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Jon and Tracey Abbott used a forex dealer when they bought their apartment in Lanzarote, saving hundreds of pounds

Buying abroad? Don't let the banks cash in

Inflated exchange rates mean you could pay up to 4% over the odds for your place in the sun, warns **Clare Francis**

BRITONS buying property abroad could have lost out on up to £1.8 billion because high-street banks offer such a poor deal on foreign exchange, according to new research.

About 550,000 British people own a second home overseas and most will have used a high-street bank to convert their cash into foreign currency before they purchase.

But banks are in effect charging up to 4% over the odds for the currency exchange. This could cost an extra £3,032 on a property worth €100,000, according to research from Foreign Currency Direct (FCD), a forex broker.

Last Friday, for example, Lloyds TSB was offering an exchange rate of €1.40 to the pound. So if you bought a property worth €100,000, it would have cost £71,129.

FCD was offering an exchange rate of €1.46, so the same property would have cost you £68,097 — a saving of £3,032.

With HSBC, a property worth €100,000 would have cost you £70,827 last week — an extra £2,730.

Peter Ellis at FCD said: "Most high-street banks offer uncompetitive exchange rates. But many people aren't aware there is an alternative."

Other foreign-currency specialists include HIFX, Moneycorp and Commercial FX (CFX), which is owned by International Currency Exchange. Such companies offer a better deal because they deal in huge volumes every day. They offer commercial exchange rates, which are more competitive than retail rates from banks and bureaux de change.

Paul Westerman at CFX said: "We are specialist foreign currency dealers, so negotiating the best rates of exchange is our job. And because there is no middle man these rates can be passed on to the client.

"We do have a mark-up, which is how we make our money, but we do not charge handling fees or commission."

Foreign banks sometimes charge for receiving money from overseas. Specialist brokers will absorb these costs, while a high-street bank will probably pass them on. For example, Halifax has a branch network in Spain — Banco Halifax Hispania — and many British people buying there take their mortgage with the bank.

If you transfer money from a UK Halifax or Bank of Scotland account to a Banco Halifax Hispania account you are not charged, but if you move money from another bank, Halifax's Spanish arm will charge a 0.35% fee on sums transferred of more than £12,500. You would not have to pay this to a specialist broker.

Mike Boles at Savills Private Finance, a mortgage broker, said: "We recommend that clients buying abroad use a specialist foreign-exchange broker. Most offer programmes for regular payments which is worth considering because you may need to move money over regularly to cover mortgage costs and other bills."

Some forex dealers have minimum transfer amounts. HIFX, for example, only deals in lump-sum transfers worth £5,000 or more. Others will levy a fee if the value of your transfer is less than a certain amount. Foreign Currency Direct charges £15 if you need to exchange less than £50,000.

THE COST OF €100,000

Institution	Rate[1]	Cost of €100,000
Lloyds TSB	1.4059	£71,128.81
HSBC	1.4119	£70,826.55
Bank of Scotland	1.4452	£69,194.58
Natwest	1.4460	£69,156.29
Nationwide	1.4486	£69,032.17
Barclays	1.4640	£68,306.01
CFX	1.4653	£68,245.41
FCD	1.4685	£68,096.70
HIFX	1.473	£67,888.66

[1]Exchange rates obtained on February 3 2006. Sources: FCD, CFX and HIFX

Tracey and Jon Abbott bought an apartment in Lanzarote in January last year. The Southampton couple used HIFX to transfer the purchase price because it offered a better exchange rate than their bank.

Tracey, 36, a tax adviser, said: "We saw the apartment in September 2004 but the vendor didn't want to complete until January. We could have fixed the exchange rate but we decided to play the market. The euro strengthened against sterling in those months, so with hindsight we would have been better off fixing. However, we still got a much better rate by using a specialist."

Another benefit of forex brokers is that you can fix the exchange rate, often for up to two years, to guard against currency fluctuations.

Some currencies are more volatile than others. Over the past year, the South African rand has moved by an average of 8.6% a month, according to HIFX. The euro has been more stable but has fluctuated by an average of 3% a month.

If you are buying abroad, currency movements can have a big impact on the amount you end up paying for the property because of the time it takes for the purchase to complete.

If you were looking to buy a villa in Spain for €200,000, it would cost £136,000 at the current exchange rate. But if the euro increased in value by 10% before completion, it would cost you £150,000. If the pound strengthened against the euro by 10%, you would pay only £123,000 for the villa. But would you take that risk?

Mark Bodega at HIFX said: "The high-risk strategy would be to buy your currency when you needed it, but this means that you don't know what the property is going to cost. If you have strong views about future exchange rates, you could wait and buy your currency when you think the rate looks good. But there is no guarantee that the currency will move in the direction you want it to.

"If you want a risk-free option, fix the exchange rate. We always remind people that they would never agree to buy a property in Britain if they did not know the final cost."

If you decide to fix and have all the money you need to buy your property abroad, you can do a spot trade. This is where you buy all the currency now, and the forex dealer will hold it on your behalf and transfer the funds abroad when needed.

You can still play it safe and fix the exchange rate, even if you do not have all the required funds available from the outset. In this situation you would buy a forward contract.

With such a contract you are in effect buying now and paying later. You would have to pay 10% of the amount needed when you bought the contract. The other 90% would not be required until the contract matured.

Where to buy abroad: the Home overseas special issue, section 10

French offers that aren't safe as houses

INVESTORS thinking of buying a rental property in France should be wary of schemes that offer villas and apartments at very low costs.

Some new developments in France are marketed as leaseback properties. Buyers can purchase the freehold of the property and then lease it back to the developer for a set period — normally nine to eleven years. You then have the option to exit the scheme or roll it on.

Such schemes advertise guaranteed rental income, and a common claim is that this will cover most, if not all, of your mortgage costs each year. Added to that is the fact that mortgages in France are cheaper than they are in Britain at the moment — you can get a euro mortgage for about 3%. The schemes are also exempt from the 19.6% Vat that is normally charged on new properties.

However, while these factors may sound very appealing, there are drawbacks that you also need to consider.

You are only exempt from having to pay the 19.6% Vat if you hold on to the property for 20 years — so, if you sell after 10 years you would have to pay back 50% of the rebate you initially received.

Also, if you want to use the property yourself your rental guarantee will be lower.

Melanie Bien at Savills Private Finance, a mortgage broker, said: "For a lot of people leaseback schemes are a realistic way of owning property abroad but there are drawbacks and you have to accept that you won't be able to use it as and when you want."