Britons pull cash out of eurozone

Expats scramble to the 'safe haven' of sterling, writes **Alexandra Goss**

BRITONS with property on the Continent are rushing to pull their money out of the eurozone as the crisis has deepened.

Foreign currency brokers report a surge in clients switching money back into sterling after the single currency fell to an eight-month low of €1.18 to the pound last week. The euro recovered to end the week at €1.17, but RBC Capital Markets, the investment bank, predicts the pound could strengthen to €1.25 over the longer term.

Europe's sovereign debt crisis took a turn for the worse last week when Italian borrowing costs leapt above 7% — the level that prompted bailouts for Portugal, Ireland and Greece. They eased back towards the end of the week when the Italian senate approved budget cuts, but analysts said the euro faces further volatility.

HiFX, the currency broker, has seen a 155% increase in the number of customers repatriating money to the UK in the past three months compared with the same period last year. Its clients have pulled £100m out of the Continent in that time.

Mark Bodega at HiFX said: "Expats and international property owners are opting to move savings and working capital into sterling and back into the more familiar and trusted UK institutions. One client, who owns a property in the South of France, has just transferred €29,000 from his Société Générale account back into pounds and into his British bank."

SocGen is heavily exposed to Greek debt and last week announced it was scrapping its dividend payments for this year to try to shore up its balance sheet.

Other currency firms, including FC Exchange and World First, have seen a similar trend. Elisabeth Dobson at World First said: "There's a sense that people see the UK as something of a safe haven. We've also seen an influx of clients looking to fix an exchange rate now to sell euros and buy sterling in the future as they're worried things will get worse for the eurozone."

Exchange rate fluctuations are also threatening to devalue properties held by Britons in Europe. In Spain, for instance, average house values have tumbled 24% since their peak in 2007. British owners have lost no money in sterling terms thanks to the strength of the euro. However, if the pound rose to €1.20, as some expect, Spanish properties could lose 8% of their value, according to HiFX.

How safe is money in European banks?

Under the EU deposit guarantee scheme, savings of €100,000 per person are covered if a bank collapses. However, it is the responsibility of individual governments to pay out — so if a Greek bank were to fail, savers would have to go to the Greek government. There are concerns some countries may not be able to meet liabilities if they have to deal with banking collapses.

Patrick Connolly at AWD Chase de Vere, the adviser, said: "Even if the country's individual protection scheme isn't able to help savers, the European Central Bank should step in and foot the bill."

What about European banks in the UK?

The Financial Services Compensation Scheme safeguards £85,000 per depositor (£170,000 for joint accounts) for each individual institution. While some European banks, such as Santander, have UK subsidiaries and are FSCS members, others such as Bank of Cyprus, Triodos and ING Direct are covered by the Cypriot and Dutch compensation schemes up to €100,000.

Experts advise spreading savings over as many institutions covered by the FSCS as possible, and not holding more than £85,000 in each.

How can I protect myself against rate fluctuations?

If you are selling a property in Europe and cannot afford to see the value of the single currency fall further, you could consider taking out a forward contract now from a currency broker to lock in the exchange rate on the proceeds of the sale. You will typically be required to pay a 10% deposit upfront and the remaining balance on the maturity of the contract.

Those who regularly transfer money from sterling to euros, such as for a pension, can set up a payments service that fixes the rate for six to 12 months.

MARKET SQUEEZE ▶▶

Experts predict tough times for homeowners

HOME, P4

Crisis pushes up mortgage rates

Millions of borrowers on standard variable rates have been warned that their mortgage costs could rise after Handelsbanken became the second lender to increase its SVR, even though Bank rate has been on hold for 32 months, *writes Ali Hussain.*

The Swedish bank, which has more than 100 branches in Britain, is writing to customers saying its SVR — the rate to which they are moved at the end of a deal — will rise from 4.5% to 4.75%. Last month, Bank of Scotland caused uproar by raising its SVR by 0.11 points.

Handelsbanken said the cost of lending in the wholesale markets had reached a "tipping point" as banks became increasingly reluctant to lend to one another because of the eurozone crisis.

Ian Gray at largemortgageloans.com said: "Handelsbanken is a healthy, well capitalised bank, so we expect other less well capitalised lenders to follow suit."

An estimated 3m customers are on an SVR that does not guarantee to follow Bank rate, said Ray Boulger of John Charcol, the broker. Their rates could rise even if Bank rate stays on hold.

Meanwhile, 14,000 Bank of Ireland borrowers who are being transferred to the Mortgage Works, part of Nationwide, will see SVRs rise from 2.99% to 4.79% in March, adding almost £3,000 a year to the cost of a £250,000 repayment mortgage. Nationwide says it is still considering how to manage the transfer.