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Financial Planning

SPANISH MORTGAGE PAYMENT PRESSURES? **– AN ACTION PLAN!**

Many, many mortgage borrowers are already under extreme financial pressure to meet the commitment of the monthly payment and we are only just entering into a recession which is likely to be protracted!

In many respects it is far worse for many borrowers in Spain with a £ income (as opposed to their counterparts in say the UK) because of the recent demise in the £/Euro exchange rate!

So what can be done to ease the worry of it all and, on a more practical note, what can be done to lower payments?

My comments are relatively simple and obvious but, in stressful times like these, it is sometimes difficult to see the proverbial woods for the trees!

1) Emotion

Employing emotions into a financial exercise is fraught with danger. It mists the eyes where clarity is critical! So, whilst I understand that this is easier said than done, do try to look at the hard facts alone!

2) Financials

It is the combination of i) a weakening £ (to fund Euro mortgage commitments), ii) an increase in mortgage interest rates and iii) sliding property values that has created the issues that you are contending with today. So let's look at these a little closer.

i) Exchange rate.

You have no control over this and there is little clue in the basics as to which way the rate is going to go i.e. that £ will strengthen and require fewer pound notes to convert to meet those mortgage payments in Euros, or even weaken further! So, if you have no control, emotion plays no part other than to cause you stress which could lead to poor health!

ii) Interest Rates

Many Spanish mortgage rates are set at intervals and reviewed periodically (normally annually - like a Fixed Rate). Unfortunately for many borrowers who had their own review dates fall in the last quarter of 2008, the driving index, the Euribor, was at its peak, which has led to the rate being set at very high levels. I have seen pay rates at 7.34% whereas, if that all-important review date was falling due now, the pay rate would be sub 5% and perhaps as low as 4.5%. What a tremendous difference!

Now there are several elements of good news here, and it is this that you must grasp as this is very important!

Firstly, banks know that some of the review pay rates are very high in today's terms and also that, come the next review, the pay rate is likely to be much lower. So, where borrowers are struggling to meet the current high monthly payments, they can afford to be a little lenient for, in x months time, upon the next review, the payment requirement will fall!

Secondly, the Bank Of Spain (BOE) has instructed banks to adopt a far more (than normal) flexible approach to arrears. The norm here is 3 months before recovery action begins; the BOE have requested banks to consider restructuring payments with a 2 year process in mind! Quite a difference! I am aware of several banks taking the lead and writing to clients to offer reduced payments for the immediate future, 6 months, and that reduction is a significant size; 40%! That is a big, big help!

If you look at this logically from the bank's perspective, if the client can pay the 'Interest Only' part of any repayment, the debt is not increasing so that, in a market where mortgage defaults have shot through the roof and the banks themselves are under extreme pressure, surely that is good news for them!

They also know that the cost of switching away to another lender is expensive; normally 5% of the borrowing. So, with such a cost, unless there are other drivers (such as switching to 'Interest Only' and/or extracting 'cash') you really must stay put.

iii) Property values

In the last 12-18 months the average property value in Spain has fallen significantly, perhaps 20-30% subject to the property type and area. The Costas have been hit hardest because so many units have been built and there is such an excess of supply over demand. That slack will take a long time to take up so there will be continuing pressure on values for a considerable while yet.

And this reduction in value, when combined with overly eager lenders offering (in some cases) up to 100% of finance not a year or so ago, has added fuel to the fire of massive overbuild. Not good for the banks and hardly surprising that so many Non Residents in particular, with little or no investment of their own capital in their property here, have decided to simply to hand the keys back to the bank to walk away!

3) Action Plan

There is nothing elaborate about the lists of actions to be taken; they are rather obvious!

i) Talk to your lender!

Do not stick your head in the sand! Most banks will want to see a positive rather than a negative from you and, as I have suggested, they will be aware of all the facts that I have mentioned above.

Tell them that you cannot meet the existing level of payments and that you want to reduce such. Many will have schemes already in place to offer you. Most will be prepared to accept the 'Interest Only' element. The alternative of you not making any payment at all will be their worst case scenario so you are not in a position of weakness as you probably think! As I have said above, I have seen payments reduce by 40% and I am sure this will make a difference to you!

Remember also that the BOE have given their own directives; banks will not want to upset their regulator!

ii) Cancel the mortgage payment authority with your bank

If you cannot make the next payment, and there is a delay or a dragging of heels with your lender making a positive decision, then consider cancelling the exist payment mandate with your Spanish bank (if different from the lender) and then make manual monthly payments to suit your budget. Tell the lender this a) to advise them of the action but also b) to add pressure to them to put a formal payment plan in place. If your bank is your lender, then simply send over what suits the budget! Same result!

iii) Consider a Remortgage and to remove equity by increasing the mortgage size

This may seem to fly in the face of logic, especially where you are struggling to meet the existing mortgage payment let alone a higher mortgage still BUT a) where the current pay rate set by the existing lender is way over a 'new' rate (remember that comparison 7.34% versus 4.5%!) and b) where your present arrangement is both Interest AND Capital, the result in the 'new' mortgage will show a much reduced monthly payment commitment. AND, if you drawdown extra capital you can then use this to meet the mortgage payments for a number of years – taking ALL the stress, worry and cash flow commitments away from you! Let the Spanish property pay for itself!

Remember that, to take extra capital out of the property, or even to switch your mortgage to another lender for preferred terms ('Interest Only' for example), the maximum Loan To Value that can be considered is only 60% really (in some cases 70%) so, if you are already at or above this level of borrowing this idea will not work! AND, you cannot have any existing arrears as no bank in Spain will accept such when considering a new proposal.

I hope the above assists in some small way!

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.