

## MONEY

CALLING THE TUNE  
RECORD STORES ARE  
A SECOND HOME TO  
JOHN MURRAY P15

ALAMY/BRYAN MEADE

Our survival  
guide to the  
bailout crisisAs Ireland is brought to its  
knees by banks, Niall Brady  
answers readers' worries

CUSTOMERS are rushing for cover as the banks' reckless lending forces Ireland to seek outside help to bail them out.

Worried readers of Sunday Times Money are questioning the state's ability to honour its guarantee for deposits at banks, building societies, credit unions and the post office.

Borrowers have been let down too. Last week, a government-appointed group ruled out any form of debt forgiveness for those who cannot afford their mortgages, despite the massive amount of taxpayers' money that has been pumped into zombie banks. The numbers in trouble will swell next year when interest rates are expected to rise as economic growth resumes in other parts of the eurozone.

We outline the steps you should take to protect your finances.

## SECURE YOUR SAVINGS

Your money looks safe on paper but deposit guarantees are only as good as the state's ability to underwrite them. John Geraghty of LA Brokers said: "You can't afford to take risks with your life savings, especially when there's so much uncertainty. I wouldn't advise anyone to keep all of their money with one Irish bank."

Post office savings, including the new national solidarity bond, are covered by an open-ended Irish government guarantee.

The deposit guarantee scheme, also backed by the state, offers indefinite protection for savings in locally-owned banks, building societies and credit unions up to €100,000 per customer per institution. The scheme covers some foreign-owned institutions too, including KBC Bank and Ulster Bank. It protects money in your current account and savings in deposit and share accounts.

Larger amounts are protected without limit if the money is deposited with one of the institutions covered by the government's eligible liabilities guarantee (ELG): Anglo Irish Bank, Allied Irish Banks, Bank of Ireland, EBS, Irish Nationwide and Permanent TSB.

The ELG was extended on Friday to the end of 2011, although you can stretch its protection for up to five years by opening a fixed-term deposit at one of the ELG institutions before June 30, 2011.

## FOREIGN PROTECTION

Ireland has been forced to look abroad for help, and financial

experts advise you to do the same to protect your savings. Harry Slowey of IrishDeposits.ie, said: "We're assisting clients to open new bank accounts. Some are shifting money to the local subsidiaries of foreign banks. Others are taking their money out of the country — although it can be difficult to open non-resident accounts abroad."

IrishDeposits.ie tracks the credit ratings of banks operating in Ireland, with Standard & Poor's ranking RaboDirect as the safest and Anglo Irish Bank as the riskiest (see chart). Slowey said: "This gives a reasonable representation of banks' credit strength, although it's no substitute for independent judgment."

Irish customers of National Irish Bank, RaboDirect, Nationwide UK (Ireland), Northern Rock and Investec are covered by deposit protection schemes in Britain, the Netherlands and Denmark. They aim to protect your savings up to €100,000, although it will be next year before Britain reaches this limit.

The Isle of Man and the Channel Islands are the easiest places to open offshore euro deposits. Your interest will be liable for top-rate tax in Ireland, however, and these tax havens share information with the Irish Revenue. Deposits in other EU countries are taxed in Ireland at 28%, the same rate of deposit interest retention tax imposed on local savings. But few banks in these countries are open to Irish residents.

## LOOK AT ALTERNATIVES

Some worried savers are

switching their money to insurance companies, investing in cash funds that pay similar returns to bank deposits.

Geraghty said: "Insurers such as Zurich Life, Friends First and Aviva have received a lot of deposits because their parents are solid global companies. Cash funds are not suitable for most savers, though, because they will be hit with exit penalties if they take money out within five years."

Gold is a traditional safe haven in times of crisis, although it is not a substitute for deposits. Stephen Flood of GoldCore, a bullion dealer, said: "Gold has averaged a 10%-15% return a year for the past decade, depending on your currency, but it cannot be seen in isolation from other investments. Returns are volatile, so you need advice on how much to invest, taking account of your tolerance for risk. Generally it should be no more than 3%-10% of your wealth."

Flood believes that fixed-interest bonds issued by foreign governments and firms are a better alternative. He said: "By holding a global portfolio of short-term bonds, you are reducing your exposure to the risk of Ireland defaulting."

## HAVE A DEBT STRATEGY

New research by Nationwide UK has found that 57% of Irish people are using spare cash to pay off debt compared with 29% who are saving the money.

Overpayments can make a big difference to your mortgage — saving €25,365 in interest and knocking three years off your debt if you pay €20,000 off a €250,000 mortgage paid over 25 years at 3.5% interest.

Prioritising debt could be a mistake, though, because it means that you will not have savings to dip into if you lose your job or if interest rates rise next year.

Liam Ferguson of Ferguson & Associates, a mortgage broker said: "If you have €20,000 and you use it to pay your mortgage, you're likely to be disappointed if you ask for it back in the future. Most lenders would treat such requests in the same way as applications for mortgage top-ups, which are difficult to get because your equity is disappearing as house prices fall."

Overpayments do not make sense if you have a good tracker mortgage. Your money would earn more on deposit than the interest you would save with the overpayment.

## DON'T EXPECT HELP

Struggling homeowners had hoped for some assistance but the recommendations issued last week by the government's group of experts on mortgage arrears failed to deliver.

The group proposes a deferred interest scheme for



Your savings can be left up in the air unless you take steps to spread your investments like Crowley, inset, who is putting €150 a month in gold

those who cannot afford to pay even the interest on their mortgages. The scheme would require lenders to accept two-thirds of the interest bill for up to five years and without imposing additional interest on the shortfall.

Forgiving the interest would be worth €2,400 over five years on a mortgage of €300,000 at a rate of 4%.

The proposal would buy you time, but your mortgage would be declared unsustainable once the shortfall exceeded 18 months of interest on your mortgage, clearing the way for your home to be repossessed.

Karl Deeter of Irish Mortgage Brokers said: "The scheme is unnecessarily complicated and would be difficult to qualify for. The expert group was so concerned with avoiding moral hazard, preventing borrowers from walking away from their

debts, that it has avoided moral responsibility."

It also had little to offer those in negative equity whose mortgages are worth more than their homes. The experts propose that lenders should facilitate those who want to trade down, if this would reduce their monthly payments, but have nothing to offer those who need to trade up.

The reform of the bankruptcy laws could be your last hope, especially if it makes it more difficult for lenders to pursue you if you are left with a mortgage shortfall after selling your home.

Deeter said: "I would advise borrowers in trouble to go into the deferred interest scheme, if they qualify, and then default when the laws on personal insolvency are changed, protecting them from their creditors."

## 'Gold allows me to spread the risk'

TOM CROWLEY, 47, has switched some of his savings to gold, investing €150 a month with GoldCore, a Dublin bullion dealer.

He said: "I'm trying to save for the children's education and for retirement. I believe in spreading risk through investing in as many assets as possible, but the options are limited at the moment. Property is very unstable and I have enough exposure to equities through my pension."

"I've some money on deposit but the interest rate is low and I'm concerned about the current financial turmoil. The deposit guarantee scheme provides

a level of comfort, but I try not to keep too much money with any one bank."

Crowley, an accountant from Maynooth, Co Kildare, believes commodities would be a good counterweight to his other investments. He felt locked out of the market, though, because commodity funds generally require a substantial lump sum investment. This is why the GoldSaver account appealed, with a minimum commitment of €150 a month for one year.

Its safe-haven status has led to a flight to gold, driving its value to a record value of more than \$1,400 (€1,000) an ounce recently. Crowley believes this will continue for

as long as the global financial crisis persists.

"Central banks around the world are buying gold to boost their reserves," he said. "If it's good enough for them, it's good enough for me. I believe gold can hold its current value because there's a lot of demand for a finite resource."

Crowley will consider his options after contributing to GoldSaver for a year. "I'll see how it's performed over the year," he said. "I'll probably keep contributing, though, because of the way that gold allows me to spread investment risk."

Niall Brady

## How to cope with that sinking feeling

When the Titanic was sinking, the panic only started when the passengers realised that there were no lifeboats left and the rescue ships wouldn't arrive in time.

Fortunately for the Irish people, the financial rescue boats from the European Union, the European Central Bank (ECB) and the International Monetary Fund (IMF) have arrived to help our sinking banks, or is it the sinking ship of state?

The banks and the state are now one and the same because we, as taxpayers, have guaranteed their debts. The leaking holes need to be plugged, all the worn-out planks and rigging replaced. The country will be shipshape and Bristol fashion in no time.

As there have been too many false dawns. Bailout loans from the EU and ECB/IMF will add to the growing mountain of debt of the nation. It is not unreasonable to wonder if Ireland, as a country, has

JILL  
KERBY  
COMMENT

the capacity to make the repayments on that debt, whether we can cope with the extra taxes and spending cuts that we are facing in the December budget and the subsequent four-year fiscal plan.

Let's get real. The government's assurances in recent weeks that it has come to grips with the capital shortcomings of the banks were clearly not true. Nor is it absolutely certain that the plan for €15 billion

worth of cutbacks and higher taxes over the next four years will return the nation to solvency. The plan does not, for example, include tackling the pay and pensions bill in the civil and public service for another two years.

The people we trusted, naively, to secure our savings and investments, pensions and retirement plans in the past — the politicians, civil servants, bankers and regulators, stockbrokers and advisers — have let us down. The

only thing any of us can do is to try and formulate a plan or strategy of our own. Where to start? Many readers' immediate concern is for their savings and investments.

At present, the Irish bank deposit guarantee scheme promises to repay up to €100,000 of your money in any Irish bank, building society and credit union in the event that any of them failed. The separate eligible liabilities guarantee, recently extended until the end of 2011, covers larger deposits. To solve the banks' chronic solvency problem, and restore the confidence of the bond markets, the EU, ECB and IMF will extend more money to prop up the Irish banks.

If you're confident that these safeguards are genuine and will work, then you will be confident enough to leave your savings in the Irish banks and credit unions.

If you don't feel confident, you have the option of moving your money to a non-Irish bank here (which may or may not have lower

bank guarantees in place), moving your money out of Ireland to another eurozone country that isn't in trouble, or getting entirely out of the eurozone.

Last week, in his quarterly economic presentation, Friends First's chief economist Jim Power admitted that he didn't know of any country in which the IMF had engineered a recovery plan that also did not involve the devaluation of their currency.

By remaining in the euro, Ireland and other struggling eurozone countries will have to depend entirely on reducing state expenditure and raising more taxes to become competitive and profitable again.

The alternative — to leave the euro — is unthinkable, say the EU politicians and central bankers. Yet the idea that our banks would fail and that we would need the help of the IMF was also unthinkable.

Since it is your money, home, life savings or pension fund at stake, you must decide if such a prospect is unthinkable and act accordingly.

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