

# On parle cash – episode 1 – housing loans

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**Speaker:** Welcome to *On parle cash*, the podcast that provides clear answers to your economic questions. So we asked you...

**Guest 1:** I'm starting to put quite a bit of money aside because I want to buy a property at a fairly young age. But it's an area in which I have a lot of questions and very little knowledge. I don't know whether I should wait for interest rates to come down, and what size down payment I'll need before I can buy.

**Guest 2:** I'd like to buy a home, especially since my parents bought quite early on. It's not the same generation, but still. I've been toying with the idea, but I'm waiting until I'm really settled before I buy.

**Speaker:** My name is Lucille, I've been working at the Banque de France for 10 years. In this episode, we'll ask some questions. When is the right time to buy your primary residence? When deciding whether to buy a house or a flat, there are many factors to consider. Firstly, you want to become a homeowner, either to build up your wealth, and perhaps pass it on later, or just because you think it's better to repay a loan than pay rent.

**Guest 3:** I worry because I don't want to be dependent on a loan for the rest of my life. Orelsan said: 'You need a car to go to work and you spend your whole life working to pay off the car you've just bought'. "This is partly true, and it scares me a little for buying a property.

**Speaker:** Basically, it's a very personal decision. Then there are our resources, our income, our savings, which we have to weigh up against the cost. This is where the price and, of course, the interest rates on housing loans come in. Finally, there's the long process of finding the right place. It can take months. In the meantime, prices can change and so can interest rates. And that's stressful. So should we hurry to buy because prices might go up? Or should we take our time because we hear that interest rates will fall?

**Guest 3:** I'm hopeful, because that's often what works with the markets, it works through optimism, you have to be optimistic for interest rates to fall, so I'm an optimist.

**Speaker:** First, it is important to realise that it's not always a win-win situation. It's not easy to have both low prices and low interest rates. Essentially, when interest rates fall, prices rise. This was the case for around ten years, between 2010 and 2022. Conversely, when interest rates rise, prices fall, even if it takes a little time. This is what has been happening since 2023. I'm going to explain why. It's just a matter of supply and demand. If interest rates on loans rise, it gets more expensive to borrow, and fewer people are able to get loans. The demand for property falls, while the amount of property on the market remains high. Buyers have more choice, can be more discerning and can negotiate. With fewer and more demanding buyers, sellers get more willing to sell their properties at lower prices. So, prices fall. True

enough, you may say, but when you remember that rates were close to 1% in 2019 or 2020, you feel like you've missed an opportunity.

**Guest 1:** I think it's unfair that I missed that opportunity. I was too young to invest when interest rates were low. And now, interest rates are really high. I'm young, I've just started working and I want to get on the property ladder. But I can't even though people 4-5 years older than me were able to do so.

**Speaker:** To put things into perspective, let's look at some statistics. First, half of all new housing loans in 2024 went to first-time buyers. That's more than in 2019 or 2020. Secondly, during the period of falling interest rates, the share of French households owning their primary residence did not increase dramatically. In fact, it remained stable at just under 60%. Lastly, during this period, households took on a great deal of debt. People borrowed more because the property was more expensive and because it was less attractive to draw on interest-bearing savings when you could borrow at low rates. To reduce monthly repayments, maturities were extended to spread repayments over a longer period of time. And when you borrow for longer, you pay more interest. So much so that in 2022, to stop households getting into too much debt - because, unfortunately, accidents can always happen in life - the *Haut Conseil de la Stabilité Financière* (High Council for Financial Stability) decided to tighten lending criteria for housing loans.

**Guest 4:** People around me keep saying that it's harder to borrow these days because the criteria are stricter. For example, I've got a friend who wanted to get a loan, but she realised that it would be really hard because she didn't have much of a down payment.

**Speaker:** Criterion 1 You can't spend more than 35% of your income on loan repayments each month. Criterion 2 A loan cannot exceed 25 years. However, banks have some flexibility in applying these criteria. It's not a very popular decision, but it's one that protects people.

Lastly, if you decide to take the plunge and buy a home, and interest rates fall, you can always renegotiate your loan. When interest rates fell sharply, for example in 2015, loan repurchases and renegotiations accounted for up to a third of new loans.

So when is the right time to buy your primary residence? It's when you know you want to buy, you think you have the means to do so, and you find a bank willing to lend you money to finance the property you want to buy. All investments entail some risk. There are rules to limit the risk of not being able to repay your loan, and the risk of buying a property that could lose or increase in value. But no one can predict the future.

This episode was produced with the help of the Banque de France's Directorate General Statistics, whom I would like to thank. If you enjoyed this episode, don't hesitate to subscribe to the podcast and leave us comments and stars. For the next episode of *On parle cash*, we look forward to receiving your economic questions by posting a message on the Banque de France's Instagram account or by emailing [podcasts@banque-france.fr](mailto:podcasts@banque-france.fr).