The Financial Challenges Facing Senior Executives Working Abroad

In today's increasingly globalised economy, it's quite common for senior executives of international businesses to spend a period of time working overseas.

Most companies provide a comprehensive support structure to make an overseas assignment as easy and hassle-free as possible, but one area that can still catch-out the inexperienced is financing a property purchase in a different country.

It's not simply a matter of managing exchange rates and getting to grips with an unfamiliar legal system. There are factors such as regulations and the borrower's credit history - or, to be more accurate, lack of a credit history in the country in which they want to purchase property – that have the potential to become major stumbling blocks.

Take, as an example, a senior executive working for an international business and wanting to buy property in London – a not uncommon scenario. London is not only a leading global financial centre, but is second only to California as a global technology hub. It goes without saying, therefore, that there are a lot of senior executives working here in the UK who are not British.

Many opt to live in rental properties for the duration of their assignments, but increasingly some are choosing to buy property in the UK, as they recognise the investment potential that cities such as London have to offer.

However, buying property in a country such as the UK when you're not a permanent resident can be a challenge, particularly if the purchase is being made with a mortgage.

Why is that? You would be forgiven for thinking that a senior executive who generates a significant income, has a lucrative bonus scheme and perhaps even vested shares in the company they work for, would have no problem applying for a loan?

Unfortunately, it's not that straightforward. An issue they may encounter, for example, is that they have no credit history and therefore no credit 'footprint' here in the UK. Banks will therefore be unable to assess their credit status via UK credit records. Yes, the applicant may have an exemplary credit status in their home country, but that may be of no use in the country in which they want to purchase property.

It's also quite probable that the applicant's bank account will be based in their home country and not here in the UK. Unfortunately, many UK financial institutions require mortgage repayments to be made from a UK bank account which, again, can cause issues (many lenders also insist on a UK solicitor so that if notice ever needs to be served, they can do so easily).

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And to add to the difficulties, a new piece of regulation was introduced not only here in the UK in March this year, but across Europe. Known as the European Mortgage Credit Directive (MCD) its primary objective was to harmonise the regulation of mortgage lending across EU member states, including the United Kingdom. Britain's decision to leave Europe won't have an immediate effect on this directive, which is now in force in the UK and across Europe.

The MCD, amongst other things, introduces a new definition of a foreign currency loan to the UK market. It considers a foreign currency loan to be:

- A mortgage in a different currency to that which a borrower receives income
- A mortgage where the borrower is using an asset held in a different currency to fund any part of the loan; or
- A mortgage in a different currency to the European Economic Area (EEA) in which the borrower is a resident.

Some typical borrower scenarios that are managed under this new definition include:

- If they receive an element of their income (salary or bonus) in a currency other than GBP pounds sterling and that income is required to repay any part of the mortgage; or
- If they use any assets held in a currency other than GBP pounds sterling to repay any part of their mortgage; or
- If they are not a resident in the UK and want to purchase a property in the UK.

So, take for example, a senior executive living and working in the City and buying property in central London. They may receive their annual salary in GBP pounds sterling, but their annual performance bonus in euros or dollars if they work for an international business. If the bonus is used to repay any part of the mortgage, then the loan is classified as a foreign currency mortgage under the new regulations.

If the borrower uses any assets (not just salary or bonus – it could be shares or property, for example) that are in a currency other than GBP pounds sterling, then again the loan is classified under MCD as a foreign currency mortgage.

Why is this a big deal? Because a significant number of lenders don't offer foreign currency mortgages. The reason they give is because the number of foreign currency mortgages they deal with is so small it isn't cost-effective to change their systems and procedures to accommodate the new MCD regulations – such as disclosing to borrowers fluctuations in exchange rates of more than 20%, for example.

The same principles outlined above apply in other typical scenarios. The senior executive may be British and working abroad, but wanting to buy property in the UK for investment purposes. If they use any element of their salary or assets that are held in a foreign currency, then the loan is classified as a foreign currency mortgage.

The applicant may be a foreign national working for a foreign (or British company) in the UK and wanting to apply for a mortgage here in the UK – the same issues arise.

So what can be done to help senior executives address these issues? The good news is that there are specialist financial institutions that can help such borrowers. Here at Investec Private Banking, for example, we'll not only accept mortgage applications classified as foreign currency loans, but will also provide UK banking as well as mortgage facilities. All mortgage applications are assessed by skilled underwriters, who understand how to deal with issues such as foreign nationals' lack of a credit footprint here in the UK. What's more, we are also able to provide a range of complimentary services such as foreign exchange and investment support.

However, our mortgage services are designed for borrowers earning a minimum of £300,000 a year or with a net worth of approximately £3million. We're therefore not for everyone. If you have employees who do not fit the profile described above, it's worth them taking professional financial advice from a regulated financial adviser. Individuals and firms can be checked on the Financial Conduct Authority register at register.fca.org.uk

Employees wanting to buy property abroad can find managing their finances more challenging than they expected and it's therefore worth understanding which organisations, be they lenders or specialist financial advisers, are best positioned to help.

Your property may be repossessed if you do not keep up repayments on your mortgage.

TOM SYKES
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Tom manages business development for the Corporate Executives team at Investec Private Bank. Focusing on the Corporate community, Tom and his team have assisted a number of multi national corporations relocate C suite executives to the UK. Working closely with Global Mobility Managers and HR executives, Tom has developed a deep understanding of the demands in the industry particularly when relocating HNW executives whose finances tend to have an additional layer of complexity. Tom has worked in private client financial services for seven years. Tom studied economics at Edinburgh University before beginning his career at an award winning city based wealth manager where he qualified as a chartered financial planner. Tom advised HNW and UHNW city professionals and executives on all aspects of their personal finances, including investment management, trusts, pensions and taxation.

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