

**Borrowing against currencies** can result in reduced mortgage debt, says **Stefanie Ives**, but due to the high level of risks involved it may only suit a small section of consumers

# Loneliness of the cross currency runner

**five seconds** The ECU Group manages large mortgage debt by trading in foreign currencies, though borrowers must not be risk adverse as the potential fluctuations are huge. It claims vigorous client screening helps prevent any notion of another mis-selling scandal like endowment mortgages occurring.



# Reducing debt capital on a mortgage is the priority of many a homeowner, but ask most how they would reduce the amount they must pay back to their lenders and they think of equity investment.

But the ECU Group, a multi-currency debt management scheme, claims ploughing your cash into a mortgage endowment or similar investment vehicle is no longer the only option to reduce debt capital on your mortgage.

Instead, the business claims clients can potentially reduce capital by using a system often used by fund managers – they can borrow in currencies that fall in value against sterling.

In operation since 1988, ECU Group's scheme currently has about 800 clients on its books with an average loan of £1m each.

Along with reducing the size of the debt capital, borrowing is done in currencies offering a lower interest rate than sterling.

This may all sound like a win-win situation but there is a sobering side to what is, fundamentally, an exercise in risk management. Cormac Naughten, head of private clients for the ECU Group, explains the product has potentially huge savings for borrowers long-term, but warns it should not be viewed as a method to avoid rising interest rates. He said: "The aim of the programme is to reduce the overall debt.

"If a client just wishes to get a lower interest rate then we advise them to go through an adviser to get the best domestic deal.

"There are risks involved in this whole enterprise and we are very honest with our clients. They must be prepared to have a minimum negative fluctuation of 5 per cent annually. As this is a risk managed product, we also have a conversion limit in place, which is 15 per cent above the original loan.

"If this is ever reached, the lender reserves the right, but not the obligation, to convert the loan back into sterling. The 15 per cent limit has only been hit once in 1995 but this is not to say that it will not happen again."

## Technology

The technology used by the group has evolved over the years and much work has been done in the last 12 years to improve risk management.

Trading systems have been upgraded so it is possible to trade currency 24 hours a day.

Fund managers can also execute foreign exchange with whoever is the most competitive in the FX market, not just the lending bank.

Although these are all great strides forward for the scheme, this does not negate the potential for ending up with a bigger debt than you started with. Borrowers are carefully

screened so if a 15 per cent increase signals disaster, they will be turned away on the grounds of unsuitability. The importance of knowing your client is one of the reasons why the group likes to work through mortgage intermediaries.

Mr Naughten said: "Our mortgage advisers know their customers so they are aware of who they should talk this option through with and who they should not.

"When these potential borrowers get to us, they have already been pre-screened and made fully aware of the downsides.

"Of course, we explain everything again along with the lender but it is something that we make each person sit through. We want them to be totally aware about the product and all its implications."

Prime candidates for this debt management scheme are, unsurprisingly, traders, high-flying professionals, entrepreneurs and property investors. Apart from the obvious wealth connection, there are also similarities in the levels of education and attitudes to risk.

Robert Guy, director of London-based IFA Timothy James & Partners, has been involved with the programme since 1988 and has seen it evolve during the years.

He said: "At the moment, I would say the take up is split between 50 per cent City traders, 30 per cent lawyers and 20 per cent property professionals.

"There has been a massive increase in the last five years as it has only been comparatively recently that the group has started to market itself. ECU has about £750m on its books and roughly £650m of that has been added in the last five years. Clients receive lots of advice and I am particularly careful to show both sides of the coin.

"I always recommend a repayment vehicle to be in place and customers should always look to the worst case scenario when organising their finances," he concluded.

## Scandal

For those who think this all sounds a bit like another mortgage endowment scandal in the making – the combination of investment and mortgage unsettles some stomachs – it would be worth bearing in mind the customer profile is totally different.

Unlike endowments, which were very much aimed at the general population, this is a niche market product for customers in professions that already involve an understanding of risk.

It is very much a case of "obsessive Teletext checkers need not apply". While this scheme will not lead to people beating a path to the door of their local mortgage adviser, it is an interesting development in the mortgage market and one advisers with high net-worth clients should weigh up.

It is unlikely this will ever be a product open to the general public partly due to its complicated nature and partly due to the sheer size of debt that needs to be owed in the first place.

This is not a programme for the faint-hearted but it can have big pay offs, which for a growing number of clients, seems to make the risk a worthwhile one. ■

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