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Some expats find that mortgages can boost income

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Some expat retirees in Costa Rica are giving mortgages to others in order to supplement their retirement incomes. Generating a nice extra sum is possible if one finds the right debtor because interest rates are high in Costa Rica. Finding the borrower is easier than it was in the past because there are numerous services providing credit information on individuals and companies here. Mortgages are easier to collect now, too, if the deal goes amiss than they were a few years ago.

Balloon mortgages tend to be the financial instruments of choice with interest rates ranging from 6 to 12 percent on the principal. Some lenders even charge more in some situations because they can get away with the practice.

Credit card companies in Costa Rica get exorbitant amounts for interest on credit card debt. They argue high defaults justify rates of 40-plus percent on colons and 30-plus percent on dollars, and these are the preferential rates. This is a great deal for them considering the colon has outperformed the dollar over the past few years. They are really racking in the dough, and no one seems to cry usury.

Most Costa Ricans are accustomed to paying high interest rates, even on home mortgages. There are some special programs available for financing a residence, but they are hard to find. For housing determined to be in the social interest, the Banco de Costa Rica offers 9 percent fixed interest loans for one to two years increasing to the *tasa basica* plus 3 percent adjustable monthly after that period.

The *tasa basica* is Costa Rica's prime rate in colons fixed by the Banco Central.



Interest rates for money borrowed for residencies that do not qualify as in the social interest are all over the place. Housing in the social interest category are residencies with values up to 58.6 million colons or about \$118,000.

A balloon mortgage is a kind of short-term loan secured by property. Regular payments are calculated based for a specific period with the principal due

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before the end of the payments. For example, a \$100,000 loan at 12 percent interest based on 30-year amortization and a five-year balloon returns \$1,028 to the lender. When the loan is paid after five years, only \$1,308 will have been paid to principal returning \$98,693 to the lender. In other words, a great income generator.

There are many caveats to heed when lending money. The most important of them is finding the right borrower, one who pays the bills. Balloon mortgages are not for everyone because of the responsibility to pay the large sum as agreed. However, there are people and businesses with adequate assets and records of accomplishment that can meet the requirement.

One expat on the coast lends his own money short-term to developers. He seeks someone who is building for resale and has a proven track record doing such business. He is also very astute and personally checks out the borrower as well as gets professional advice and information. One of most important things he has learned is to keep the deal clean with a simple first mortgage on a project involving land and keep the debt to equity ratio low.

This investor does not charge 12 percent even though he could get it easily. He charges a lesser percentage because he wants the income to supplement his pension. He also finds most of the people to whom he has lent money pay the balloon payment right on time or before it is due.

Making an additional income has its merits, but it also has its costs. It is the norm that a borrower usually pays all financing costs including legal and registration fees. Registering a mortgage is expensive in legal fees and registration taxes. However, it is must to have a mortgage attached to property used as guarantee at the Costa Rican Registro Nacional. Again, the borrower normally assumes these costs.

What people forget is that they need to pay taxes on their profits to the local government and that U.S. citizens need to pay Uncle Sam. Expats from other

countries should consult their home country's tax authority to check their liability.

Even after considering, the taxes and other associated costs, lending money to the right people could generate significant revenue to a retired person. It is very important to note that one cannot lend money as a regular business or use other people's money to do so or they would come under the scrutiny of the regulatory agency, the Superintendencia General de Entidades Financieras, Costa Rica's financial system regulator.

Anyone interested in this sideline endeavor should also work with a competent legal professional, one that knows all the tax and financial regulations and requirements. This said, it is important to note many Costa Rican attorneys are great at law but know nothing about accounting and taxes. There are a few, very few, who are attorneys, notaries and certified accountants, too. Even more unique are the individuals who have C.P.A. credentials from the United States as well.

Costa Rica does not allow compound interest, only simple, referred to as *intereses sobre saldos* or interest on the balance due. Balloon mortgages are legal, but many attorneys do not have the first clue as to what they are or how to write them up in a legal document for the Registro Nacional.

Balloon mortgages given to the right borrower can be a great source of extra retirement income without eroding principal when they are prepared correctly and adhere to the local laws.

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