



## Choosing the Best Mortgage for a Foreign Property

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Before buying property overseas, it pays to familiarize oneself with international mortgage products, the options available and the processes involved.

### Mortgage Characteristics

"Mortgage products themselves are standard in all countries," says Sergei Millian, CEO of Millian Group Inc., an Atlanta-based international real estate services firm with offices in Azerbaijan, Belarus, Bulgaria, China, Jordan and Russia. "However, the terms that dictate how the interest rate is determined, how the loan is amortized, its final maturity, and the options for and requirements of the lender and borrower can differ from country to country."

Following are ingredients that commonly vary in mortgage recipes abroad:

**“The greater the competition, the greater the choice of product and rate.”**

— *Miranda John, international manager at SPF Private Clients*

- **Interest type:** Generally, mortgages carry one of several types of interest rates.<sup>[1]</sup> Fixed interest remains unchanged for the duration of the loan; rollover interest starts with a fixed interest rate, then transitions to a variable rate; and adjustable interest rates fluctuate periodically for the term of the loan.

Fixed-rate mortgages dominate in the U.S.; variable-rate mortgages in Australia, Ireland, Korea and the U.K.; and rollover mortgages in Canada, Germany and the Netherlands, Millian says.

- **Amortization and term:** In most countries, loan terms typically range between 20 and 40 years. But, longer-term mortgages exist in several countries, including Spain and France, where loan maturity can reach up to 50 years, and Japan and Switzerland, where some lenders offer 100-year mortgages for intergenerational borrowers.<sup>[1]</sup>

- **Restrictions:** Many countries impose certain restrictions on mortgage loans, a common one being age. "Most retail banks in Europe, for example, require life assurance and as most companies will not offer cover past the age of 70, this limits the term of the mortgage," says Miranda John, international manager at London-based mortgage broker SPF Private Clients.

#### Currency Converter

USD 1.00

USD

convert to

CAD

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### Choosing the Right Mortgage

Because the terms and structures of mortgage loans vary widely, "it's important to investigate every minor detail before deciding on a deal," Millian says. Buyers who have flexibility might consider [purchasing foreign property](#) based on where they can get the most favorable mortgage. Additional considerations include:

- **Number of lenders:** "The greater the competition, the greater the choice of product and rate," explains John, who says regions with few lenders include Spain, Portugal, Italy and the Caribbean.

- **Interest rates:** "In some countries there are fixed rates, which allow borrowers to lock in at fantastic rates for the long term," John says. "Switzerland, the United States and France are strong in terms of these options."

- **Loan-to-value ratio (LTV):** LTVs - the amount of a property's total value that a lender will finance - vary greatly, according to John, who says typical LTVs for the purchase of a property range from as high as 85 percent in places such as France, to as low as 50 percent in places such as Spain.

- **Currency values:** "The main risk in international mortgages is currency fluctuations," Millian says. "For example, [consider] a client [who] takes out a mortgage in yen when the exchange rate is ¥1 yen per \$1 U.S. dollar, and he plans on paying \$10,000 per quarter. The time for a quarterly payment comes and ... now \$1 dollar buys ¥0.5 yen. Thus, instead of \$10,000, the client's payment goes up to \$20,000."

To protect themselves from changes in currency value, borrowers can use a trusted online foreign exchange service, which makes it easier to secure the latest exchange rates with the help of email market-rate alerts.

An international mortgage broker in the host country can help borrowers navigate local mortgage products in pursuit of the best terms and interest rates. "Or else they can ask for services of international chambers of commerce," Millian concludes, citing the Russian-American Chamber of Commerce in the USA as an example. "If any client would think of buying a property in Russia or in any other Eastern European country, the chamber would certainly be a useful advisor."

<sup>[1]</sup> "International Comparison of Mortgage Product Offerings," 2010, Research Institute for Housing America

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