- Cross collateral Finance poses long term risk
- Fixed assets attractive for equity release
- Lenders providing terms but at a cost

16 February 2010

Staying Afloat

- Market Indicators
- Sterling Base rate: 0.50%
- UK 3 month Libor rate: 0.62%
- Average available Residential rates from: 1.5% over 3 month Libor.
- Commercial Rates from: 2.3% over 3 month Libor.
- LTV's between 50% - 70%

"The actual rates we can obtain for clients depend on and are determined by individual circumstances and what can be negotiated with individual lenders "

Cross Collateral Finance

Raising capital against assets for which the funds are not directly intended was a viable practice during the last decade. In a largely 'indulgent' credit market it was too easy to be enticed by credit lines (Lombard Facilities) secured typically by investment portfolio lending and single line stock. The appetite for achieving highly leveraged positions took many clients to a position of debt multiples beyond which was prudent or serviceable. The recent lows within the investment sector caused by the global economic crisis have created widespread margin calls as debt ratio covenants became breached; the aftermath continues to reverberate around the market.

Selective Simplicity

Today the terms offered by financial institutions for these types of credit lines is more conservative. Reduced debt ratios and increased interest rate margins have reduced some of the obvious inherent benefits. Our advice to our private clients that wish to raise funds for the purchase of real estate, yachts, aircrafts is to keep it simple, avoiding cross collateral where possible. In the main this can be achieved by choosing a lender that recognizes the underlying asset class as credible and acceptable security.

Lending for Luxury Assets

Luxury assets such as yachts and aircrafts can in some cases represent very significant amounts of liquid cash. Whilst the market for raising credit to finance the acquisition of these assets may have reduced, there has been a sharp increase in clients wishing to release equity in order to retain a secure cash position in the event of margin calls elsewhere. Not always easy to use as security, there are still lenders that will provide this service, using the underlying vehicle as security, rather than requiring cross collateral with other forms of security. This we believe is a prudent approach in a market environment that continues to display mixed economic messages and obvious uncertainty.