

HNWs boost nascent multi-currency mortgage market says ECU

Specialist currency manager The ECU Group has experienced an upsurge in interest in its in multi-currency mortgages since stock markets began to wobble in July as wealthy investors look to switch their funds from equities to property.

Property is traditionally considered to be a safer bet than the stock market and multi-currency mortgages could potentially provide borrowers with the opportunity to pay down a mortgage in around 15 years without having to make capital repayments.

The London-based firm mainly manages mortgage loans for high net worth individuals at private banks such as HSBC, Citi, EFG, Investec, Singer & Friedlander and Kleinwort Benson. But this is not a service for people that are risk averse or seduced by the supposed benefits of low headline interest rates in countries such as Japan. Rather like investing in the stock exchange, a multi-currency mortgage is only suitable for clients who are prepared to play the long game and not get panicked by short-term volatility.

"We recommend our mortgage reduction products to people who are prepared to take a minimum 3-5 year view - it is not for the faint-hearted or those that are prone to bouts of panic when exchange rates fluctuate," Cormac Naughten, head of private clients at ECU told *thewealthnet*. "Our investment profile is medium to high risk and is absolutely not for clients who are seeking a risk free haven from the current stock market volatility."

ECU, which has around \$1.7 billion under discretionary management, is able to make its savings by switching between the major currencies around 15 times a year on average to take advantage of market fluctuations to reduce the size of its client's sterling-denominated mortgages. This involves the loan currency falling against sterling which, in turn, reduces the sterling equivalent of the loan.

This is because interest rates are lower in some countries – 0.5 percent in Japan and 2.5 percent in Switzerland - so if sterling weakens against the currency in which the client borrows, the debt will effectively increase.

For example, if a client had a £1 million mortgage which was converted into US dollars at \$1.80 and then converted back into sterling at later date at a rate of \$2.00, the loan would be reduced by approximately 10 percent from £1 million to £900,000. In addition, the £100,000 saving is not currently liable against capital gains tax bringing further benefit to the borrower.

"The current market turbulence has shown the clear dangers for unsophisticated borrowers looking to fund their mortgages in the cheapest currency – the yen," Mr Naughten explained. "Since July 20th the pound has weakened from 251 to 233 against the yen. This equates to an increase of some 8% in the value of a client's loan in under a month! ECU clients on the other hand have not only avoided such losses

in this market turmoil - we are in a trade which is actually making money in this period."

There are however risks. A client who used a currency mortgage between 1992 and 1994 would have seen the debt actually increase by around 24 percent. If he panicked and exited the trade he would have had to bear this loss. Yet if he had kept his nerve he would have seen consecutive yearly gains of 1.5 percent, 13.57 percent, 11.70 percent and 12.58 percent to total 39.35 percent over 4 years.

"This gives a fairly stark illustration of the benefits of professional management – you need it most when markets are at their toughest," said Mr Naughten.

ECU is currently in the process of expanding its range of relationships with private banks where the minimum loan size ranges from £250,000 to £1 million depending on the institution involved and would generally be limited to clients with a minimum salary of £100,000 a year.

With the benefits of multi-currency mortgages so clear, this is likely to be a growth area for savvy investors, says ECU. But again, the kind of person that panics at a plunging stock market ticker is also likely to panic when currencies jump around. It might not quite be a case of from the frying pan into the fire, but it does take an investor that's not going hurl sell orders when the next inevitable bout of turbulence rocks the markets.