

Press Release

Consumer Credit Directive makes it almost impossible for foreign investors to acquire residential property in Germany

- EU citizens from non-euro-countries such as the United Kingdom, Sweden, Denmark, the Czech Republic or Poland are affected
- These buyers do not obtain residential loans from German banks anymore
- Bypassing the regulation is possible but costly

Berlin 06 June 2016 – On 21 March 2016, the German implementation of the European Directive On Credit Agreements for Consumers Relating to Residential Immovable Property (Consumer Credit Directive) came into effect. The new law imposes stricter conditions on lending to private residential buyers. The core of the new legislation is that the banks have to examine their borrowers' creditworthiness more carefully than before.

However, the law contains some conditions that make it difficult for borrowers from EU countries other than Germany to get a loan for the acquisition of residential properties in Germany. "This applies to private buyers from EU countries that are not part of the Euro zone such as the United Kingdom, Poland, Sweden, the Czech Republic and Denmark", explains Uwe Bottermann, lawyer and founding partner at Bottermann Khorrani LLP, a Berlin-based law firm specialized in advising foreign buyers of German real estate.

To date, these buyers would relatively simply receive a Euro loan from a German bank. However, the Consumer Credit Directive intends to protect those buyers from currency fluctuations. According to the new law, the borrower can request the bank to convert the loan into the respective home currency if the exchange rate between loan currency (i.e. Euro) and home currency shifts by more than 20 percent to the borrower's disadvantage.

Uwe Bottermann comments: "From the bank's perspective, this constitutes a significant financial risk. No German bank wants unforeseen foreign currency loans on its books." Consequently, the bank would have to hedge the currency risk itself. "It is simple to predict the banks' reaction: They will stop providing EU-borrowers from non-euro countries with loans."

In the future, Investors from e.g. United Kingdom, Sweden, Denmark, the Czech Republic or Poland intending to buy residential properties in Germany will need to find alternatives. This

is not too easy since obtaining loans from a bank from the respective home country is increasingly difficult since the financial crisis.

"Creating a GmbH (Limited Company) in Germany to hold the property (and the loan) could be a work-around solution. While this causes some additional costs, German banks would not face the above difficulties."

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About Bottermann Khorrami LLP

Bottermann Khorrami LLP is a legal and tax consulting firm based in Berlin. The company has 25 employees and advises individuals and medium-sized companies – particularly investors, project developers and investment companies. Bottermann Khorrami LLP pursues two courses: it provides foreign clients with projects in Germany advice on German law (inbound consulting) and offers consulting services for clients with international investments (outbound consulting). The lawyers and tax consultants at Bottermann Khorrami offer their services in a number of languages and are familiar with a diverse range of cultures.