

## Play the currency game to pay your mortgage

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If you had put a £1m mortgage into US dollars at the start of the year and left it without making a single payment, then thanks to the falling dollar that mortgage would have decreased in value by more than £70,000.

Such is the beauty of foreign currency mortgages, and the reason that a growing number of high-net-worth individuals are employing them. If you back the right currency, you can significantly reduce the capital value of your debt.

With the pound at its strongest against the dollar for more than a quarter of a century, multi-currency mortgage specialist ECU Group has converted its entire loan book into US dollars.

Cormac Naughten, director, says ECU Group expects the dollar to weaken even further against sterling.

But rather than convert a loan into a currency you think has hit rock bottom, the way to benefit from foreign currency-denominated loans is to catch the currency on its way down, says Ray Boulger of John Charcol mortgage brokers.

Foreign currency mortgages change the underlying currency of your mortgage loan to a different mainstream currency such as US dollars, Japanese yen or euros. Monthly repayments are made by you in sterling, which is then converted to the currency the mortgage is in and used to pay it off.

Loans managed by a debt manager can be switched regularly between currencies such as the pound, dollar, Canadian dollar, Swiss franc and euro, based on macroeconomic views.

There are two ways to benefit from doing this. First, if the interest rate of the country whose currency you use is lower than the UK's, which is currently 5.75 per cent, you will pay less interest when borrowing in that currency.

In the late 1980s, foreign currency loans were a more regularly-used financial product, in part because UK interest rates had reached nearly 15 per cent by the end of 1989, and were higher than those in most other western countries.

However, the UK's exit from the Exchange Rate Mechanism in 1992 meant many of those with multi-currency mortgages were automatically forced back into sterling and lost money.

Although this is not a fear of today's borrowers, Naughten says that lower interest rates are still not the primary motive for choosing a currency mortgage. Fluctuations in a currency can effectively erase gains made from a lower interest rate in a single day. Instead, the main driver is loan reduction through currency fluctuation.

To take the example of the £1m mortgage converted to US dollars again: imagine converting this from sterling to US dollars when the exchange rate is \$1.80 to the pound. The loan would become \$1.8m.

If the dollar then fell against the pound and the exchange rate became \$2 to every pound then that \$1.8m loan would become £900,000. Some £100,000 would have been knocked off the value of the loan, purely through exchange rate movements.

To monitor currency performances, check the FT's Currencies section on [www.ft.com/markets/currencies](http://www.ft.com/markets/currencies).

If you are interested in taking out this sort of loan, specialist banks such as Singer & Friedlander Investment Management and Kleinwort Benson can arrange them. Most will only

take on large loans of £1m or more and require 75 per cent loan-to-value to provide a buffer.

Melanie Bien at Savills Private Finance, says that although foreign currency mortgages are growing in popularity, they are really only suited to sophisticated borrowers.

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