

Multi-currency borrowers hit

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Owners of UK properties who have switched their mortgages into other currencies owe far more than they did a few months ago, as the value of sterling has plunged.

Similarly, people with holiday homes in Europe or the US who pay their mortgages with UK earnings have been badly stung by the falling value of the pound.

Ecu, a provider of multi-currency mortgages, says clients have suffered the worst losses this year since at least 1992. The group switched its customers' mortgages back into sterling before its recent sharp deterioration but says loans have still increased by an average of 10 per cent this year.

Homeowners who have mortgages in euros, Swiss francs or dollars may have fared worse. Advisers say some loans have increased by 25 or 30 per cent in a matter of months.

"People who have UK properties financed by foreign currency will have seen the value of their mortgage increase relative to the property value as a result of the depreciation of sterling," says Chris Fleming-Brown at Egerton Partners, the mortgage broker.

As a result, some borrowers have had to stump up additional capital or risk being closed out of their loans altogether.

"If you were borrowing in Swiss francs, a £5m loan would have increased by £385,000 in just the last few days," says Paul Welch at Largemortgageloans.com. "One client had to inject a further £1m into their mortgage to keep within the lender's loan-to-value parameters."

Foreign currency mortgages have been particularly popular with employees of overseas banks in the UK who might receive part of their remuneration in euros or Swiss francs, for example. Banks such as Credit Suisse, Fortis and Kaupthing have offered these loans.

Banks can "stop out" a foreign currency loan – or switch it back to sterling – to protect their clients' properties from falling into negative equity if the pound was to depreciate further.

People with second homes abroad tend to have mortgages in the local currency. For them, the damage depends on whether they fund their mortgage payments with UK earnings or local currency.

Those who rent their properties may cover their mortgage with the rental income they receive in euros or dollars, for example, and would not be affected by currency swings. But those making repayments from UK earnings would have seen a sharp rise in their costs.

"People who have holiday homes that they are not renting out and are funding from sterling will be suffering," says Simon Conn, managing director of Conti Financial Services, a provider of overseas mortgages. Borrowers in this situation should consider whether it would be worth locking into exchange rates now to protect against further losses. However, it does seem that much of the damage has been done.

The pound this week fell to its lowest ever point against the euro amid expectations that the Bank of England would make further cuts to interest rates.

"We are already seeing the pound trade at an all-time low against the euro and this is likely to get worse as more investors lose confidence in the pound amid fears about the UK economy," says Mark O'Sullivan, director of dealing at Currencies Direct.

The fall in UK interest rates eliminates another advantage of taking out a foreign currency mortgage.

Fleming-Brown says some high net worth individuals have borrowed in other currencies just to get the benefit of lower interest rates. "For those people, it will have been painful if they didn't get closed out very quickly," he says.

He advises borrowers who still have a foreign currency mortgage to look at the interest rate relative to the UK. "If the differential is much less than it was, they should consider whether they want to continue with it."

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