

mortgage

Monthly: August 07

EDGE

UP IN FLAMES

The death of the proc fee?

MONEY TO BURN

Attracting high net worth clients



THE 10 – MORTGAGE LENDERS v FOOTBALL CLUBS



Rich pickings

There has never been a better time to tap into the high net worth client market. Donna Werbner finds out how to get a piece of the action

WANTED: extremely successful, sophisticated but time-poor property hunter for whom money is no object, to pay substantial fees for mortgage advice, generate high proc fees and refer wealthy friends.

If that all sounds rather spiffing, then guess what? You're in luck. The number of millionaires in this country has increased by more than 80 per cent in the last four years to 425,000, and it is no coincidence that average house prices have shot up by 64 per cent in the same period.

Research from Halifax Estate Agents shows that the number of properties sold for more than £1m almost doubled

last year, from 3,600 in 2005 to 7,076 in 2006. There are now more than 80,000 homeowners in England and Wales whose property is worth over £1m, according to Portman Building Society, and more than 1,300 streets in England on which the properties command an average asking price of at least £1m (up from just 322 streets in 2000), according to mouseprice.com.

Latest figures from Savills Private Finance, one of the biggest players in this market, also bear this out. "We've arranged 155 £1m+ mortgages this year, compared with 101 over the same period last year," says director Melanie Bien. "There's no doubt the market for high

net worth clients is growing.”

It's not hard to figure out why. The combination of unparalleled bonuses for City traders and attractive tax breaks for wealthy foreign nationals and private equity bosses means that the UK – and London in particular – is now seen as a highly desirable place to live by the world's millionaires and billionaires.

Just take a look at some recent national newspaper headlines: “Prices soar as the super-rich invade London”, “Millionaire house owners increase in London” and “Spend! Spend! Spend! London is the new plutocrats' paradise”.

And the good news is, it's not just London. In fact, despite being home to around 56 per cent of the nation's £1m+ properties, London's annual share of the UK's million pound sales actually fell from 79 per cent in 1995 to 58 per cent in 2005, according to Halifax.

While there is no doubt that the Royal Borough of Kensington and Chelsea in London is top of the property millionaire rich list – in November last year, it became the first borough in Britain where the average property commands an asking price of over £1m – two-fifths of property millionaires now live outside the capital, says Portman Building Society, with central and suburban locations near northern cities among the most popular.

The society claims North West England saw a 37 per cent increase in the number of its property millionaires last year, while market research firm EuroDirect recently claimed that the leafy suburbs of South Gyle and Newington in Edinburgh and Newton Mearns, Giffnock and Kelvinside in Glasgow are home to some of the UK's wealthiest millionaires. Meanwhile, Poole in Dorset has the most expensive real estate in the UK on a square-foot basis.

Worth the hassle?

But are high net worth clients really as desirable as they seem? “Clients can be extremely demanding and their cases are often very complicated,” admits Bien. “Plus, they come with an added risk: if you spend all your time working on one deal and it falls through, you are left with nothing, whereas if you have lots of smaller deals on the go, it is highly unlikely that they will all fall through.”

Paul Welch, founder of Clegg Gifford

Private Clients and *largemortgageloans.com*, takes a different view: “A £1m mortgage, is 10 times the income of a £100,000 mortgage for the same amount of work.”

He pooh-poohs the idea that high net worth clients take up more time than mainstream mortgage borrowers: “In my view, large loan borrowers take up less time. They know what they want and are savvier about financial matters than your average first-time buyer, so they are able to make decisions quicker.”

What's more, if you are at all concerned about the impact of rising interest rates on the housing market and your business levels, the high net worth market is the one to go for.

“Whatever happens to the housing market nationally, it looks like there's a strong capacity for the £1m+ property market to keep growing,” reveals Lucian Cook, director at Savills Estate Agents. Clients at this end of the borrowing spectrum are less likely to be concerned about rising rates, he claims: “They're not affected by rises. They know they can afford it.”

And the icing on the cake? Welch points out that, from a broker's point of view, high net worth clients often have more interesting requirements and so are more fun to work for than first-time buyers. “They are sophisticated and experienced investors, rather than property virgins,” he quips.

But before you decide to jump into bed with high net worth clients, make sure your service levels are up to scratch. According to Savills Estate Agents, £1m+ properties are in extremely short supply right now, and that means buyers have to move fast to beat the competition. Bien says: “There isn't enough property out there, so clients can't afford delays in getting their finance processed. Sealed bids are quite commonplace.”

While this drives up property prices, increasing the potential size of proc fees, it also puts a lot of pressure on brokers to get their clients' mortgages through quickly.

“A lot of estate agents will give £1m+

property buyers just 10 days to exchange, because there is such high demand at that end of the market,” reveals Andrew Montlake, partner at Cobalt Capital, which recently handled an eight-figure loan for a single client. “It's a good time to start trying to attract large loan borrowers, but you do need to know how to deal with them.”

Wealthy clients have very different priorities from those of mainstream borrowers, he says. “A millionaire is often not bothered about having to pay £100,000

Client profile

Savills Private Finance: “Clients will typically put down a 20% to 30% deposit on £1m+ deals, but may borrow as much as 90% LTV up to £1.5m. Clients who don't have a large cash income but have assets, such as an art collection or a family trust fund, can use them as security or 'added comfort' against a mortgage. Properties are either bought as main residences or for both residential and investment purposes.”

Largemortgageloans.com: “We see a lot of foreign investors – the BRIC (Brazilian, Russian, Indian and Chinese) brigade. They normally have a 25% deposit and the average loan they're seeking is around £1.6m.”

Cobalt Capital: “We get a lot of investment bankers who can put down a 20% deposit on a loan of £2m to £3m. They like flexibility and pay-down facilities, because they expect to get bonuses. We also get clients who are looking for offshore deals at 75% LTV for around £5m. A lot of their income is derived offshore or through an offshore trust.”

over the asking price, but is going to want a speedy and efficient service.”

The good news is, many lenders offer a 'premier service' for high net worth customers looking to borrow more than £500,000. The idea of these units is to help make the process as smooth as possible, as the underwriters and processors are all specifically trained to understand the needs of well-heeled clients.

But Purely Mortgages product manager Stuart Cocks is critical of the value that these units add. “We find they are rarely able to move outside of their rigid lending policy,” he says. “A bespoke approach can sometimes be more appropriate. Lenders such as Kleinwort Benson, Investec and Clydesdale all offer a case-by-case style of underwriting. This has been an essential element to pushing through many of our high net worth customers to completion.”

Whichever style of underwriting ▶

you prefer, improvements in technology mean that a speedy service is a lot easier to achieve than it used to be. Linda Will, managing director of Accord Mortgages, agrees that high net worth clients are “cash-rich and time-poor”, but maintains that, these days, they are “not that much harder to please than your average Joe Bloggs”.

Currency managed mortgages

A currency managed or multi-currency mortgage is a tax-efficient mortgage on a UK property that can be switched between sterling and other major currencies. It gives borrowers the potential to reduce the size of the mortgage, without having to make repayments, and to take advantage of the lower interest rates available from borrowing in many foreign currencies.

How it works

When a mortgage is switched into another currency, interest is paid at the rate applicable to that currency. If the currency that the loan is in then weakens against sterling, then the sterling equivalent of the loan is reduced. And vice versa if the currency strengthens. It is therefore a high-risk product. Many borrowers choose to give limited power of attorney to an experienced currency manager, such as the ECU Group, which switches the mortgage between currencies as and when it sees fit.

Big players

Lenders which offer this facility include HSBC, Citigroup, Investec, Kaupthing Singer & Friedlander and Kleinwort Benson.

“Lenders today are much happier to look at large loan borrowers than they were five or 10 years ago, and quicker to turn these deals around,” she argues, adding that brokers are usually more than compensated for any extra work they have to do. “High net worth clients are used to paying high fees for advice. They won’t blink an eye at the bill.”

Of course, it’s all very well deciding you want these clients, but you won’t get very far if you don’t understand how the requirements of millionaires differ from mainstream borrowers.

“High net worth individuals want tailored products suited to their complex financial needs,” emphasises Bien. She adds that, in order to achieve this, Savills set up a high net worth ‘steering committee’ earlier this year to liaise closely with the private banks and secure exclusive products, rates and ‘unique’ financing solutions to clients.

But what if you don’t have the resources to invest in such a committee or the clout to negotiate these sorts of exclusives? How

can you ensure that your firm is capable of servicing the needs of high net worth clients – and attracting word-of-mouth recommendations?

Hey big spender

One tactic might be to team up with an estate agent who deals with properties at the high end of the market, or with a ‘property shopper’ (the property equivalent of a personal shopper for the very wealthy, who takes all the hassle of out a property search), in order to get referrals.

Alternatively, follow Welch’s example and use the Internet. After all, the more sophisticated the borrower, the more Internet-savvy they are likely to be.

But the best way to attract clients is, as always, to offer them a top-class service. “A lot of high net worth clients who work in the City are very competitive,”

reveals Montlake. “If one of the guys in the office is getting a good deal, they all want it. You can get a lot of word-of-mouth recommendations that way. So be honest with them and don’t promise what you can’t deliver. And pay attention to the details – they like to know you are on top of everything.”

It’s vital to build up personal relationships. After all, if you were about to borrow £1m, would you take advice from someone you didn’t trust?

“High net worth clients need to have confidence in the person they are dealing with. You live by your reputation,” emphasises Cook.

Once you’ve got them through the door, Welch recommends putting a lot of administration support in place to deal with their requirements. “It’s well worth investing in members of staff who can support you adequately as a broker, so you can cope with all the demands that high net worth clients make,” he says.

What else do the super-rich want? “The hope of high net worth clients is

that they can get all their advice from one IFA,” says Gerry Bell, head of mortgages at GE Money. He is sceptical about whether brokers can offer mortgage advice alone in this market and recommends offering investment or insurance advice as well. “You could team up with another firm that offers these services, but it would have to work very smoothly,” he warns.

Money, money, money

When it comes to mortgages, apart from a high level of service and speed of turnaround, the key thing that high net worth clients are looking for is tax-efficient advice, argues Cormac Naughten, head of private clients for the ECU Group. “Being able to recommend offshore lending products and managed currency mortgages can be highly advantageous,” he says.

HSBC director of private banking David McKenzie, agrees: “Offering something fresh and a bit different will grab the interest of a high net worth client and get their attention. We use managed currency mortgages (*see box, left*) as an example of what we can offer high net worth clients, because not many people have heard of them.”

Cocks also recommends brokers in this market get up to speed on managed currency mortgages and throws offset mortgages into the mix: “Offsets are an excellent way to help high net worth customers minimise the amount of tax they are paying.

“We find that these borrowers are more inclined to opt for this product [than mainstream borrowers] as the savings they can make are in the hundreds of thousands rather than tens of thousands.”

Montlake, meanwhile, emphasises the value of offshore lending products to high net worth clients: “Many large loan borrowers have income that is derived offshore, and would prefer not to bring it into the country. Because of the large potential tax liability, so they want the loan offshore.”

He recommends brokers try to get inside the heads of their high net worth clients. “Any broker who deals with high net worth clients has got to understand their world. They look at the overall product and its tax advantages. They’re more interested in pay down facilities and offsets than the rate. No two deals are ever the same in this market.” ■