too old!"

While it is illegal to discriminate on the basis of age in the U.S. mortgage market, it is both legal and common practice in Europe. Lenders often require that mortgage terms end before a borrower turn 70 to 80 years old, brokers said. Mr. Scotti declined the offer.

GREAT RATES

Some of the best deals brokers have seen for nonresident buyers:

"You see people who would have been cash buyers five or 10 years ago who now look at leveraging themselves," said Mr. de Monclin. About half of his borrowers are U.S.-based, he said. The most typical such customer is an empty-nester couple in their 50s and 60s buying a Parisian apartment just north of €1 million (\$1.1 million), he said.

The low rates are the ecstasy part of the equation; there is also some agony, or at least practices in each European mortgage market

borrowers. First, lots of cash is required: In Spain, foreigners can rarely borrow over 70%, said Simon Conn, an overseas property and finance specialist based in Shoreham by Sea, England. In Italy, foreigners can't borrow more than 60% of the purchase price, he said. Seventy percent is also a common cutoff, Mr. Corsi said.

Closing costs are also much higher in Europe than in the U.S., and they have to be paid in

RECOMMENDED VIDEOS

1. Alter Ego: The Secret Culinary Life of an Accounting Professor
2. Impeachment Hearings: What's Been Said Behind Closed Doors
3. Hong Kong Protesters Clash With Police at Universities, Train Stations
4. Disney's Play for Streaming Depends on a Big Boost in Viewers
5. In the Elevator With FCC Chairman Ajit Pai

MOST POPULAR ARTICLES

1. Google Amasses Medical Records of Millions of People
2. Once-Hot Bet on Housing for Seniors Is Cooling Off
3. Biggest U.S. Milk Company Files for Bankruptcy
4. Google's 'Project Nightingale' Triggers Federal Inquiry
5. Your Watch Says More About Your Status Than You Think

Introducing The WSJ. Magazine Newsletter

A weekly roundup of fashion, food, travel and more from the editors of WSJ. Magazine.

SIGN UP NOW

