



Portuguese mortgage guide

Your Portuguese property

2020



Portugal overview

What can we say about Portugal's investment story? Portugal's rise from ignominy to one of Europe's hottest investment areas is one of the best stories coming out of Europe right now. From industrial Porto in the north to the nascent tech hub of Lisbon in the middle and down to the resorts and beaches of the Algarve coast, Portugal is undergoing a huge renovation and development thanks to some excellent planning from the Portuguese government, which is creating incentives for investment both in real estate and industry. Lisbon is now ranked number one on the 2019 list from PWC for emerging places to invest in real estate in 2019, with a particular emphasis on the quality of life and positive attitude of the leadership in the country.

As with many European countries, long-term fixed rate mortgages are on offer with the possibility to fix the rate for 15 to 25 years – a standard offering from many banks. Perhaps showing their closer way of thinking to the anglo-saxon markets, shorter fixed rates are also on offer. Refinancing a mortgage in Portugal is less common than in the UK and, much like in France, people will generally keep their mortgage for the duration of the loan. This is mainly due to the additional tax paid when the mortgage is taken out: around 0.5% on average.



Portuguese mortgage market

Interest payable on a 400,000 € mortgage.

20 year fixed rate on a repayment mortgage.

Year	Rate	Interest payable
2011	6.00%	€287,774
2012	7.50%	€373,369
2013	6.70%	€327,098
2015	6.20%	€298,896
2015	5.00%	€233,558

Year	Rate	Interest payable
2016	3.90%	€176,695
2017	3.20%	€142,076
2018	2.90%	€127,621
2019	2.70%	€118,112
2020	2.15%	€92,497

Rates for mortgages in Portugal are currently at all-time lows, which provides a further boost to the investment market for Portuguese property. Rates have been steadily decreasing since the Euro crisis ended in 2012 and the mood shifted from risk in the Portuguese market to one of opportunity.

Many investors seeking a golden visa (a program to obtain a residency permit in Portugal for Non-EU citizens) will need a minimum of 500k in equity going into a property purchase, but as prices rise more investors are now taking mortgage finance for 50-70% of the property value, making the most of the low finance rates on offer.

Why is now a good time to get a mortgage in Portugal?

Many investors are choosing to get a mortgage in Portugal to take advantage of the all-time low mortgage rates, in some cases to offset perceived currency loss due to a stronger Euro. At the same time they will seek to put their cash to work harder in other investments where returns will often be higher than the ultra-low long-term fixed rate on the mortgage.

With the harmonisation of many of the banking regulations after the 2016 Mortgage credit directive, most European banks now operate an affordability calculation which looks at what borrowers are spending on a monthly basis on things like personal loans, car loans, mortgage payments, rent and alimony.

Another way to calculate this is by looking at committed expenditure. Things like loan payments have to be paid (unless the loan is cleared), as has rent – unless you move. Insurance payments, school fees and media payments do not count, as these can in theory be cancelled.

The banks then establish your income. Usually this is gross income, but many banks only look at the net income found on pay slips, tax returns and confirmation from accountants and employers.

Calculation

If income is 5k per month net and committed expenditure is 2.5K per month then the debt to income ratio is 50%.

Banks in Portugal like this ratio to be 30 to 40%, including the new mortgage payment, and only over 50% if income is much higher (and in extremely rare cases).

Cost per 100k borrowed with average rates.

Duration	Rate	Monthly Payment
10 years	1.9%	€915
15 years	2.1%	€648
20 years	2.15%	€513
25 years	2.4%	€443



Open to the world

Portuguese banks are very much open to the world – they are among the most receptive of all banks anywhere on Earth when it comes to overseas clients. Perhaps owing to the country's history of travel and exploration, Portuguese banks are essentially willing to lend to anyone from anywhere – providing the country is not on a black-list and the financial situation of the borrower is clear and can be substantiated with evidence.

Popular Portuguese mortgages

Interest-only mortgages are uncommon in Portugal and are usually only provided by Private Banks where the borrower will have placed assets, perhaps to the value of the mortgage, as additional security.

A classic Portuguese mortgage would offer the security of a long-term fixed rate. This option provides long-term transparency in terms of mortgage costs, peace of mind and the opportunity to lock in ultra-low mortgage rates for the long term. These are available up to 25 years, and as much as 30 years in some cases. An important feature of the fixed rate mortgage is the early repayment cost, should you wish to pay off some or all of the mortgage early. These fees are limited to 2% of the loan and only apply to the part of the loan you are clearing.

For those planning to clear their mortgage early, a shorter fixed rate period is an option. In these cases, the mortgage will usually be based over 20 years (which gives some security in terms of clearing the debt), but with a shorter fixed period of, say, 5 years, switching to variable thereafter. One benefit of this, apart from the lower rate of circa 1.4% over the base index of the 3-month Euribor, is that there are lower early repayment charges in the variable rate period of, on average, 0.5%.

2 year

1.39%

fixed

Followed by

1.5%

variable rate + Euribor

5 years

1.75%

fixed

Followed by

1.5%

variable rate + Euribor

10 years

1.9%

fixed

Followed by

1.09%

variable rate + Euribor

15 years

2.1%

fixed

Followed by

0.99%

variable rate + Euribor

What are the fees and taxes related to buying a property in Portugal?

Mortgage-related fees can include:



Mortgage administration tax – 1% of the mortgage amount



Bank survey and appraisal – about 500€



The arrangement fees for the banks vary from 1,000€ to 1.5% of the mortgage amount



The broker fees are 1% of the mortgage amount

The IMT (or Property Transfer Tax) depends on the purchase price and ranges from 2% to 8%: on average, it is about 6% of the purchase price and is payable regardless of having a mortgage or not. Even cash buyers have to pay it – though most buyers are eligible for certain reduction according to their circumstances.

Notary cost including the Stamp Duty (0.80%)

Purchase price	Percentage	Deduction
Below €92,407	0.80%	€ -
€92,407 - €126,403	2.80%	€1,848,14
€126,403 - €172,348	5.80%	€5,640,23
€172,348 - €287,213	7.80%	€9,087,22
€287,213 - €574,323	8.80%	€11,959,26
Above €574,323	6.80%	€ -

Legal fees

€1,500
at least

Mortgage examples with costs

Purchase price	€1M
Deposit	€400,000
Mortgage amount	€600,000
Buying costs	€90,500
Duration	20 years
Rate	2.15%*
Monthly payment	€3,078

€1M

Purchase price

€90,500

Buying costs

€3,078

Monthly payment

* Fixed for the duration

Purchase price	€2M
Deposit	€800,000
Mortgage amount	€1.2M
Buying costs	€179,500
Duration	25 years
Rate	2.4%
Monthly payment	€5,323

€2M

Purchase price

€179,500

Buying costs

€5,323

Monthly payment

* Fixed for 10 years followed
by 15 years at 1.39% + Euribor



The Portuguese mortgage process

Decision in principle

STEP 1

24h – 48h

Find out your affordability profile and decide on the most suitable mortgage option.

Build your application

STEP 2

48h

Collect the paperwork required to complete your mortgage request.

Approval process start

STEP 3

5 days

We find solid suitable options through our connections with Portuguese underwriters. Once you have an agreement from the bank, you need to apply for a Portuguese fiscal number (NIF number), which a Portuguese lawyer can assist with.

Life insurance & bank account

STEP 4

A must-have for all Portuguese mortgages. You need to set up a life insurance policy and open a bank account (you may need to go to Portugal for it).

Valuation report

STEP 5

1–4 weeks

The bank will carry out a valuation of the property. If the valuation is at least the agreed purchase price and there are no legal issues relating to the property, the bank will prepare the mortgage offer.

The offer

STEP 6

You receive, complete & sign the paperwork, after which a 7-day cooling-off period starts.

Completion

STEP 7

We follow up with the bank and the Portuguese Notaire to organise a completion date and the release of the funds.



Get in touch

If you have any queries, please get in touch by completing our enquiry form [here](#). One of our experienced advisors will contact you within 24 hours, at a time that is convenient for you. We look forward to hearing from you.



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