

# Foreign Currency Mortgages Risk Disclosure

Client Name	Partner's Name
Address	
NAME OF LENDER	
HIGH RISK – Multi Currency Loan	
<p><b>It is company policy that, you should match the currency of assets (either fixed or liquid) with that of the liabilities.</b></p> <p><b>Example</b> – A UK property asset with a Pound Sterling loan, would match a fixed asset with the loan liability.</p> <p>If the loan is in a different currency to the asset then you face the risk of a currency mis-match. Significant movements in currency cross-rates can occur very quickly, potentially increasing capital and interest rate costs.</p> <p><b>Loan to Value Ratio - LTVR</b> Typically, lenders offering multi-currency loans will only offer between 70-80% LTVR.</p> <p>The lender may seek further protection against adverse exchange rate movement by including a 'top-up' clause in the formal loan offer letter. Should the LTVR increase beyond the original, agreed LTVR, then the lender may require you to provide additional security for the loan e.g. cash deposit to bring the LTVR back down to the original level, or switch the loan currency back to the currency of the country where the property is situated.</p> <p><b>Example of a negative effect of currency movements on LTVR</b></p> <p><b>Today</b> A Japanese based client buys a UK investment property valued at £100,000. He earns his income in Japanese Yen and the prevailing exchange rate is £1 = ¥231. Hence the property value is £100,000 x ¥231 = ¥23,100,000. The client chooses to borrow in Japanese Yen via a repayment mortgage over 25 years at a LTVR of 75%. The amount of loan is £100,000 x ¥231 x 75% = ¥17,325,000.</p> <p><b>One Year Later</b> Due to the loan being over 25 years very little capital has actually been repaid, and for the purpose of this example, it is assumed that the loan outstanding is still ¥17,325,000.</p> <p>The value of the property remains unchanged in Sterling at £100,000. However the exchange rate is now £1 = ¥200 i.e. the Pound has weakened against the Yen. The value of the property in Yen terms is thus £100,000 x ¥200 = ¥20,000,000. The effect of this is that the value of the property is now ¥20,000,000 and the LTVR is 86.58%; and should be restored to 75%: ¥20,000,000 x 75% = ¥15,000,000.</p> <p>In order to bring the LTVR back to 75% the borrower maybe required to pay, to the lender, ¥2,325,000 or provide a 'top up' to the loan security of ¥2,325,000.</p>	

**A property investment involves fairly large sums of money; slight movements in exchange rates against a borrower's base currency will affect the yields on such investments. Yields that may initially appear to give high returns on an investment may be substantially reduced by adverse exchange rate movements.**

**I/we** have read and understood the implications outlined above and those explained to me by my adviser:

Signed		Signed	
Name:		Name:	
Date:	<i>(dd/mm/yyyy)</i>	Date:	<i>(dd/mm/yyyy)</i>