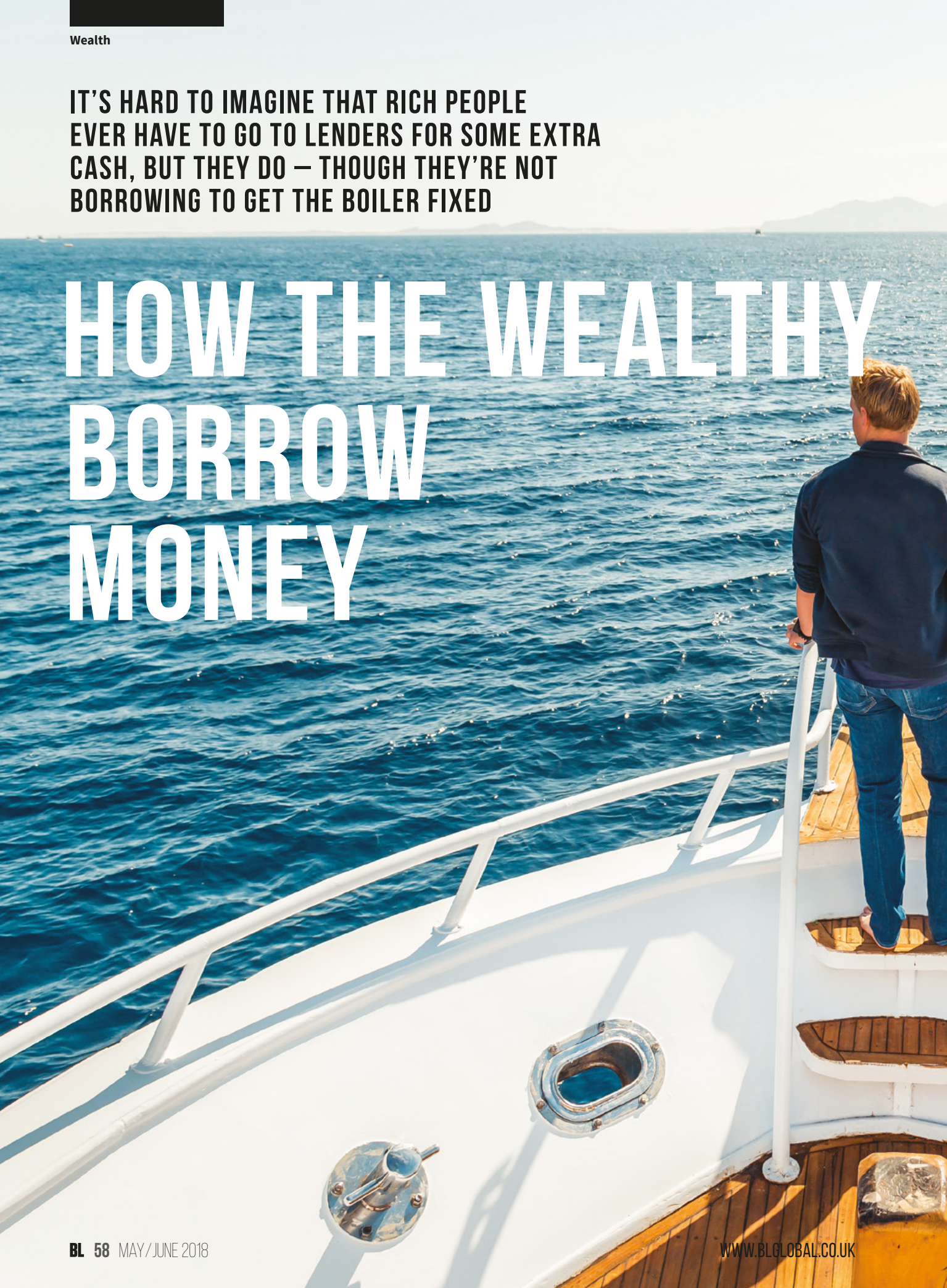
IT'S HARD TO IMAGINE THAT RICH PEOPLE EVER HAVE TO GO TO LENDERS FOR SOME EXTRA CASH, BUT THEY DO – THOUGH THEY'RE NOT BORROWING TO GET THE BOILER FIXED

HOW THE WEALTHY BORROW MONEY



Words:
Dave Waller

HOW CAN YOU tell someone's ultra-wealthy? Is it the fact that they own a yacht? Or a super-yacht? Or a super-yacht that pumps thousands of litres of water a day through special jets so it's stable enough to allow passengers to play billiards on board? Or is it that they own a classic car? A collection of classic cars? Or a Jumbo jet that's been converted to cart their classic car collection round the world?

Whatever the subtleties of the definition, the super-rich appear to be a world away from the rest of us. Even if most people aren't stuck in the desperate cycle of payday loans, if they want to get on the property ladder, they'll likely be hunting around for the least crippling mortgage so they can buy somewhere poky to live. It's a world of borrowing that the super-rich know nothing about. You'd think.

In reality, however, it appears that rich people borrow money all the time.

If that seems unlikely, just look at the army of specialist lenders that have cropped up specifically to service their niche borrowing needs. Among them is largemortgageloans.com, the UK's first broker to specialise in arranging mortgages above £500,000.

"We're an independent specialist finding people the money for whatever they require," says founder Paul Welch. "When I started the business 15 years ago, the nature of the brand meant people would phone up saying: 'Oh, I want to borrow £5 million, £8 million or £10 million'."

Welch is far from alone in this niche. Asset Leverage Consultants acts as a loan consultancy for borrowers. And according to Business Development Manager Jenna McCabe, business is booming. "We're arranging 50 sizeable loans a year," she says. "We used to handle deals for £2 million to £10 million. But the biggest now is £325 million."

So if these people have staggering amounts of wealth already, why would they need to borrow? The simple answer is because they can. When you're ultra-rich, borrowing becomes a strategic move – it means your money goes further, and can help you alleviate risk by letting you diversify into a range of assets and sectors.

There are other factors. Many have their wealth tied up in their businesses, which may generate higher returns than those charged by a lender as interest, especially in the current climate of low rates. So it makes sense to go to that lender, rather than taking funds out of the business.

There's also a tax angle. When faced with a 40 per cent rate on money brought into the UK, many resident non-doms will fund their lifestyles by borrowing at more attractive rates instead.

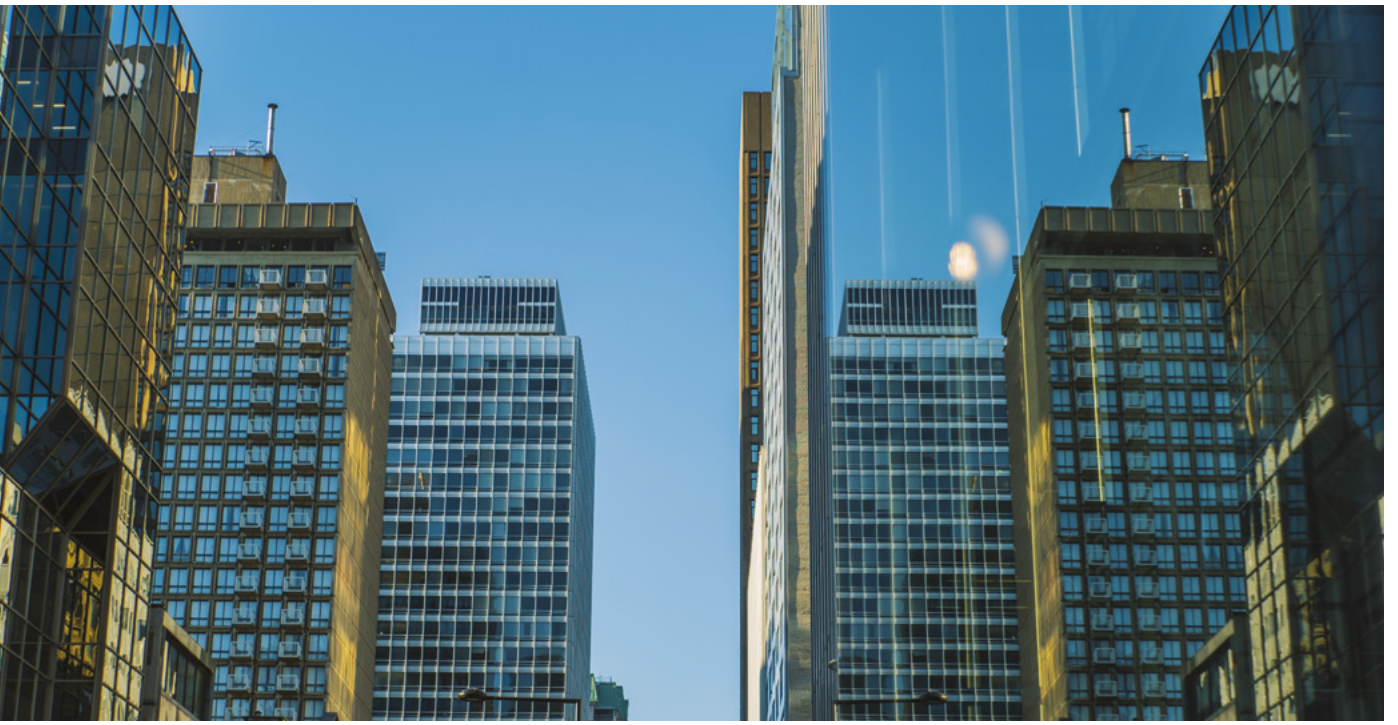
Even if they do want to use their cash for something particular, they'll still borrow all they can. That way, the bank shoulders some of the risk, and there's no need to risk conflicts of vision by bringing in other investors to make the project a reality. Why use your own money when you can use the bank's?

"Billionaires with a £200 million play pot to invest can make it a £300 million play pot by borrowing a bit," says McCabe.

"They'll never put all their money down on a project just to maximise their leverage. Would you ever buy a house without a mortgage? Probably not, even if you could afford it – because it's easy. This is the same principle, they're just borrowing extreme amounts."

SPOILT FOR CHOICE

Not that the rich always have everything their own way. In the fallout from the financial crash of 2008, banks became increasingly risk-averse, and shy of dealing with assets any more exotic than central London property. But the shortage



of lending didn't last long. An army of specialist lenders and challenger banks simply moved into the market.

"Many clients with offshore structures now benefit from partnering with alternative or institutional lenders, depending on their circumstances," says Jackie Vidigrain, Head of Treasury Services at JTC Group. "But mainstream banks are actively re-opening their lending books, and challenger banks are recognising the gaps that well-known lenders can no longer service, and are filling this requirement."

The upshot is that the wealthy now have no shortage of options. It's just a matter of finding them.

"Four years ago, I was introduced to a billionaire who had eight banking relationships, but none of those banks would fund a super-yacht," says Welch. "But there are specialists who cater to these needs, and whom people just don't know about. The average person may be able to name eight or 10 banks; we work with over 150 providers in 52 countries, all of whom have the ability to lend."

One company that's actively engaged in lending is JBR Capital, a company with a wealth of experience in asset finance – helping people fund projects by borrowing against their assets.

"High-net-worth individuals are very often asset-rich and cash-poor," says Shalom Benaim, JBR's Chief Executive. "But that's what's made them high-net-worth. They could convert any of their assets to cash, but they don't because those assets are appreciating in value. They'd rather keep their funds tied up in those assets than monetise them."

Much of Benaim's business works as follows: an individual comes to him wanting to invest in an area such as buy-to-let property, but is struggling with banks restricting their loan-to-value (LTV) ratios. A bank may offer a 65 per cent LTV, which would leave that investor fronting a 35 per cent deposit. Instead, they can use their other assets – classic cars, say – as security, increasing the bank's share to more like 80 per cent and, again, increasing the options.

> **"WHEN YOU'RE ULTRA-RICH, BORROWING BECOMES A STRATEGIC MOVE – IT MEANS YOUR MONEY GOES FURTHER"**

"We had one client from the Middle East who didn't want to bring funds into the UK because his exchange rate to the pound had weakened, and he didn't want to take the hit," he says. "But he had car assets in the UK, and he raised funds on those to fund his kid's private education in the UK."

The assets being leveraged with these specialists stretch far beyond classic cars. There's property – whether buy-to-let, offices, warehousing, care homes or hospitals; luxury 'esoteric' assets such as yachts, planes and artwork; and investment portfolio lending. McCabe says she sees lending against everything from diamonds to wine portfolios, and people wanting to use the money to build an office block in Croydon or a wellness centre in the Caribbean. The rate might be between five and 12 per cent a year, while some assets, such as art, may only be lendable if the person has a pre-existing relationship with the bank. Personal relationships become key – just like how banking used to be.

"I call it relationship lending," says Benaim. "It's like the old days of banking, but banks just don't have the resources to deal with customers on an individual basis any more. Everyone's treated more like a number there, and the computer says yes or no. We know our customer. We're present at things like classic car shows and track days for high-net-worth individuals, and we visit them to build a picture of them and their history.

"So if our computer says no, we'll look and see how we can say yes. It works – as borne out by our insignificant default rate."

But if personal service is the key to winning business, there's one other factor that may well sway decisions, and it may also suggest why wealthy people are in that position in the first place. "People always come to us saying they don't mind about the price," says McCabe. "Then you lay out four options in front of them, and they always go with the cheapest."

Again, beyond the billiards-friendly yachts and the flying car collections, these super-rich don't seem so different from the rest of us after all. ■

DAVE WALLER is a freelance writer