# Rates – Interest and Exchange

## Interest Rates

Who is to blame when interest rates jump from 8% to 15.5% in one year? I certainly don't know. This was the pain the nation felt when Thatcher's bubble burst in the late 1980s and I was caught up in the worst possible way. In 1988 I remortgaged my home in order to purchase a flat in London close to my office. I stretched myself financially, confident that I would continue to earn a reasonable salary in my successful sales career.

The impact of this almost doubling of interest rates in one year caused mortgage payments to double and property prices to fall. You became trapped. Even if you sold the property you couldn't repay the funds borrowed. A new term entered the English language, that of 'negative equity'.

It didn't apply just to mortgages and property. Many people that couldn't get jobs had borrowed money, on the advice of the government, to start their own business; worked hard; then had it all taken away from them because the interest on their borrowings could not be met.

Innocent, hard-working people were victims of something they didn't understand. Yes, we'd all seen slight fluctuations in interest rates, but to double in just one year? No one had seen anything like this and it destroyed so many lives.

Interest rates did not return to the 1988 levels for five years during which time I suffered from mounting stress and depression as I fought for survival, culminating in 1993, with my first taste of a mental institution.

It could be argued that I never really recovered from this trauma and that these events were one of the building blocks that dictated my reaction when, many years later I found myself trapped into the inveiglement.

Between 1994 and 1997 I recovered my sanity; my two beautiful children were born and I left Unisys to start my own business, Postal Solutions Limited (PSL).

**Exchange Rates**

Having suffered financially and mentally between 1988 and 1993 when interest rates doubled, I can claim a double whammy when I became a victim of extreme Exchange Rate fluctuations.

By 2002, PSL was doing reasonably well. I had weathered the storm so far of the inveiglement and NCR's incompetence and destruction. As a sub-contactor to NCR for many projects throughout the World, PSL had taken many projects in US dollars. However all of our expenses were in pounds sterling.

For many years the exchange rate had settled around 1.42 dollars to the pound. Then, in April 2002 the slide started. Of course, like everyone else I expected the value of the dollar to level out or recover but it didn't.

For two years, until April 2004, the dollar kept on it's downward slide until it reached 1.90 dollars to the pound sterling; and fall of approximately one-third.

To put this into context; if PSL raised an invoice for $100,000, the at 1.42 dollars to the pound, PSL would receive £70,422. That same invoice when the exchange rate was 1.90 dollars to the pound was £52,631 representing a loss of £17,791 or 25% of our project revenue.

This was ultimately a major factor in the failure of PSL, which was put into Administration in July 2004.

So, I ask the same questions as I did about interest rates: Who is to blame when exchange rates change so dramatically? Again, I don't know.

One thing I do know is that whether it is interest rates or exchange rates, the dramatic fluctuations spurn winners and losers. There were people who did very nicely between 1988 and 2003 when interest rates rose dramatically and there were those that did very nicely between 2002 and 2004 when the dollar/sterling exchange rate changed so dramatically.

Unfortunately I was on the wrong end on both occasions.