

# HOW TO...

## choose a mortgage

You've decided to take the plunge and invest your hard-earned cash in that dream property in Florida; now how do you go about financing it? Market gurus **Lesley Dolby** and **Alfonso Muelle** offer some expert advice on how to find a mortgage that's right for you

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Above Making the right mortgage choice can help turn your property into a sound investment

So you've found your dream holiday home or golden nest egg in your favourite part of Florida and worked out how you're going to manage it and market it for rentals. Next job is simply to raise the money to go ahead and buy it. In America, British citizens have a number of options open to them, so it's worth taking the time to look at each one carefully, before deciding which route to take.

Many UK buyers are intimidated by the mortgage loan process in the United States, whereas some simply don't realise they can easily obtain a mortgage here. Contrary to common belief, the procedure for foreign nationals is a very simple one, and in Florida it is usually easier to approve a foreign national

buyer than it is to approve a US citizen! So, whether you choose to go for a US mortgage, a sterling mortgage, or to sort out the finance at home in the UK, it really comes down to a matter of personal preference and comfort level, as each method is equally suitable for most property buyers, and each has its pros and cons.

### OPTION 1: US MORTGAGES

The US mortgage loan application process usually comes down to one simple requirement, which is documenting your source of funds. After 11 September 2001, the US Government enacted The Patriot Act, part of which monitors any transactions related

to transfer of funds into the United States. This act is mainly geared towards the containment of funding of terrorism and money laundering activities; so every foreign buyer now needs to document the paper trail involved in the transfer of funds into the country to be used for property purchases.

Therefore, in order to secure a US mortgage loan in Florida, all that is required from you is that you open a US bank account, have a valid passport and that you properly document the origin of your funds to be transferred, or have these funds in your US bank account for over 60 days prior to your purchase. If your funds are coming from an equity advance on your residence in the country you live in, all you need to submit is a copy of your loan agreement, which states the terms of your loan. The total funds you would be required to document would be your down payment, settlement charges and six months' 'reserves' – this is a total of six months' worth of mortgage payments for your intended property.

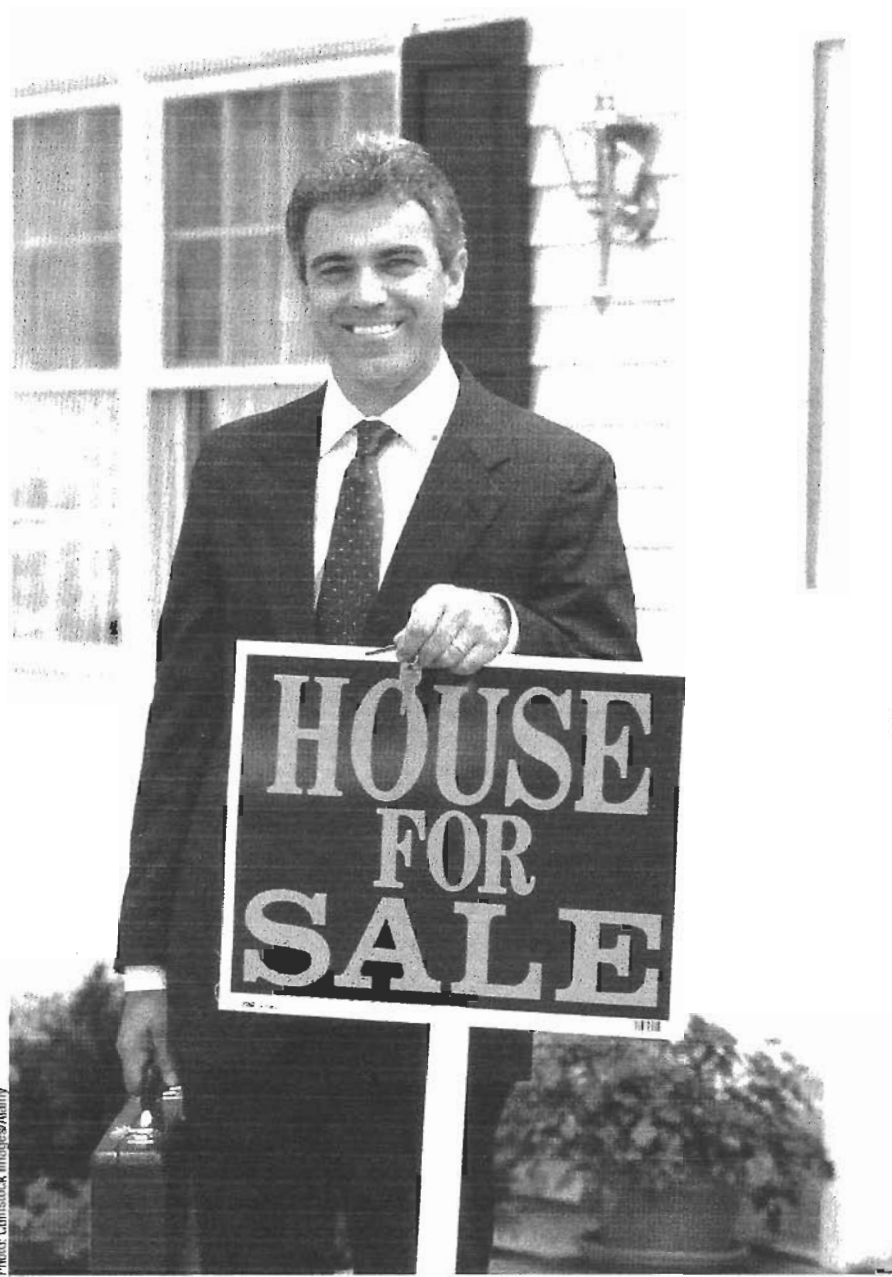
The minimum down payment for a US mortgage is 20 per cent of your total purchase price. At this level, you would be required to certify your earnings by means of an employment letter, or in the case of self-employed individuals, a letter from your accountant, examples of which may be obtained from your mortgage broker. For self-certification at this level, you can add an additional half a per cent to your interest rate. With a 25 per cent down payment or more, there is no additional charge to your interest rate for a self-certification loan. Settlement charges usually work out around five per cent of the loan amount. You will also need to show the lender that you have six months' of reserves in your US bank account prior to closing.

Many mature UK buyers ask if they are too old to get a US mortgage. The answer is "no", because the lender is not concerned with your age; only that the property on which they are lending the money is worthy of a loan and that you have either sufficient personal equity in the property, or the means to repay the loan in a timely manner.

There are several loan programmes available in the US, including variable rate, fixed rate, interest only and even a minimum payment option at a payment rate as low as one per cent; many buyers choose this option for short-term rental properties, where the revenues fluctuate according to the seasons. For that reason, the payment option plan has proven to be the most beneficial, due to its payment flexibility, allowing you to select your payment option according to your cash flow. The programme you choose will depend on your planned use of the property, your personal comfort level and your current and estimated future financial situation.

## OPTION 2: STERLING MORTGAGES

If you'd much rather make your payments in sterling in the UK, there is the option of applying for a UK mortgage. This type of mortgage loan allows you to make your mortgage payments in the UK for your property in the US, and a major advantage of this option is that you are not left vulnerable to the rate of exchange if needing to transfer monthly payments. Of course, if your Florida property rental income and expenses are all in US dollars, both going into and out of your US bank account, then there will be no need to transfer funds from the UK and the exchange rate will not be an issue. However, in these circumstances some people still just feel more in control and more comfortable and familiar with sterling payments.



“ Some people just feel more in control with sterling payments ”



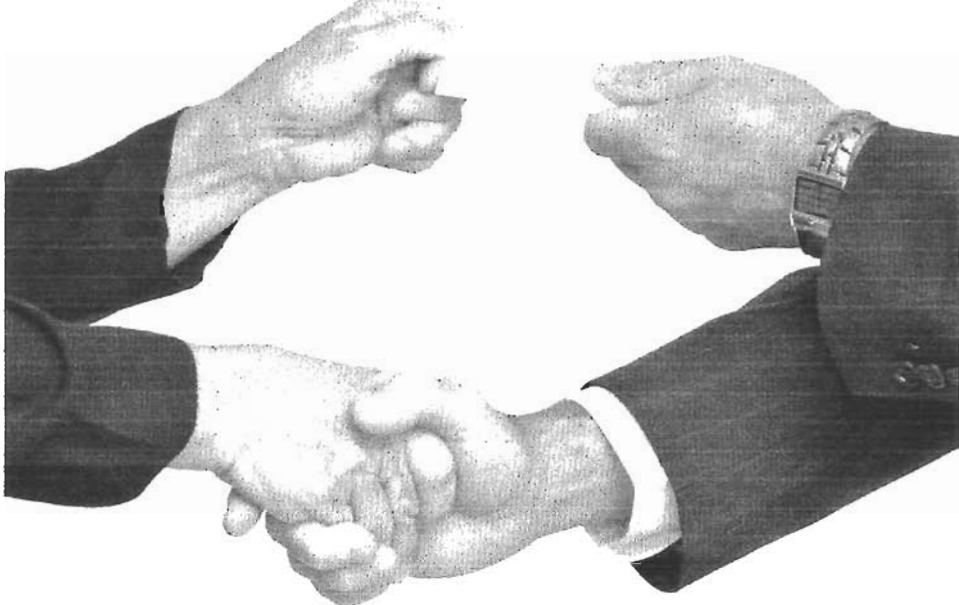
Above Found a house? Time to sort out a mortgage  
Right Secure a mortgage deal that's right for you and relax

# CHECKLIST

Follow our six tips for a stress-free mortgage choice

- Decide whether you'd prefer to use your US property, or your UK property as collateral for your loan. If you choose your US property, then you can go with either the US mortgage or the sterling mortgage.
- Determine if you are more comfortable with making payments in the UK in pounds sterling, or whether you would prefer to make your payments in US dollars, from your US bank account.
- If you plan on renting out the property, your income will probably be in US dollars and should be enough to cover the mortgage payments from the same US bank account. If you don't plan on renting out the property, then you need to make sure you have enough funds in your US bank account to pay for a US mortgage.
- For a US mortgage, make sure you are able to document a clear paper trail for the funds you will be using for the programme's down payment, closing costs and six months' reserves. Having your funds already in place in a US bank account, at least 60 days prior to even starting the loan application, will simplify the loan process.
- Rely on your real estate agent to recommend you to a reliable mortgage broker or lender.
- Comply as quickly and precisely as possible with the requests for any documentation when required. Any hesitations will usually result in a delay in the loan processing, which can have severe consequences on the contract.

Photo: Stock Xchange



“ Interest rates are fairly similar for both US and sterling mortgages, and in many cases there is little difference between the two ”

UK mortgages, sometimes referred to as sterling loans or British mortgages, offer a variety of loan schemes, which are subject to the UK variable base rate. You can choose a programme where you put 20 per cent down with full income certification, and 25 per cent or more down for self-certification. This type of mortgage is attractive to many UK buyers for a number of reasons: there are no early redemption penalties and no mortgage repayment reserves required; no lien on UK property (the right to hold a property by a third party until the debt is paid); gifts from family members for down payment are permitted; there is an interest-only option on all products for the entire term of the loan; and you have the option of payment holidays, subject to conditions.

Interest rates are fairly similar for both US and sterling mortgages, and in many cases there is little difference between the two. It is more a matter of personal preference than anything else. Both types of loan use the US property as collateral. The value of the property for loan purposes will be determined early on in the loan process, when the lender orders an appraisal (valuation) of the property. If you are seeking a 75 per cent loan, the lender will loan 75 per cent of the lowest appraised value or the contract price.

### OPTION 3: RAISING FUNDS IN THE UK

Some people feel more comfortable raising the funds through equity in their own UK home, or through some other method of financing at home, then transferring the funds over to Florida; in effect paying cash for their Florida property. With this method, the UK property, not the one in the US, will be the one used as collateral for the loan.

For both US mortgages and sterling mortgages, the interest is tax-deductible against any rental income on your US tax return. This is not true for loans financed in the UK however, so if you are planning on renting your property in Florida out, you will

Above Consider your mortgage options thoroughly before sealing the deal



Photo: Comstock Images/Alamy



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 The  
 mortgage  
 broker or  
 lender must  
 be licensed  
 with the  
 Florida Office  
 of Financial  
 Regulation  
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need to give this special consideration. Your US net income will be much higher if you chose this option, almost certainly causing a much higher tax liability.

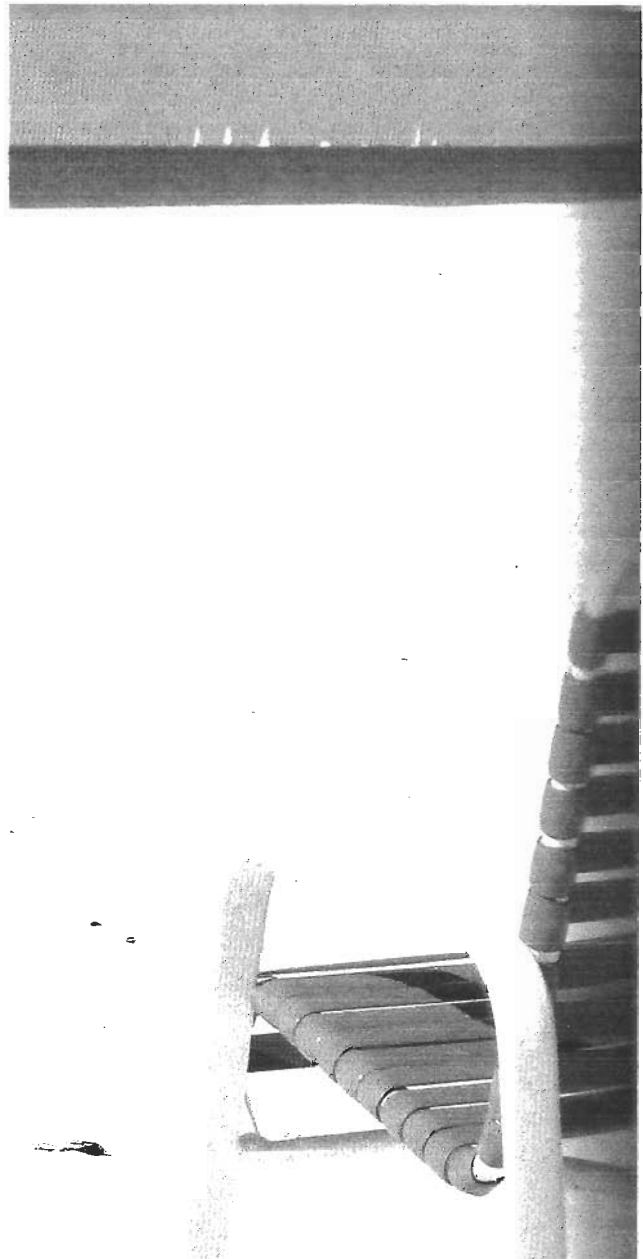
### THE NEXT STEP

If choosing a US or sterling mortgage, the mortgage broker or lender must be licenced with the Florida Office of Financial Regulation. These days, there are hundreds of people physically licenced, all promising the earth. However, one must use common sense and if going it alone, you need to compare apples with apples when looking at what is being offered. As with your choice of real estate agent, it is extremely important that whoever is working out your loan is experienced in working in the market where you are buying your property, with the type of property you are buying, and especially in working with foreign nationals. Many people have a licence, but not many people have the right qualifications or necessary experience and knowledge to help you.

The very best advice we can give to any potential loan borrower is to rely on the recommendation of your real estate agent. Most experienced real estate licencess will have been working for a long time with tried and tested mortgage brokers and lenders, who work well with them as a team. There are many pitfalls that an experienced real estate agent and mortgage team can help you avoid. ☀

Above if you plan to rent out your property, there will be tax implications for your mortgage  
 Right Release the burden of your mortgage nitty-gritty by relying on a trusted and experienced broker

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