MULTIPLE POTENTIAL RETURNS

with an additional source of liquidity

Maybank's Multi Currency Lombard Credit allows wealthy individuals to hedge, leverage and diversify their assets.

One of the challenges the high-net-worth (HNW) segment faces is to find the right balance between their personal and business finances. While it is also well-known that the HNW rely on liquidity to grow and protect their assets, liquidity may not always be easy to obtain when needed. For example, entrepreneurs or business owners may have a large portion of their wealth invested in their businesses. This situation can result in liquidity challenges which, if addressed with the right banking solution, can significantly boost the performance of their wealth portfolios.

In another situation, a high-net-worth individual (HNWI) may simply wish to take advantage of favourable market opportunities to enhance returns of their assets. As such, an effective wealth management strategy for this segment of society must emphasise and incorporate liquidity in order to grow and protect their assets.

"The HNW segment does not necessarily have to sell existing assets for liquidity. A well-designed financing solution such as Maybank's Multi Currency Lombard Credit allows them to obtain liquidity using their existing assets. This is very useful in all aspects of wealth management, investments as well as legacy planning, an area that the HNWIs in the country are also increasingly concerned about," says Datuk John Chong, Group CEO of Community Financial Services (CFS), Maybank. "Looking at the present is not always enough, we have to focus our attention forward as well: by having an additional source of liquidity, HNWIs can also plan for their future and for generations to come."

Lombard Credit is a globally recognised flexible financing solution granted against a pledge of selected assets. The amount of liquidity provided by Lombard Credit is based on a percentage of the pledged asset's value, known as its loan-to-value ratio.

Datuk John talks to The Edge about how Lombard Credit can be used in a wealth management strategy as well as its benefits and risks.

The Edge: Can you tell us more about Lombard Credit?

Chong: Lombard Credit is granted against a pledge of assets that can easily be converted into liquidity, such as equities, bonds, even life insurance policies with a surrender value. You can borrow against the secured assets up to a certain percentage of their market value, determined by their loan-to-value ratio. It allows customers to obtain leverage without having to divest their assets or change their long-term investments.

Maybank's Lombard Credit is a multi-foreign currency credit facility that provides liquidity for reinvestment. Customers have the option of taking loans in eight major currencies, which makes it quite a flexible financing solution. This means that our customers who plan to invest in a foreign asset may borrow in the same currency as their targeted investment. They do not have to convert their ringgit into that foreign currency.

The ability to borrow and invest in foreign currencies allows our customers to hedge themselves should the ringgit weaken. A customer may also diversify his or her portfolio into other currencies without reducing their ringgit-based assets.

Lombard Credit has been used by HNWIs around the world for many years. They use it to hedge, leverage and diversify their assets.

Lombard Credit can be used in other ways, besides borrowing a foreign currency, for portfolio diversification. Can you provide some examples of how it can be reinvested to optimise returns?

Chong: Some foreign currency loans incur a lower interest rate than a ringgit-denominated loan. For example, let us say a customer borrows in euros and pays an interest rate of 1.6% per annum. The customer could convert the euros into ringgit and earn an interest rate of 3.6% p.a. That gives them a 2% positive carry (occurs when the interest that investors receive in one currency is more than what he pays to borrow in another currency).

For deposits and loans, the customer can continue to borrow up to five times their pledged assets and potentially earn a positive return of 10% per annum.

Another instance would be to borrow in Singapore dollars at an interest rate of 3% to invest in a Singapore REIT and earn a yield of 6%.

Of course, there are risks. In the first instance, the euro may strengthen against the ringgit while in the second instance, the price of the Singapore REIT may fall.

What assets can be pledged for Lombard Credit at Maybank? What assets are not accepted? Can you also describe what is taken to account to determine the loan-to-value ratio of pledged assets?

Chong: Accredited investors with net investable assets of at least RM3 million or with an income above RM300,000 per annum are eligible to apply for Lombard Credit at Maybank.

Assets that can be pledged include cash, shares of listed companies, investment-grade bonds, unit trust funds and structured products. Assets that cannot be pledged are illiquid shares, penny stocks, high-yield bonds, perpetual bonds and private equity. These assets are not accepted because of their weaker credit rating and/or illiquidity.

The loan-to-value ratio will depend on the type of asset, its currency, credit quality, volatility and liquidity. If relevant, we would also look at the asset's credit rating, tenure, maturity and market capitalisation.

What is the maximum and minimum amount that can be borrowed from Maybank's Lombard Credit?

Chong: The minimum borrowing is RM1 million or equivalent. The maximum borrowing for individuals is RM10 million or equivalent per person or RM50 million or equivalent per company. These are the limits within regulatory guidelines.

Let us talk about the risk. What are the main risks that customers are exposed to with Lombard Credit?

Chong: The main risk faced by a borrower is a loss if their investment falls in value, if the interest rate on their loan goes up or if adverse conditions surrounding their pledged assets cause a lender like Maybank to change its loanable value.

Every time a loan is taken for reinvestment purposes, a customer should be aware that there is a risk of losing some or all their capital. Reinvesting the proceeds of Lombard Credit in other assets can multiply potential returns and also multiply losses.

The other risks that a customer may be exposed to would depend on the type of investment they make with their Lombard Credit facility, but would include an unexpected increase in the interest rate that they pay on their loan, currency fluctuations, concentration risk, default risk, liquidity risk, counterparty risk, a change of loan-to value risk and the risk of a force majeure event such as the implementation of capital controls.

Are there ways of mitigating their risk exposure?

Chong: Customers can mitigate their risk exposure by borrowing to invest in safe haven assets such as high grade bonds or Treasuries. They can also opt to borrow in a low-yielding currency and invest in a safe haven currency, such as the US dollar, yen and Swiss franc.

Who should consider Lombard Credit?

Chong: Lombard Credit can be used in any way a customer wants. This is usually for reinvestment and, perhaps, a small percentage goes towards personal consumption. We customise our financing solutions depending on each individual customer's risk and return profile.

The main benefit of Lombard Credit is the ability to obtain additional liquidity without having to sell existing assets. This enables our customers to enjoy capital appreciation and maximise the income potential or return of their assets.

However, this would be suitable only if one has readily available financial resources to meet any top-up margin calls, interest payments and ensure loan repayments. They should also have the financial capacity to bear unrealised losses and hold the pledged assets during volatile market conditions.

Finally, how can interested parties find out more about Maybank's Lombard Credit and discuss if it can effectively grow and protect their wealth?

Chong: Maybank offers a personalised yet holistic wealth management approach. Each client is unique and we strive to understand their individual needs to offer the best possible customised solutions. For comprehensive and individually tailored advice, please contact your Relationship Manager or drop us an email at privatewealth@maybank.com.my or call us at 03 2070 8200.