

Pros and cons of a foreign currency mortgage

外幣按揭的利與弊

By Barry Lea

For most people, the purchase of a property is one of the largest personal investment decisions they will face during their lifetime. One issue that requires particularly careful consideration is the denomination of the loan currency.

對於很多人來說，購買房屋是人生中最重要的個人投資，有一點值得深究的是我們應當選擇哪種貨幣作貸款。

Once upon a time, a borrower would not have had a choice of the currency of loans. However, nowadays multi-currency loans are more commonly available. Some people in Asia express uncertainty as to where they and their families will be located in a few years' time, where their principal source of income will be generated. To be locked into one particular currency during the whole repayment period may well be inappropriate given such situation. It could well be more appropriate for a borrower to seek a currency switching option, whereby the borrower has the facility to finance in one currency today and retain an option to convert into another currency at a later date.

For example, a borrower may choose to finance in sterling today and later switch to US dollars should movements in cross-rates present an opportunity to minimise cost, or should their principal source of income change.

What currency to borrow

Generally speaking, it is wise to match the currency of assets (either fixed or liquid) with that of liabilities, e.g. a UK property asset with a sterling loan would match a fixed asset with the loan liability. Many people, however, opt to match more liquid assets such as savings, salary, future provident fund proceeds or even existing assets, with the loan.

In this case, the British property may be matched with a HK Dollar loan serviced by a HK dollar salary, for example. The ability to switch currencies during the



life of the loan could prove valuable at a later date. Should a borrower anticipate income streams in more than one currency, e.g. sterling and HK dollars, then theoretically they should initially draw the loan in the currency, which they believe will weaken relative to the other. If currency switching is available, then once the chosen currency has weakened, the loan may be switched to the other currency and a saving in capital will be effected.

Anyone considering a mismatch between the currency of the loan and their assets should tread very carefully. Borrowers are sometimes tempted to do this in order to secure a loan in a currency with low interest rates. Unfortunately, significant movements in currency cross-rates can occur very quickly, wiping out any savings through lower interest rates and leaving the borrower stranded.

The worst case scenario would leave buyers with a loan that was bigger than the value of the property when translated into the unrelated currency where the currency cross rate has moved against the borrower significantly. The lender bank may question the higher loan-to-value ratio and seek additional security or partial

repayment – provisions almost certainly built into any loan facility taken in an unrelated currency.

Forex movements

As property investments involve fairly large sums of money, it is also obvious that slight movements in exchange rates against a borrower's base currency will also affect the yields on such investments. Yields that initially appear to give high returns on an investment may be substantially reduced by adverse exchange rate movements.

Playing the forex markets with mortgage monies is therefore definitely not for the faint of heart or financially weak.

Another point to consider is that when a loan is arranged, the borrower will agree with the lender the size of the loan in relation to the value of the property. This is known as the loan/security or loan/value ratio (LTV ratio), and it varies between lenders. Typically, lenders providing currency switching facilities more conservative as regards LTV ratio owing to exchange risk. Rather than offering 90% or even 100% loans, they may offer perhaps 70-80%.

An important rule to bear in mind is not to be taken in by headline rates. If the interest rate on a loan appears too good to be true, then it probably is! This is because there are many ways of calculating interest, which means that an advertised rate of 7% p.a. could in fact cost over 8% p.a. in real terms. There have even been instances where an advertised rate of 3.75% p.a. equated to a real rate of over 7.5%! One solution is simply to check what the actual repayment figure would be over a given term.

Another important decision is whether to opt for a fixed or floating interest rate. Mortgage lenders offer fixed rates for one reason - to buy your loyalty.

The fixed rate is usually fixed for a relatively short period in relation to the life of the loan, so you should ensure that the lender will offer a competitive variable rate mortgage when the time comes. Fixed rates are normally accompanied by crippling early repayment penalties, so many people may benefit from more flexible loan arrangements.

Remember that fixing the interest rate is always a gamble and, as with any form of gambling, you may win or lose. **BM**

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前，借款人無從選擇，然而現在多種貨幣貸款已十分流行。部分在亞洲的朋友表示，不肯定他們及其家人將在未來數年會在何處定居下來，亦不肯定其主要收入來源為何種貨幣。在還款期內鎖定一種特定貨幣以作還款可能未必適合於這類情況，可轉換貨幣的貸款模式可能更適合。此舉方便借款人易於以一種貨幣融資，同時可於往後日子有轉換貸款貨幣的選擇權。

比方說，借款人選擇以英鎊貸款，期後轉換至美元，如果匯率的變動可以減低成本，或者借款人主要收入來源有所改變。

選擇哪種貨幣？

一般而言，應該以資產的貨幣為債務的貨幣，例如以英鎊按揭的英國物業應以相對的固定資產作平衡債務。然而，大部分人士傾向以選擇流動資產如：儲蓄、薪金、未來公積金收益或現有資產來平衡貸款。

以上個案來說，英國物業可選擇以港元貸款（以港元薪金支付還款）。在還款期內

可轉換貨幣來還款的安排在未來會有用，如英鎊與港元，理論上他們應最初選定一種貨幣相對弱的貸款。假若貨幣轉換是可行的，一旦已選定的貨幣轉弱，貸款可透過轉換其他貨幣來節省成本。

任何人企圖利用貸款貨幣與資產之間的錯配應當小心行事，有時借款人因受某一貸款貨幣的低利率吸引而做出以上行為，但不幸地，貨幣套匯匯率經常發生重大變化，如匯率升幅大於利率時，則不能透過低息來節省成本，亦不能離開其負債困局。

最差的情況是，當選擇以不同的貨幣作為貸款時，匯率上升有可能令到物業變成為負資產。貸款銀行可能對過高的「貸款/房屋估價」比率感到憂慮，而要求借款人提供額外抵押或先清還部分貸款——這些條款必會加入任何貸款合同中。

小心外匯上落

由於物業投資牽涉相當大的金額，匯率輕微上落亦會影響到借款人行使的貸款貨幣，同時影響其投資孳息率，孳息率起初可能會有高投資回報，亦會因不利的匯率變動而導致重大下調。

所以，以按揭貸款於外匯交易市場圖利並不適合不能承受風險或缺乏財力的投資者。

另一點需要考慮的是，當安排貸款時，借款人士將需要同意貸款者所提供的貸款額與物業價值的比例。而貸款/抵押或貸款/房屋估價比率（LTV ratio）隨貸款者的商業策略而各有不同，一般來說，貸款者提供可轉換貨幣貸款時較為保守，因為他們關注到貸款/房屋估價比率會有匯率風險；貸款者只會大約提供七至八成按揭，而並非九至十成。

另一項重要的決定是在於選擇固定或浮動利率。按揭貸款者提供固定利率只有一個原因——買下你的忠誠。

固定利率通常適用於還款期內的一段較短時期，故此你應確保貸款者在定息還款期後將提供較有利的可變按揭利率；另外，提早還款時須繳付巨額罰款，所以許多人趨向具彈性的貸款安排。**BM**

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