



**ROSE**  
Financial Planning

## **SPANISH MORTGAGES – AT LAST! A CHEAP ‘SWITCH’ OR ‘REMORTGAGE’ OPTION!**

Over the considerable number of years that I have been dealing in Spanish Mortgages, there has been one constant theme that has run through clients’ reaction to a simple ‘switch’ or ‘remortgage’ from one lender to another, and that is the cost!

Until now, that is!

In the UK and elsewhere in the world where there are developed and sophisticated lending markets, and less involvement from the local tax authorities, a simple transfer from lender A to lender B for preferred terms is fast and cheap.

Not so in Spain historically.

Actually, the ‘status quo’ remains with costs; it is just that we now have a dynamic and forward thinking lender that is prepared to fund the bulk of the cost themselves in order to win your business.

Firstly, why would you want to change lender?

There are two basic reasons;

- 1) To get preferred terms for what you presently have.
- 2) To change the mortgage amount, perhaps releasing some of the equity locked into your property.

### **1) Terms**

Historically, and that means up until only 2006, the Spanish lending market was restricted to Repayment types or ‘Capital and Interest’ mortgages. That means you are paying the capital off and, almost without exception to the circumstances, this is bad news in Spain! Why?

Inheritance tax is punitive here. Whether you are Resident or Non Resident, the same argument applies in that your beneficiaries could be exposed to a tax when they take over the property (and other assets). A long term ‘Interest Only’ mortgage naturally protects against this.

But what if you don't like the idea of having a mortgage and paying the interest? Well consider this. The capital that you have NOT invested via paying the capital off can be invested to, at least, produce no less than the pay rate on the mortgage. That means you are none the worse off AND you have accessibility. If it is locked into your home here, how can you get to it without cost and time? You cannot! In fact, it is relatively easy to beat the mortgage rate thus adding a potential income over and above what you have now.

Then we have the risk of a falling Euro if your base capital and income is in another currency, Sterling for example. If you pay off your mortgage, you are building Euro capital in your property here. If the Euro were to take a dive for whatever reason, you will lose a percentage of your capital as a consequence. Again a long term 'Interest Only' mortgage works because it reduces your investment into Euros.

Income Tax efficiency. If you are a Resident in Spain for tax purposes, you can receive relief on the interest payments on your mortgage. That means that a) the net pay rate is effectively reduced and b) the higher and longer you keep the mortgage on an 'Interest Only' basis, the greater the saving in tax. And remember that your own capital kept out of your home and invested can also grow tax efficiently through prescribed products giving you a double tax break!

Interest Only. Irrespective of age, we can now place 'Interest Only' mortgages for up to 40 years. That is astonishing when you think that just a year or so ago we could only reach 2 years!

AND age is now irrelevant!

AND possibly income too!

For the majority of current property owners, where the mortgage is less than 60% of the value of their homes, we can shift the mortgage to much improved terms, with 'Interest Only' up to 30 years and NO MAXIMUM AGE at entry. For example, a recent case was for a gent of age 82! I think 30 years will suffice for him!

## **2) Access to Capital in your home.**

A common problem that we see here is where clients use all of their capital to buy for cash. It's that British thing again that goes against reason. At last, they have sold in the UK and can buy with no mortgage, perhaps for the first time in their lives.

But all that does is compromise their future financial stability. They have no capital for a 'rainy day' and rely on perhaps a limited pension income.

A more logical solution now is to take a long term 'Interest Only' mortgage for an element of the purchase price, and less than 60% for the best terms, and

retain your own capital. This, in turn, is invested to match or beat the Euro mortgage pay rate and provide accessibility or 'rainy day' funds. Hence, the mortgage cost is covered, so where is the problem? And remember the above i.e. Inheritance Tax and Exchange Rate risk mitigation.

### **Costs for 'switching' or remortgaging**

Secondly, we need to understand the nature of these costs to determine the starting point that we are coming from. What are the normal mortgage costs involved with a simple 'switch' or 'remortgage'?

In simplified terms these are;

Lender Fee	1%	
Notary Costs	2%	To cancel the old and register the new mortgage
Repayment penalty	1%	The normal penalty charged by the existing lender
Mortgage tax	2%	On all new mortgage registrations
Broker Fee	1%	

That is a total of up to 7% and a reason why, until now, a simple switch for preferred terms would have been baulked at!

But now, with a stunning new product, these costs can be reduced to just 2% with the new lender picking up the bill for the rest!

AND they give access to that locked in capital if you want to take some more out.

AND they offer 'Interest Only' for up to 15 years!

AND they are a British lender, a household name, giving extra peace of mind and easy access to the UK banking system.

Now take a look at what mortgage you have and ask yourself this question; 'Am I sure that I have the right mortgage for my circumstances and needs'?

If you have a) a Repayment mortgage the answer has to be a 'No, it is not right'!

If you have b) an 'Interest Only' mortgage that is expiring soon, then you will then automatically be transferred to a more expensive Repayment type. So again the answer is 'No'!

So pick up the phone and see what can be done to improve your financial circumstances. You will almost certainly be pleasantly surprised!

See [www.rosefp.com](http://www.rosefp.com) or call 0034 677 874 948.