

# Would a dollar loan save a fortune?

Demand for foreign currency loans against UK homes is soaring, but advisers warn that it is a high-risk strategy that could increase your debts in days.

Clare Francis explains the pitfalls

THE recent strength of the pound against the dollar has led to a surge in interest from borrowers looking to take out dollar mortgages against their UK homes.

Holding a loan in a falling currency can help to reduce the outstanding debt by thousands of pounds in just a few months, but

it is a high-risk strategy. Someone who had converted a £1m mortgage into dollars on January 2, when there were \$1.95 to the pound, would have seen the value of their debt fall to about £915,000 if he or she had changed it back when the exchange rate was at a 26-year high of \$2.11 earlier this month, according to HIFX, a foreign-exchange broker.

Several private banks and brokers offer mortgages in foreign currencies, where your repayments cover only the interest and the aim is for foreign-exchange movements to cut the value of your debt. However, if the currency moves in the wrong direction, the sterling value of the loan will increase.

Chris Townner at HIFX said: "You can make money out of currency speculation, but exchange rates can vary significantly over a short period, so you must be able to afford to take the risk."

While many analysts had expected the dollar's value to continue its downward path, it strengthened against sterling last week following the announcement from Mervyn King, governor of the Bank of England, that British interest rates will probably be cut at least twice next year to stave off an economic downturn. The pound promptly fell by 3% against the dollar to \$2.04.

If someone had converted a £1m loan into dollars at a rate of \$2.11, the value of the debt in sterling terms would have increased by £34,000 in the space of a week.

Mike Boles at Savills Private Finance, a broker, said: "We have had more interest in foreign-currency products in the last six months from people who think they can benefit from currency movements and lower interest rates abroad."

"However, when the risks are explained, most decide against it. We start by explaining the reasons why you shouldn't take a foreign-currency mortgage and work from there as we need to be sure that clients know what they are getting into."

Boles added that those who are prepared to take the risk tend to go for multi-currency mortgages, rather than a single-currency loan, because they are safer — instead of chancing everything on the movements of one country's exchange rate, a manager spreads the debt among several different currencies.

Even though multi-currency



## DEBT BURDEN RISES WITH CANADIAN \$

SOPHIE HENDERSON, pictured with two of her three children, George, six, and Lucy, three, has a multi-currency mortgage on her home in Leicestershire.

Sophie, 42, and her husband Stephen took out the loan with ECU Group in August 2005 after receiving advice from mortgage broker Savills Private Finance.

Up until three months ago they had reduced the size of their mortgage by about 7% thanks to currency movements, despite only paying the loan's interest.

However, over the past few months the mortgage has been held in Canadian dollars which have strengthened in value against the pound, so their loan is now about 2.5% higher than when they took it out. ECU has recently switched to US dollars.

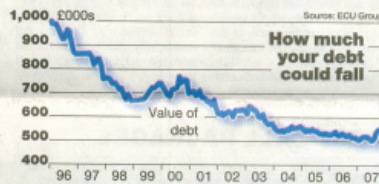
Stephen, an independent financial adviser, said: "ECU has a strong track record, so I still have faith that over the longer term, a multi-currency mortgage will work to reduce our debt."

loans are less risky than those restricted to a single currency, they are still not for the faint-hearted as you are depending on the judgment of the manager.

ECU Group, a debt manager, has been offering multi-currency loans for more than a decade. Despite the weakness of the US dollar this year, ECU has only just moved clients' money into the currency — just as the greenback strengthened last week.

It backed the Canadian dollar instead, having expected that to follow the US currency downward. In fact, the Canadian dollar has appreciated by 12% against sterling this year, from C\$2.32 to the pound to C\$1.92.

As a result of its Canadian dollar holdings, clients' debts



increased by 9% in the three months from August to the end of October.

Cormac Naughten at ECU said: "Multi-currency loans are not a one-way street — you do get periods when exchange rates go against you and it is very easy

with hindsight to say that we should have been in a different currency. In 1999, debts

increased by 11%, but we more than recovered in the following two years. They dropped by 6% in 2000 and 12% in 2001." Multi-currency loans are only

really available to the wealthy. The minimum-loan size tends to be at least £250,000, sometimes £500,000, and providers require borrowers to have significant amounts of equity in their property — typically 40% or 50%.

Private banks such as Citi and Fortis offer multi-currency mortgage facilities where the borrower can decide which foreign currency they want their home loan to be in, but most borrowers prefer a manager to make the decisions.

For more on property, go to [www.timesonline.co.uk/mortgage](http://www.timesonline.co.uk/mortgage)