

Currency blow to overseas loans

SOPHISTICATED borrowers who took out fashionable multi-currency mortgages have been caught out by the falling value of sterling, *writes Elizabeth Colman.*

Demand for foreign-currency home loans surged last year as the pound rose to over \$2.

Borrowers can use these loans to reduce the size of their mortgage by switching to a currency that is falling against the pound, preferably from a country that has a lower interest rate.

Monthly repayments are made in sterling, which is then converted to the currency the mortgage is in. The difference in the exchange rate also goes towards paying off the mortgage.

In November, the UK's largest manager of multi-currency mortgages, the ECU Group, converted its entire £900m mortgage book to US dollars.

However, it is understood that ECU Group has been forced to switch the entire loan book back into sterling, resulting in a loss of 1.55% – or an increase of about £7,700 on a £500,000 mortgage.

Melanie Bien of Savills Private Finance, a broker, said: "Foreign-currency mortgages are aimed at sophisticated high earners who want to cut their monthly mortgage payments by opting for low overseas interest rates. But it is important that you appreciate the risks involved.

"Currency volatility is a real problem so it is important to take advice and ensure you know what you are getting into before taking out one of these mortgages."