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Financial Planning

ITV'S 'SPAIN – PARADISE LOST?'

The same old stories really; folks buying either properties or even businesses without the necessary research and certainly without the right advisors to hold their hands!

The sad thing unfortunately is that many of the negative issues arising, and certainly for residential property purchases, the 'holes' into which people fall can and should have been avoided. The trick, of course, is for someone on the buyer's side to know that the holes exist in the first place! That should be the solicitor under normal circumstances, but how many buyers consider consulting a Financial Advisor before they commit?

Take the cases used in last night's show as examples, those in Cantoria and Vera in Costa Almeria.

Both sets of properties are deemed 'illegal' as they have been constructed on 'Rustica' land for which the development of urban homes is strictly limited without the correct consents. The clients all seemingly have the correct legal paperwork and some have had such for a number of years. Some bureaucrat has now decided that the builds are, in fact, illegal and are under threat of demolition. One cited case (that of the Priors in Vera) was demolished several years ago. €500k of spend up the Swanny!

As a matter of course when discussing purchases of property in Spain, and irrespective of the fact that the client can buy for cash (as is so with all the examples in last night's screening) I would ALWAYS, and without exception, recommend taking a mortgage of some degree. Always!

Why? Numerous reasons but the primary one for these particular clients would have been 'Title Protection'. To take a mortgage means that the bank is validating the legal paperwork. If the bank will not lend then why? That's warning enough! But secondly, even if they do agree to a mortgage, to take a loan then reduces your own investment, and that capital can be retained by you in your name, safely, and invested to generate a return just enough to 'wash the face' of the mortgage interest cost monthly. So, having done just that, do you really have a mortgage? Not really, as at any time it can be paid off from the capital that you hold in reserve!

And, when issues arise (such as cited in the show last night) who is holding the risk of loss of money? Not you alone now as the lender will want to protect their own investment via the mortgage they have advanced on the property. And they have deeper pockets than you when it comes to fighting a legal battle! Would the Priors have lost their Vera home if a lender was involved? I doubt it very much. And, even if the bank could not stop the demolition, some of the Priors' capital would have been retained in their name, safely tucked away for them to fall back on!

It's common sense to take a mortgage – every time – whether you 'need' it or not!

On another note, there is now an insurance that can add an extra layer of protection. Referred to as 'Title Protection Insurance' it covers you for exactly the sort of developments that are the most often to occur around illegal builds. And for an average one-off premium of circa €400 a very, very small price to pay in the greater scheme of things.

You see the protection that people need is available; it's simply a question of dealing with the right advisors in advance to ensure the 'holes' that you can fall into are removed from your path!

No property should be purchased without prior consultation with a Financial Advisor. Now you see why!

Mark Mountney, the proprietor of Rose Financial Planning, is a specialist mortgage brokerage and Independent Financial Advisor. He is a fully qualified mortgage and financial adviser in the UK with some 10 years experience in managing his own firm. Mark was also a founder of The Association of Mortgage Intermediaries, the trade association for mortgage advisors in the UK with 28,000 members. See www.rosefp.com or call 0034 677 874 948.