

“Mortgaged” property does not need to be a problem

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However, a problem came arose at the moment when the “wave of truth” swept over the global economy and it turned out that practically the entire monetary system works with fictitious financial resources.

Pragmatic view - a prerequisite for a successful transaction

The current trend shows that the view on buying a residential unit is becoming pragmatic. The fact most responsible for this, in the first place, is that buying property is no longer regarded as the least risky and most profitable investment. What used to hold true not too long ago, ie. the guaranteed 20 to 25 percent profit for the new owner from buying a flat or a house, is history now.

In fact, the opposite is true. Bad business decisions are not exceptional; such decisions have led to the devaluation of the finances of investors´ (small and big investors alike). Several significant factors are behind this, they need to be diligently evaluated before concluding a business transaction.

Incidentally, it is necessary to know what the purpose for owning the property is and how it will be used. To fit the location to the requirements for its use. To asses the quality of the building construction, of the materials used and the age. Finally, it is important to have information about real, not asking prices of similar properties. It is also necessary to be informed about financing possibilities in advance (if needed by one of the commercial banks).

And of course, especially in these times, the most important factor is to be solvent (= ie. not laden with debt) to a greater extent. The banking system institution these days do not approve loans exceeding 70 per cent of the total value of the property as evaluated by a court expert.

Despite these basic factors, which are widely known these days, not only many flat and house owners but also small and larger investors, have reached a situation which led them to an inevitable sale of a partly or fully mortgaged property. Individuals especially have acquired the feeling that it is nearly impossible or very complicated to sell a mortgaged flat.

Banks offer several alternatives to clients

Under the pressure of reality, in recent years the monetary institutions include several alternatives in their services porfolios for executing such a transaction. Before selling, the foremost factor every seller should consider, as it is in their own best interest, is to become acquainted with the charges connected with different methods of property transfer. Either at the bank itself or at the Land Registry as the amount can vary considerably for each alternative.

The fastest, although the least commonly used, method is to transfer the debt to the new owner. The new owner takes over the debt under the same conditions. However, they can ask for a change in the repayment term. This method brings savings on charges, although if the buyer has a better creditworthiness than the seller it may not be worthwhile for them to take over the debt under such conditions.

Due to the fact that the property prices have dropped recently, it is possible that in some cases the

outstanding mortgage is higher than the price a buyer is willing to pay for the property. The most frequent solution to such a situation is as follows: the buyer pays the agreed price for the property to the bank and the remainder of the debt will be transferred onto another property the seller owns, as agreed beforehand. After this the bank will issue a confirmation to the seller, ie. its consent to delete the lien in favour of the bank which the seller will submit to the Land Registry . On the "ownership list" of the new owner will remain burden by the lien in favour of the bank which provided them with a mortgage.

The state is pushing debtors up against the wall by its "help"

The most frequent solution is early repayment and a new mortgage of the buyer. This method combines several advantages as it is the easiest and the fastest. As everything is done by standard procedures, the entire transaction can be concluded within two weeks. Moreover, the banks prefer it because it brings them the most in terms of early repayment charges as well as for the new loan.

The only method, not used so far, to prevent selling the property but to try overcome the critical period is the state help with payment of mortgage. However, the question remains whether it is really help as the state requires fulfillment of certain criteria when granting the help (zero indebtedness to the state, no other savings or owned property, loss of employment as a direct result of the economic crisis, the loan was granted before 31st December 2008 and the mortgage amounts to maximum EUR 82 984,80), which are fully understandable.

The borrowed sum amounting to a maximum of 70 per cent of the monthly installment during one to five years bears interest of 3,5 to 5,5 per cent. The debtor can get in a position where they are pushed up against the wall more than if no temporary state support was granted and in case of finding a job they are forced to pay the mortgage from the commercial loan together with the interest and the state loan with the interest of course.

Each of the above possibilities has its pros and cons. However, it depends on the particular situation and possibilities of the involved parties which alternative they will choose and which is viable from their point of view.

Illustration photo - Juraj Pokorný (1) and author (2, 3)

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