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## International Mortgages Could Save Real Estate Investors Thousands

By *Matthew Tuttle, CFP®, MBA*

For real estate investors the interest rate they are paying on their mortgage is one of the biggest determinants of whether or not a property will be profitable. Over the past few years, websites like Lendingtree and Ditech have encouraged competition between mortgage providers and offered borrowers the chance to view rates across the country. It is only recently that international banks have entered the market and made mortgages available in other currencies that might have much lower interest rates than the U.S. Dollar.

### International Mortgages

International mortgages are loans made from international banks to U.S. real estate investors to buy property in the U.S. The investor can specify which currency they want the loan denominated in, usually from a menu of choices. This could save real estate investors thousands of dollars since some countries have much lower interest rates than ours. For example, below is a table of mortgage rates in other currencies as of June 7th 2007:

Currency	Mortgage Rate (%)
British Pound	7
Euro	5.75
Canadian Dollar	6.02
Australian Dollar	7.97
New Zealand Dollar	9.85
Swiss Franc	4.09
Japanese Yen	2.29
Hong Kong Dollar	6.09
Singapore Dollar	4.1
U.S. Dollar 30 yr Jumbo	6.625

There are six currencies that have lower interest rates than the U.S. Dollar, with the Japanese Yen currently being the lowest at 2.29%. A \$1.5 million dollar 30 year mortgage done in U.S. Dollars would cost the borrower approximately \$11,294/month. **The same loan done in Japanese Yen would cost the borrower approximately \$5,764/month, a savings of \$5,529/month over the U.S. Dollar.**

### How it Works

International mortgages can only be made for investment properties, international banks will not make these loans for residential purposes. The loan can be used for a purchase or a refinancing. The loan rates float on a constant basis but the borrower usually has the option to make up to four currency switches/year. So for example, a borrower could start out with Japanese Yen. If the Yen interest rate starts to rise he/she could switch to Swiss Franc's. The loan payments are made in U.S. Dollars and converted into the chosen currency at prevailing exchange rates. Therefore, the borrower must be sophisticated enough to understand that if the dollar declines vs. the chosen currency the conversion could wipe out some or all of the interest savings advantages.

### Loan Features

Generally, international mortgages will have the following features:

- Up to 100% financing in certain situations
- Fully amortized or interest only payment options
- Loan terms of 30 years or until the borrower reaches age 70, whichever comes first
- No prepayment penalties
- Minimum mortgages of \$75,000

### Other Considerations

International banks will typically not finance properties located in every state. Currently, only properties located in California, Colorado, Connecticut, Florida, Hawaii, Nevada, New Jersey, New York, and Washington State can be financed. The property can not be owner occupied or for vacation use. However, if a U.S. investor wanted to buy a property overseas then it could be owner occupied or vacation use.

### Costs

Typically, international mortgages charge a 1% arrangement fee and a .3% commitment fee. There is also typically a .25% charge if the borrower is a corporation or a trust.

## Risks

Borrowers need to be aware that currency fluctuations can increase or decrease the cost of their loan payments. For example, let's say you take out a mortgage in Yen when the exchange rate is 1 Yen per 1 U.S. Dollar and you plan on paying \$10,000 per quarter. Now it comes time for your q quarterly payment and the Yen has gone up versus the Dollar so that now 1 Dollar buys .5 Yen. Instead of \$10,000, your payment goes up to \$20,000. Of course, currency fluctuations could also help you if the dollar strengthens against the currency you borrowed against. This adds another component to the mortgage as borrowers not only need to be aware of interest rates they also need to be aware of currency rates. This is where the ability to switch currencies can come in quite handy.

## Frequently Asked Questions

### Can I get a mortgage for the house I live in?

With the exception of properties in Hong Kong and Singapore, no you cannot.

### What are the countries covered?

- Great Britain
- Australia\*: Western Australia, New South Wales, South Australia, Queensland, Canberra and Victoria
- New Zealand
- Canada \*: British Columbia, Ontario, Quebec, Alberta
- USA\*: New York , Washington State , California, Colorado, Connecticut, Florida, Hawaii, Nevada and New Jersey.
- Spain (all mainland plus Canary & Balearic Islands)
- France (mainland only)
- Dubai+
- Portugal
- Hong Kong
- Singapore

\* Selected locations within certain provinces and states

+ Selected projects from approved developers only.

### Are all types of residential property covered?

No. Depending on the location of the property, you may not be able to finance certain types of property such as serviced apartments (which often operate as hotels), resort and golf course properties and former local authority or public housing properties.

### How long does the loan process take?

The typical timeframes from acceptance of the loan offer to disbursement of the loan and hence completion of the transaction are:

Property in Great Britain, Australia, New Zealand, Canada,

Hong Kong & Singapore - 4-6 weeks

Property in USA - 6-8 weeks

Property in Spain, France, Portugal & Dubai - 3 months+

For real estate investors looking to save some money on their interest payments international mortgages may be something to consider.

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