



Why overseas property buyers lose money...

...and how you can avoid it



By Charles Purdy, Currency Specialist

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“Why Overseas Property Buyers Lose Money...and how you can avoid it”

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“When Overseas Property Buyer, Mr Reed, Purchased a Property Abroad, He Made Three Mistakes that Cost him £10,256...”

Learn How You Can Avoid Making the Same Mistakes!

Read this before you consider purchasing your overseas property...as your money (or loss of it) depends on it...

Many UK residents are sourcing their special place-in-the-sun by buying a second holiday home, emigrating and/or purchasing overseas properties for investment. And why not?! Everyone enjoys the idea of escaping the poor UK weather, stressful pace of life and the humdrum of doing the same old thing.

With an overseas property, you'll be able to achieve relaxing holidays, sunny escapes and the possibility for great investment rewards.

HOWEVER, the overseas buying process involves a multitude of steps and processes – many of which need to be examined carefully to ensure that you avoid problems and unnecessary risks.

Currency exchange is one of those processes that can seriously cause havoc to your finances if you fail to understand the main mistakes that overseas property buyers make.

Please continue to read on as I describe exactly how Mr. Reed lost £10,256 and how you can protect yourself and avoid the top three mistakes overseas home buyers make with their foreign currency purchases.

Let's examine these mistakes:

Mistake #1: Use a bank to exchange and transfer your overseas property payment(s) rather than a specialised currency exchange broker.

When you purchase a property overseas, whether it's in Europe, America, Australia or even Siberia you have to buy the relevant foreign currency.

You will need the currency for a deposit, staged payments (i.e. paying a percentage of the total cost at certain intervals for off-plan properties) if applicable, or to buy a property outright...

“If you go to your bank as opposed to a Currency Specialist to exchange and move your money, you could pay up to 4% more than you should.”

The Sunday Times (5 Feb 2007) reported that:

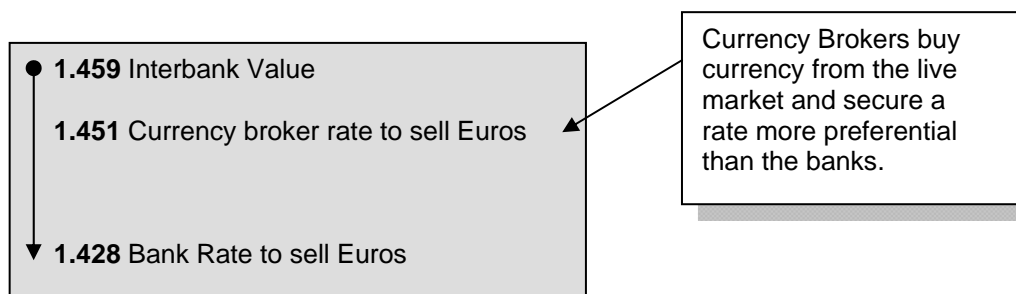
“Britons buying property abroad could have lost out on up to £1.8 billion because of high-street banks offering such a poor deal on foreign exchange, according to new research.”

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Unlike currency specialist that get rates from the live market throughout the day, banks set their rates in the morning. To ensure that they don't lose out, the bank sets a wide spread between the rate that they buy money and the rate that they sell it for.

This means that they create a cushion or gap that allows the rate to move yet no matter what the rate they offer, they'll still make a profit.

Currency specialist organisations are different from banks in the fact that they do not set their rates at the start of the day, but call into the market floor to get the best rate at the time for the client. Because they are working with live rates, they can get close to the **interbank** value allowing clients to save thousands.



Let me explain quickly what the “interbank” rate is... This is the rate you'll find in the newspaper, on the news, on Teletext and on most currency related websites. **This is NOT the rate that you should expect to get.**

The interbank value is the price banks trade between themselves when they're moving millions. The interbank rate however gives you an **indication** of where the rate is and what direction it's moving in.

As a rule of thumb, below are the differences between the interbank rate and what you should expect to pay when purchasing currency from the below institutions:

- Banks – they'll charge you up to 4% more than the interbank rate for popular currencies such as the Euro and US\$, and up to 9% for less common currencies.
- Currency Brokers – up to 1% more than the interbank rate - if you use a currency exchange specialist that does NOT pay their traders on commission. (for exchanges over £10,000)
- Credit Cards – up to 7%
- Airport Currency Shops – could be as much as 10% - 15%

As you can see, currency brokers offer the best rates! Let's look at an example of an overseas home buyer, Mr Reed, (who used a bank) making staged payments to Spain:

Example #1: Not-So-Smart Overseas Property Buyer: Mr Reed

	Date	GBP	Euros	Currency Broker Rate	Bank Rate PAID	Money <u>Lost</u> Using a Bank
1	Jan	£5,000	€7,800	1.62	1.56	£186
2	Mar	£19,000	€29,070	1.58	1.53	£601
3	Jul	£48,000	€71,040	1.51	1.48	£954
4	Nov	£48,000	€67,680	1.44	1.41	£1,000
		£120,000	€175,590			LOST: £2,741

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Compare the rate that Mr Reed actually paid at the bank versus the rate he would have received from a currency broker in the table above. Not only has Mr Reed lost out by getting poor bank rates but he paid a £25.00 bank transfer fee for each transfer (£100.00) and was hit by receiving charges from the beneficiary bank in Spain (£350.00).

His total loss was: £3,191

So, to recap, the first mistake Mr Reed made, and many other overseas property buyers make, is that they exchange and transfer money through a bank, falling prey to poor exchange rates and add-on charges.

If Mr Reed used a currency company he would have not only saved by getting a more competitive rate but he could have eliminated the bank transfer fee and on many occasions negotiated a lower or no beneficiary bank receiving charge.

Let's look at Mistake #2...

Mistake #2 – Calling around currency specialists for the best rate close to the date that the money needs to be transferred, rather than using time to their advantage.

This is where many overseas property buyers lose big-time. They are under the false illusion that waiting until the last minute to shop around will net them the largest savings.

This could not be further from the truth.

With my experience in the currency industry for over 15 years I've seen countless overseas buyers lose £5,000, £10,000 and on the odd occasion even more.

The mistake is that they drastically reduce their options by not working with a currency broker from the very start. This means that instead of being constantly updated and having the opportunity to buy at a much better rate they are forced to buy at one rate.

Let me explain. If you know that you have to move money within a couple months time you have more control over the rate at which you buy at. Let's consider an example of a smart overseas buyer versus a not-so-smart buyer:

Example #2: Smart Overseas Buyer: Mr Jones

Mr. Jones needed to move £100,000 worth of Euros in two months time. He contacted me to discuss his options. My first step was to determine what he would be happy to achieve and then explain whether I thought his expectations were within reach.

John wanted a rate of 1.475 and the Euro was currently at 1.455. Looking at past trends and forecasts I felt this was achievable and I put him on our Smart Rate Watch system. If and when the Euro hit 1.475 in the next two months I would be prompted to call and arrange the exchange.

In this particular case, within 3 weeks the rate hit 1.475 and we did the deal. If John waited until the end of his two month period, he would have been forced to buy the Euros at 1.45, a £ 1,724 loss.

Currency traders can reserve money at today's rate for a purchase in the future (Mr Jones would have put up a small deposit to secure the transaction). In the mean time, the bulk of his money would have been sitting in his bank earning interest. (To learn more about this option, read the section on 'Order currency for a later date for a fixed rate')

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I must however stress that I or anyone for that matter cannot predict the way the rates will move. They change very quickly and can often spike up or down.

The key concept to understand here is that if the available time is used wisely, a budgeted rate can often be achieved. It is possible that the rate can go against you, yet with specialist knowledge we can at least discuss the likelihood of reaching your budget.

Example #3: Not-So-Smart Overseas Buyer: Mr Reed (as mentioned in mistake #1)

I believe these type of people are a breed to their own. They are the type that travel 90 miles to get an item on sale when they could have purchased it in town. Do they realise they spend more in petrol than they save on the sale product!?

Mr Reed called me and 5 other currency brokers in October. His transfer was needed in one months time. He never decided to do anything until the week before the transaction was needed but I spoke to him on a weekly if not daily basis. After one week I explained that it would be a good time to secure the rate as a downturn was expected. He mulled it over, called the other brokers and then decided to wait. Can you imagine how much personal time he spent worrying and shopping around?

Over the following weeks the rate fell and he continued to watch his money disappear. Had he purchased at the right time, he would have saved many thousands.

Over all Mr Reed lost £3,191 by using a bank and at least £2,000 by failing to use time to his advantage for a total loss of £5,191.

So...as soon as you know your next payment date or have a payment schedule, regardless as to whether you have the money ready or not, call a currency broker and you'll be able to open an account, discuss your requirements and plan a strategy that best fits your needs.

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There is an important tip along the same theme as timing. You'll want to make sure you open a currency account as soon as you know you'll be transferring money – even if it's months away.

You'll want to do this for the following reasons:

- Opening an account is free for all currency companies so there is no cost involved.
- Some currency companies take up to a week to process your application and get the account up and running.
- Once you're set up you can request a rate watch and have your personal trader keep an eye on your currency requirements (if a good rate comes up, your trader can notify you and you won't miss the opportunity if your account is in place).
- A couple of the better currency agencies send out weekly currency updates so that you can start to get a feel for the interbank values and the way the market is moving.

The key is to get yourself a currency account and use time to your advantage and let your currency trader help you to plan a strategy that allows you to get the best rate!

Let's look at mistake #3...

Mistake #3: Failing to understand all your options

Option 1: Buy A Lump Sum of Currency Needed Now (or soon)

In the currency specialist world, they call this type of transaction a 'Spot' contract. Once the best currency rate is quoted by a currency specialist and agreed by yourself, the full purchase amount needs to be paid in full within two – three working days. The payment can be achieved by simply instructing your bank to do a CHAPS transfer (same-day) and they'll move the money into the currency organisations Client Account.

Note that many banks charge you to transfer money out of your account using CHAPS, however if you use the Internet banking system to transfer, taking 2-3 days, you can usually avoid any charges from the bank. The decision on transfer methods comes down to the urgency of the transfer.

Once the money is in the Client Account, the specialist will then exchange it into the currency of your choice and transfer it to your designated location overseas. The whole process is easy and seamless.

Option 2: Order Currency for a Later Date at a Fixed Rate

You may want to consider this option if you have staged payments and you want to **ensure against any unexpected changes in the price of your currency.**

Imagine having a budget set at £25,000 for a staged payment and due to a change in exchange rates, the cost goes up to £30,000...This could happen more often than people think and represents a £5,000 LOSS for something that could have been prevented.

The markets can be quite volatile and pose a real threat to the price of an overseas property. If there is an indication that a future rate may be higher, it's sometimes better to fix the rate now. This will **allow you to formally fix your budget and know that you're avoiding a potential increase in the cost of purchase.**

Also consider...If you're interested in transferring a lump sum in the future (perhaps the final full payment), but want the **piece-of-mind that the currency won't fluctuate** and cause you an unforeseen increase in the purchasing cost.

This type of transaction is called a 'Forward.' It allows you to order currency at an agreed fixed rate for up to several months in advance. You have the option to fix an exact rate at an exact date OR you can request a fixed rate between a say 3-month time window. In order to secure the rate, you only have to pay a small deposit (5% - 10%) within two days of placing the order. The money is then held in a Client Account with the currency specialists holding bank and the remainder is paid when the transaction has been set to complete.

Let me show you how Mr Reed failed to understand all his options:

Example #4: Not-So-Smart Overseas Buyer: Mr Reed (as mentioned in mistake #1 & #2)

If Mr Reed had used a currency specialist from day one, rather than using his bank, and secured a forward contract on his future amounts he would have achieved an average rate of 1.60. The total cost for the € 175,590 in Sterling, as outlined in example #1, would have been £109,744 however he paid £ 120,000 – **a total overall loss of £10,256.**

If Mr Reed utilized his option to buy a forward contract he would have avoided mistake #3.

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IMPORTANT NOTE: Once you fix your costs, I suggest that you don't watch the exchange rates to see if they go up or down. The stress of watching whether you fixed at the best time or not is unhealthy...Fixing your rates allows peace-of-mind, so that you know exactly how much you're going to pay. No one can predict what will happen in the markets...

Option 3: Order Currency when it hits a Rate that you Designate

This option is for people who don't necessarily need to move money over at any particular time. Perhaps you know that you're going to need money sent to an overseas location at some point in the next few months...you can talk to a currency specialist and they can discuss an achievable rate that works to your benefit. Once the money market hits the pre-determined beneficial rate, the currency specialist will aim to buy the currency for you.

When looking into this option, it's called a 'Limit Order'.

Example #5: Smart Overseas Buyer: Ms. Hawkins

Ms. Hawkins was emigrating to New Zealand.

She was aware that the New Zealand Dollar had strengthened over the last eighteen months and that the current rate was poor. She didn't need all the money at once so she thought (having talked things through with her currency specialist) to take it over in stages.

Ms. Hawkins left instructions that if the rate hit 2.60 (it was 2.43 at the time), £87,500 was to be exchanged into New Zealand Dollars. This in fact happened within two months and **she got an additional NZD 14,875 for her Sterling**. This paid for the flights and emigration costs.

By understanding these options you can call a currency broker, explain your requirements and discuss the best path for you.

So...How Does the Whole Money Saving Process Work?

In order to exchange your currency for the BEST RATE *and* ensure you can discuss a strategy that best fits your needs, you'll need to contact a currency specialist company (not a bank)!

You will not find currency exchange specialists for overseas property purchases on the high street as the entire transaction can be completed over the phone. At the end of this report, I've included my company details, however the main way to locate and research currency organisations is to view their adverts in property publications or do a search on the Internet to check out their websites.

Okay – for the most part this is how it works.

1. **Call a specialist, discuss your requirements** (i.e. whether you need a lump sum or staged payments, etc.) and let them explain what the experts have been saying about the currency markets. No one can predict whether a rate is going to benefit you more if you buy today versus next week or next year, however, those that eat, sleep and think about the currency markets have an advantage over those that don't.

So, step 1 is to call a specialist as soon as you know when a payment or payments will be due. It doesn't matter if it's 6 months prior to the exchange!

2. You'll then be asked if you would like to **open an account** if you haven't already done so. Without an account, brokers can only give you an INDICATION of what rate you might get rather than a LIVE quote. By the time you open your account, the rate would have changed. The procedures involved in opening the account are laid down by Customs & Excise - you'll have to fill out an online or paper-based form. There are strict anti-money laundering rules and the company will use your details to verify that you are who you are who you say you are and live where you say that you live.
3. Once the checks have been done and the account has been opened, you can discuss your requirements in fine detail, **agree the exact price of the currency purchase and then place the order over the phone if you need the money now.** The call is usually recorded thus creating a verbal contract to buy the money for the agreed price. Once the agreement has been made, the exchange rate is fixed and cannot be changed.
4. The specialist will then:
 - **Send you an invoice** or 'contract note' outlining the specifics of the exchange and details on the Smart bank account where **you'll need to forward your funds.**
 - o You can send money by CHAPS transfer (this is a same-day transfer and banks charge you to do this). Alternatively you can avoid the charges by doing an Internet transfer (2-3 working days)
 - Provide you with an 'onward payment form' for you to fill out and return so that the exchange company knows **where to forward the money.**
5. **Your money will go into the exchange specialist client account**, the money will be **exchanged** into the agreed currency and then, if it's a spot contract, it will be **transferred** to the financial institution overseas. If it's a Forward the deposit will sit there until joined with the full amount and transferred at your requested date. As a word of warning...some overseas banks will charge you an extortionate amount of money to transfer money in (we've heard of one that charges £500.00) – it's a good idea to discuss these fees with the overseas bank manager before choosing a bank OR use a currency company that can reduce or eliminate bank receiving charges.

All in all the whole process is quite simple. As long as you stay clear of the banks and find a specialist that you like and feel you can trust you will be good to go!

How to Pick a Good Currency Company!

All currency exchange companies offer the same type of contract and exchange options and they all buy money from the same market. And since the industry is heavily policed and regulated, they all follow similar procedures, **however the quality of the service can vary widely!**

Ultimately, it really comes down to how you feel about the exchange company. Ask yourself the following questions:

- Do they charge some kind of set-up (upfront) fee? There are a few that do this, but the majority do not. The only thing you should pay for is this:
 - the money (at the agreed rate)
 - the transfer fee imposed by your bank
 - the fee your overseas bank might charge to accept transfers; and
 - some exchange specialists charge a fee to send the money for transfers under £10,000
- Does the company representatives and literature received from the organisation make the **process simple** and give you **all the information you need**?
- Does the company **specialise in exchanges for property purchases** and understand the overseas property market or are they a jack of all trades?
- While talking to the representative, does it sound like someone that is simply doing a job or does the representative **give you the feeling that they're going to have your moneys best interest at heart**?
- Does the company appear to spend a substantial amount on fancy brochures and advertisements (This often is an indication that they have **high overheads and have to get higher margins from their clients to pay for their advertising**)?
- When talking to the representative are you patched into a busy call centre with lots of noise in the background, or are **you talking to a dedicated specialist who will give you their full attention**?
- Does the company **offer helpful resources** such as weekly currency updates or educational reports?
- Do the currency traders make commission on selling you currency?** If so, keep in mind that it is in their best interest to make the most on the transaction and get you to trade even if the currency is at a poor rate.
- If this is a requirement for you, **can the organisation set up an account quickly** – in hours?
- When asking the broker about rates or the market **do they come across as knowlegable** and talk in terms that anyone can understand rather than financial jargon?

The key is to feel good about the organisation and the broker you're dealing with. You want to ensure that your money is in safe hands!

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Well... we're coming to the end of the report. The key mistakes to avoid are:

- **Mistake #1: Using a bank to exchange and transfer your overseas property payment(s) rather than a specialised currency exchange broker.**
- **Mistake #2: Calling around currency specialists for the best rate closest to the date that the money needs to be transferred, rather than using time to your advantage.**
- **Mistake #3: Failing to understand all your options.**

I truly wish you the best with your future property investments. If there is any way I or my colleagues can assist you on the currency exchange side of things please give us a ring at Smart Currency Exchange Limited on 0808 163 0102 (free phone) or visit our website at: <http://www.SmartCurrencyExchange.com>

Why Use Smart Currency Exchange Limited?

Smart Currency Exchange is the UK's largest and only currency exchange company that specialises specifically in exchanges and transfers for overseas property buyers and investors. Smart offers:

- **Better-than-bank rates**
- **No charges, no commission or no fees**
- **Easy account application** and trading process
- Accounts can be opened in **less than 2 hours**
- Traders are **not paid on commission**
- **Free currency account and consultation**
- Weekly **currency and strategy reports**
- Assistance on **reducing overseas bank receiving charges**

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" in choosing and using Smart Currency Exchange, I saved around **£4K** over the exchange rate offered by my Bank at that moment in time, which will permit the installation of a new kitchen in our property."

Tony & Assia Green

"Smart Currency were very helpful with our dollar exchange to purchase a property in Florida. It was easy to contact them by telephone or email and they kept me informed of the progress of the transfer. They also **saved me £5,000** compared to the rate offered by my bank."

Lesley Smart (no relation), Dalkeith