French Private Finance

Private Banking Guide

Your property in France

2020

What is a Private Bank?

A private bank is an institution focussed on growing the amount of money it manages through concierge-like customer service and investment excellence.

It aims to manage client assets to generate returns and preserve capital. Private banks – as opposed to their retail banking counterparts – do not engage in anonymous high-volume mortgage lending, preferring a more intimate relationship where trust can be established and a holistic view is taken to each client's financial needs.

Taking this broad view to the financial lives of those who have entrusted a portion of their wealth to them, private bankers may also seek to act as a one-man family office, connecting the client with experts in tax or making other suitable introductions depending on the project at hand.

Why do people use European private banks to purchase a property in France?

People using a private bank to purchase a property in France usually fall into two camps.

Flexibility

Approximately 50% of French property buyers who use a private bank to arrange finance are taking advantage of the greater flexibility which can be found in terms of the underwriting criteria of the various banks. This ability to take a more bespoke view, as opposed to the 'one-size-fits-all' approach of the retail banks, means that mortgages and loans can be obtained for those with even the most complex financial situations – though the bank will need certain assurances that a wider financial relationship with the client is possible.

Optimisation

Others seek a private bank to optimise their purchase. A private banking arrangement for a property purchase can be looked at as one of the only occasions where you can have your cake, eat it – and get slimmer. Owing to the asset and investment management relationship that the private bank has with its clients, the interest rates on offer can be very low. Low rates, when combined with not having to place any deposit down for the property and getting 100% finance, means that any existing investments can be left where they are, generating income to help cover the interest on the loan whilst at the same time enabling buyers to enjoy the benefits of property ownership.*

* FPF does not offer advice on investments or make any warrants as to the suitability of each private bank. Our advice is always to keep funds in cash to support the loan. Any investment decision is made between the bank and the client.

What does a private bank consider when taking on board a new client?

Private banks are motivated by the desire to increase the amount of assets they have under their management. As this is one of their main measures of success, they are very interested in speaking with UHNWIs (Ultra-high net-worth individuals: people with investable cash or assets excluding property of more than $30M) and HNWIs who can place large amounts of money under management. Given that the number of people meeting this definition is small, private banks will often begin working with people well before they reach this status, hoping that they can help them get to the next level.

In terms of making a property purchase, one of the first things private banks look at will be the size of the deal (the purchase price and the mortgage that is required), with a particular focus on the assets that the bank will be managing post-deal.

The second element is the ratio between the amount of assets and the loan the client is seeking to take out. Banks across Europe are subject to the Basel 3 capital requirements which lay out in particular the Tier 1 capital ratio, which is explained further below:

Core equity capital

Cash, investments

Risk weighted assets

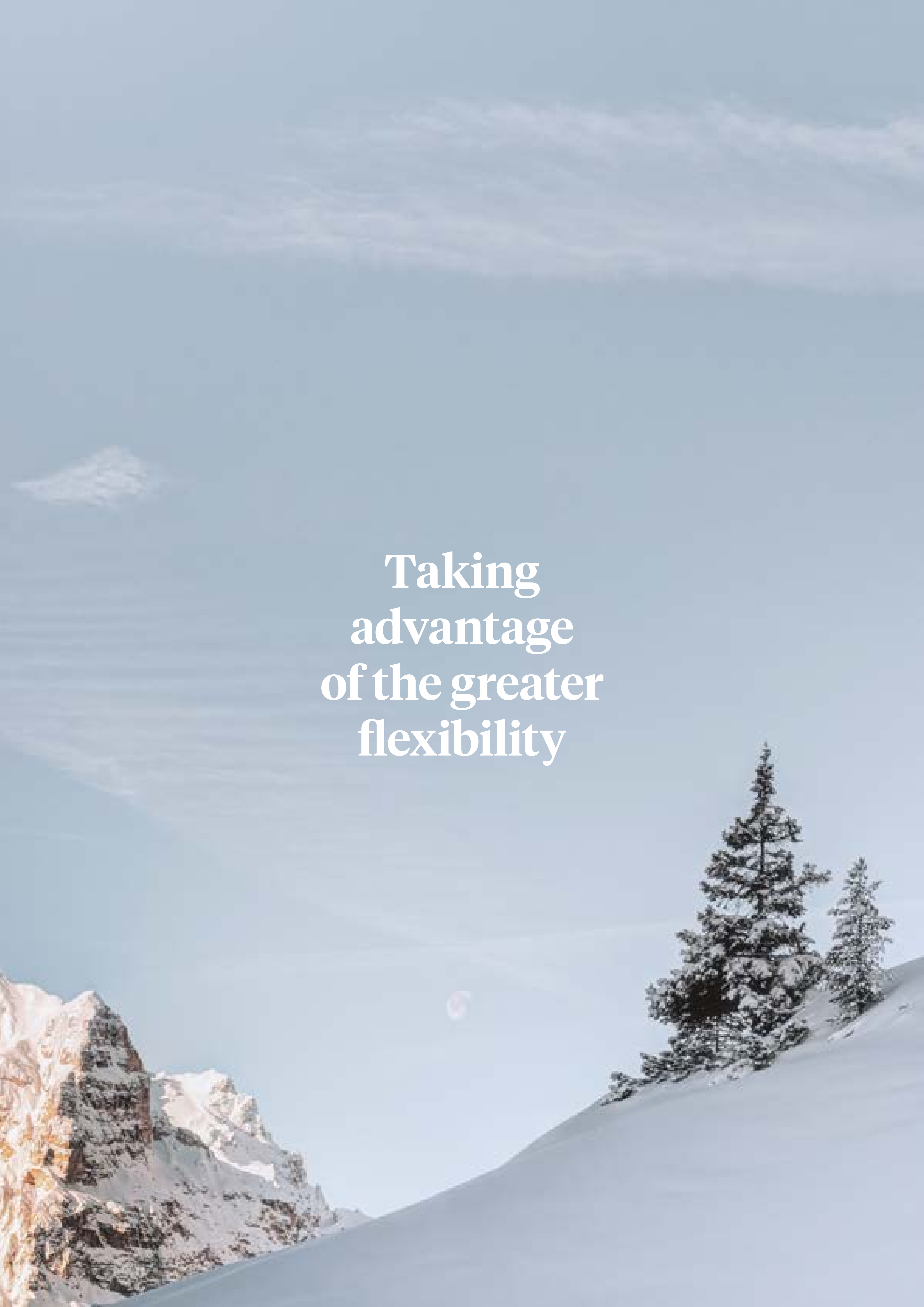
Mortgages, Liabilities

In simple terms, private banks do not really want to enter into loans which are going to decrease their ratio, i.e. add a mortgage or a liability to their books without taking pledges over financial securities to offset this. This is why a Lombard loan is so attractive: the higher the ratio of assets to loan you take, the more flexibility there can be.

What is a Lombard loan?

A Lombard loan is a loan secured (pledged by the bank) purely against liquid financial assets as opposed to a mortgage loan secured against a real estate asset. Simply put, you give the bank 100 to look after and they will lend you 100. As there is very little risk for the bank, the interest rate on this type of loan is very low. One of the main reasons for using this type of loan is that it means a client's portfolio does not have to be liquidated to pay for the real estate. There are other financial advantages, too: interest can be offset against rental income, while the loan itself can be offset against wealth tax to reduce or even cancel it out completely.

Taking advantage of the greater flexibility



What's the process?

Financial aspects

This involves examining the current options based on your requirements and the bank's criteria.

As for the process, it's a common misconception that the application process is full of red tape. It's actually quite simple.

Decision in principle STEP 1	Examination of financial aspects and decide on the best strategy to adopt to seek approval in principle over the course of a couple of weeks
Build your application STEP 2	Collect the paperwork required to open an account
Approval process STEP 3	Once the most suitable option is found, we engage with the private banker and get the property valued
Property valuation STEP 4	Surveyors instructed will report back in 2 to 4 weeks
Committee and Approval STEP 5	Once all the documentation is in, the application goes to the risk committee and you receive an offer. You receive, complete & sign the paperwork, after which a 10-day cooling-off period starts if the purchase is in your own name
Completion STEP 6	We follow up with the bank and the French Notaire to organise a completion date

What does a typical arrangement look like?

There are two main options when accessing a private banking arrangement. It is possible to find optimal levels by blending the two concepts to find the best value.

01

Minimise interest costs

This is a private bank's favourite type of lending. Here the loan is fully collateralised with cash assets managed by and pledged to the private bank. The client would place the property (for tax purposes only) as security, but in fact the property is not even required as this type of loan could be made without reference to a property at all.

In a Lombard situation you would place assets with a lending value of 100% of the loan amount, bearing in mind that if these were equities, the nominal or "face value" of the equities might actually be as much as 200% of the loan amount.

Now that the bank feels fully safe in its lending and the loan does not affect its Tier 1 ratio for Basel 3, it is possible to access the keenest rates anywhere in the market. Private banks are in competition with each other to find new clients with investment assets, which is why FPF always shop around to see who is prepared to offer the best lending rates for the mortgage.

Typical rates will be a variable margin below 1%; on top of this will be management costs which are also likely to be less than 1%.

02

Minimise funds transferred to the bank

The private bank takes the property as collateral and gives a lending value to it.

In this scenario, we seek to find a lender who will lend 100% of the amount required to purchase the property. We then look to see if we can minimise the amount of assets which are required by the bank.

Under normal circumstances, the usual minimum is 30% of the loan amount, though this can be reduced to 20% or sometimes lower depending on the specifics of the deal. In general, if the private bank can see that there is strong potential for further development to the asset management side of the relationship, they are more willing to be flexible.

What is lending value, nominal value and lending value ratio (LVR)?

When someone is investing in property, we come across the lending value of the property, which is usually established by a surveyor. Buyers then usually get a loan against this value, up to the maximum the bank will accept in terms of loan to value (LTV). If a bank has a maximum LTV rate of 80%, they will lend €800,000 against a property valued at €1m.

Private banks use a similar method when deciding how to lend against a portfolio of stocks, shares and bonds. This is called the lending value ratio or LVR. Depending on the types of investments in the portfolio, the bank will decide on the LVR. Cash, of course, is king. The more speculative the asset, they less weight it carries in the eyes of the private bank. A schedule of how most investment types are weighted by the banks is laid out below.

Investment asset class lending value

Cash (same currency as loan)	100%
Cash (different currency from loan)	90%
Government bonds	90%
Banks own mutual funds	80%
Main index company bonds	70%
Prime property	65%
Mutual funds	60%
Equities	50%

Obs.

Hedge funds, Private Equity, Company shares = 0%
(TBC on a case-by-case basis.)

The nominal value, also called the face value, is what the client actually needs to transfer to the bank. Of course, a private bank can survey the entire portfolio a client wishes to transfer or create with the bank and assign an LVR to each line.

For example, the bank wants €1,000,000 of assets under management (this is the lending value). If the client wants the bank's mutual funds and the LVR is 80% (to follow the table above), it means that the nominal value is €1,250,000 (€1,000,000/0.80).

A key question in finding the optimal relationship will be establishing the values each bank uses.

What fees are involved?

1% to 1.5%

Property purchase

To be in a relationship with a private bank in the context of a property purchase, the fees are as follows:

Broker fee

For assistance in finding the right bank to match the requirements of a client's situation and to optimise the conditions, a fee will be charged that is appropriate to the work involved and the context. Typically, the total combined bank and broker fees for opening the account and setting up the loan are between 1% and 1.5% if the case is very complicated.

Bank fee

The bank will charge the client a fee of some kind to facilitate the opening of accounts and to set up the loan. These vary from bank to bank and may be called 'arrangement fees' or 'account opening fees'. Depending on the relationship with the broker, the bank pays part of these fees to the broker. In FPF's case, this will be made clear in the correspondence.

Property valuation fee

Once you have selected the bank, the
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property will have to be valued. You can select a valuer from the panel agreed by the bank. N.B. Not all valuers are agreed by all banks and the bank will want to instruct the valuer – the bank will send you the invoice. Costs vary from €2,000 to €7,000 depending on the scope and size of property.

On going fees with the private bank

As discussed previously, the bank is keen to increase the assets under management and to actively help clients manage their investments.

There are two main types of contract or mandate you can give the bank to help manage these investments:

01

Advisory mandate

With this type of mandate the bank will provide advice and suggestions for when and what to buy and sell. This type of mandate can either have an all-in cost so you can trade as much as you like and might cost 1%, or it can be a lower ongoing charge plus costs per trade.

02

Discretionary mandate

Gives the bank the ability to buy and sell when they deem appropriate. These follow a conservative, balanced or aggressive investment approach, according to an agreed risk profile. A mandate such as this has an average cost of 1%.

Other charges

There may be an administration charge annually for reporting and general management of the accounts. There will also be a custody charge for holding the assets to offset the costs of administration. Usually the range here is 0.1% to 0.3%. Custody and admin charges may be included in the cost for one of the mandates above. This becomes more relevant if a client wants, for example, 50% of the portfolio in custody only as a long-term hold and 50% under management in a mandate.

Property considerations

Existing property

Private banks usually assign a lending value ratio of 50 to 70% of the valuation report price of the property. This means that for existing property, things are quite straightforward. The property is surveyed, the value decided and the overall arrangement is agreed.

Off-plan and construction

When it comes to off-plan property, things become a little more complicated for the majority of banks as they are not comfortable lending on a property which is not yet built, under construction or undergoing heavy renovation.

The reason for this is that it is hard for the bank to establish the value of the property as there are additional risks attendant to construction. In such cases, the majority of private banks will ask for additional collateral during construction, preferring a full Lombard loan, secured purely against assets until such time as the property is completed, surveyed, valued, a mortgage registered and lending value ratio assigned so that you can switch to a mortgage loan on the property and reduce the amount of assets pledged to the bank.

There are some options which do not require an initial Lombard loan which allow construction to be financed up to 100% LTV, with 30% LVR in Assets Under Management.

Affordability criteria

In terms of affordability for the loan, a private bank can be more flexible than a retail bank. Providing the assets are there, an experienced broker such as FPF can usually find a way.

Case studies

Èze, South of France

Property price	€900,000
Loan amount 1 (Interest only)	€750,000
Loan amount 2 (Repayment)	€150,000
Loan to value	100%
Rate	2.3% fixed + 1.16% variable
Type	Part interest only & part repayment
Term	2 year interest only + 7 years repayment with 2 years on low start repayments

At that moment, we decided to apply for a mortgage with a private bank in Monaco. The private bank in question has no limit on age criteria and they are more relaxed about a clients debt to income ratio. Here, the bank looks at all the committed expenditure vs income too, however, when the 'rest-a-vivre' is more than a couple of thousand pounds a month, the bank will be satisfied that the client has enough money left over.

The private bank we've worked with offered up to 100% LTV with a side investment of 30% to be deposited with the bank. We could also look at a short-term interest-only bridging loan, as the client is intending to sell his other apartment in the same village. Because of the so called 'promesse de vente', the bank was happy to lend on an interest-only basis as they were satisfied that this part would be paid off by the client when selling the property. This has been provisioned for 2 years with a possibility of extending for another 2 years if the criteria were met.

Courchevel, French Alps

Property price	€1.720m
Loan amount	€1.720m
Loan to value	100% with a 30% collateral
Rate	2.15% fixed
Type	Repayment
Term	15 years

We have several contacts with private banks where barriers to entry are less rigorous but the key here was that some of these banks can finance VEFA (off-plan property projects) which is rare in the private banking world as the the property is not completed and the private banks are not adept at studying construction risk. One of our panel of banks was a great fit for this Ultra HNW client looking to buy an apartment from a prestigious developer in the Alps.

With over €85m of real estate investments and complex financial affairs, we could not apply for a classic loan with a French retail lender because they lack the know-how to assess such a wide range of affairs and they would not be comfortable lending when the borrower's profile is not straight forward as well as the fact that the paperwork burden would be excessive. In contrast, private banks focus on the big picture. That's not to say that they do not do their due diligence but the additional collateral gives peace of mind. In this case, it took 4 months for them to issue the mortgage offer.

Property value: €3M

Purchase comparison

Cash

IFI annual cost	€15.5k pa
Mortgage registration tax	€0

Overall

- €15.5k
each year

Lombard loan

Loan	€3M
Assets with the bank	€3M
IFI annual cost	€0k pa
Mortgage registration tax	€30k
Interest cost at 1%	€30k
Return on assets at 2%	€60k

Overall

+ €0k
before tax,
if any

2nd year

+ €30k

Private banking mortgage

Loan	€2M
Assets with the bank	€1M
IFI annual cost	€0k pa
Mortgage registration tax	€20k
Interest cost at 2%	€40k
Return on assets at 4%	€40k

Overall

- €20k
before tax,
if any

2nd year

+ €0k

–
One other consideration will be how you hold the property in France and how you will use it. If the property is rented out, then the interest on any loan is deductible from French income tax on the rental. The vast majority of second/rental home purchases with loans are done in corporate structures to keep the income in France and also to benefit from the country's generous tax environment as relates to inheritance tax and income tax.

List of taxes and rates in France

Income tax

As of 2019, there is a basic rate of 30% of the net rental income to be deducted in France and the rental income should be declared in your home country. For this reason many people who intend to rent their property out consider doing this via a company structure. This has various advantages in relation to inheritance tax and reducing income tax payable on the rental income.

Capital Gains Tax

For property owned personally, when it comes to Capital Gains Tax in France the basic rate is 19% – to which we have to add 17.2% for social charges. An additional rate of 6% is added for gains over €250k. This tax can be mitigated through the use of an SCI, SARL de famille or SNC. FPF can introduce clients to a suitable professional who can advise on the intricacies of such matters.

Property Tax

Tax foncière and Tax d'habitation will be levied on the property annually. These are usually calculated on a per-square-metre basis and the figures will be available from the agent selling the property.

IFI table

French Wealth tax – "Impot sur la fortune immobilière" – is an annual tax that is based on the net value of real estate held in France only. The calculation is based on the price the seller could be expected to achieve if the property was on the open market and sold as at 1 January in the year in question. From this value, any loans used for the initial purchase of the property or subsequent loans for renovation can be deducted. Tax is then due on the balance and is applied as below. The calculation only starts if you have net real estate assets over 1.3m euros.

IFI table

€800,000	0%
€800,000 – €1,300,000	0.50%
€1,300,000 – €2,570,000	0.70%
€2,570,000 – €5,000,000	1.00%
€5,000,000 – €10,000,000	1.25%
€10,000,000+	1.50%

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