

Prepackaged Sales Meeting Currency Calculation & Fluctuations

Introduction to Prepackaged Sales Meeting

Module: Currency Calculations and Fluctuations



Dear Broker/Firm Trainer:

NAR research indicates that 1 in 5 REALTORS® has been involved in an international real estate transaction. If this surprises you, you might ask yourself if business opportunities are being lost because your agents do not understand the elements of an international real estate transaction. The bulk of “international” business takes place in local markets and sales agents need a base level of knowledge to help them attract (and keep) this business, which often comes about from a former client whose needs have expanded beyond the domestic level.

NAR has created a series of modules to help you provide an introduction to global market transaction elements. These modules are designed to be incorporated into your regular sales meetings; many of which can be expanded, based on the firm’s needs. They include resources for additional information for agents seeking a more in-depth understanding of the topic.

Keep in mind that these modules *will not* make your agents “international experts.” (NAR offers advanced training and certification for REALTORS® who work in markets where they will benefit from this.) Rather this information is designed to provide agents with enough basic information on a range of topics so that when the potential client walks through the door who:

- *is looking to buy a vacation home in Mexico,*
- *has recently immigrated to the U.S. and is unfamiliar with U.S. industry practices,*
- *has recently inherited a property in Europe,*
- *wants to invest in an London flat to house a child studying abroad for a year or, a U.S. flat for a student coming to the U.S.,*
- *is a U.S. military spouse from Iraq, Germany, Korea, or any number of countries where U.S. military personnel is based and may marry local citizens,*
- *received in inquiry from overseas about a new development, or*
- *a dozen other possible scenarios...*

...Your agents will be able to assure this potential client or customer that they can help with this transaction!

This module on currency will help your agents understand how to calculate foreign currency into U.S. dollars (and vice versa) and to understand the impact on the client/customer of buying property where the currency used to make the purchase is notably stronger or weaker than the local currency where the property is located. An understanding of these basic principles is a must for assisting foreign buyers in the United States, U.S. clients looking to buy abroad, or in a transaction where the financing is from a foreign source.

We hope you’ll find this module useful in your sales agent training program, and we welcome your feedback. Questions or comments can be sent to NARglobe@realtors.org. For information on other international training resources from NAR, visit our web site at www.REALTOR.org/international, or contact Heidi Henning, Manager, International Education and Membership at hhenning@realtors.org (800.874.6500; x8376).



Broker/Trainer Instructions

1. Time Required: 40 minutes.
2. Begin session with enclosed skit. Secrets to successful skit:
 - a. Use a script (provided in kit).
 - b. Ask for willing participants so they can review the script before the session begins.
 - c. Use appropriate props (cell phones will do)
3. This skit is based on a true story. It is also true that until that day John did not know or understand the importance of currency fluctuation. He learned a valuable lesson.
4. Review basic currency calculations, using the example of Mr. Bauer from Europe buying a vacation home in the U.S.
5. You will now relate currency fluctuation to the **strength** or **weakness** of the currency being used. The concept of strengthening and weakening of currencies is important to learn so you can more knowledgeably discuss the critical currency issue when working with foreign clients/customers.
6. Basic Premise: As a currency becomes stronger, it takes **LESS** of it to buy goods. As it gets weaker, it takes **MORE** of it to buy the same goods.
7. Review and discuss included thermometer visual. Make a copy for each agent.
8. Examine the challenges Mr. Bauer faces traveling back and forth between Europe and the U.S., all because of the fluctuation in the value of currency.
9. Highlighted sections require calculations/answers by participants.

Currency Fluctuation Skit

John: Hello, Mr./Mrs. Fawcett? This is John calling from Sunshine Realty down here in beautiful southern Florida. How's your weather in Toronto?

Mr./Mrs. Fawcett: It's been pretty bad this winter. Lots of snow. Seems to get worse every year.

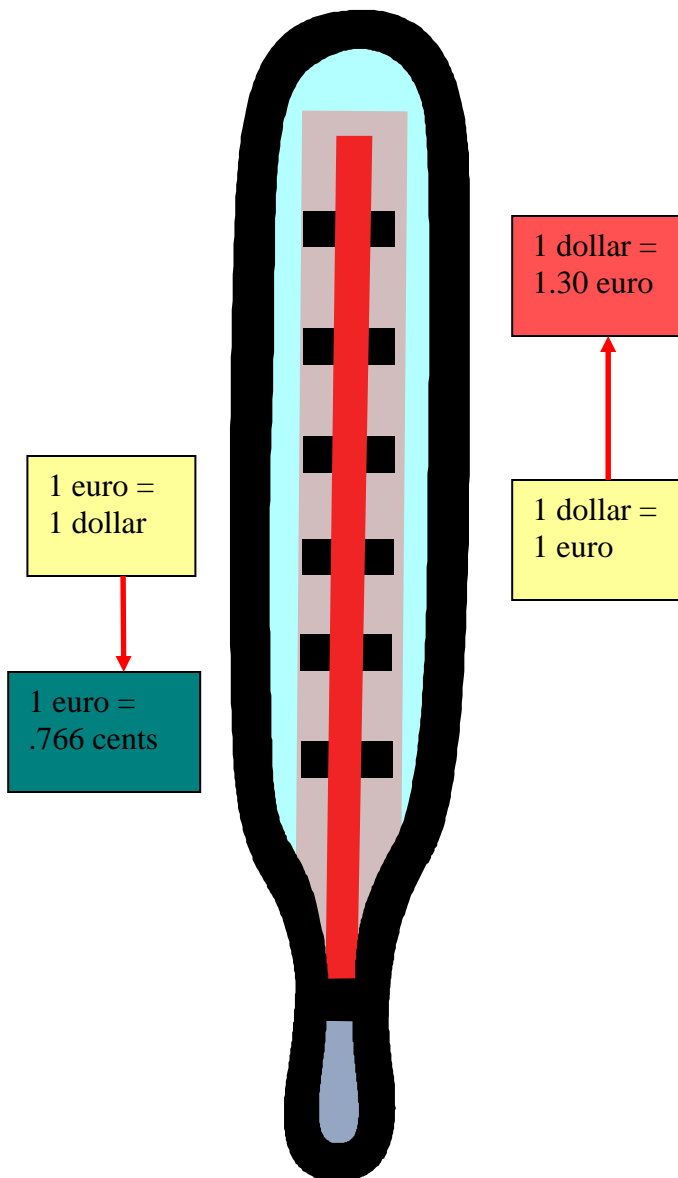
John: Well Mr./Mrs. Fawcett, your winters of cold, ice and snow are about over. After months of looking for the right investment for you and your family, it looks like we are ready close on the selection you have made. I have just reviewed the final papers and everything seems to be in order and we are scheduled to close next Friday at 9 AM as you had requested. Is there anything else I can do for you and your family before you arrive?

Mr./Mrs. Fawcett: Well John, I hate to tell you but we've got a serious problem. We won't be able to close on that transaction due to the downturn in our currency exchange rate. We appreciate all you've done but we just cannot complete the deal.

John: STUNNED! Pulls pant pockets inside out.

Poor John.....he didn't know what he didn't know.

Throughout this discussion of currency conversion we will be talking about whether we receive more or less of another currency when we convert to it. Will our money buy more or less after we convert it? Will we need more or less to buy the same goods after we convert to another currency? The answer depends on the strength of the currency we are converting. Is it stronger or weaker than the currency we are converting to? The chart below explains the concept of strengthening and weakening of currencies.



Weak and Strong Currency

1. In the yellow boxes the dollar and the euro are equal. You could exchange one dollar for one euro and one euro for one dollar.
2. In the pink box the dollars temperature has gone up. The dollar is not as healthy as it was before. It now takes \$1.30 to exchange for or buy one euro.
3. In the green box the euro has become healthier or **stronger** as the dollar has become sick and **weakened**. One euro can now be exchanged for .766 cents.
4. This weakening and strengthening of currency is true whether you are comparing the dollar to another currency or two foreign currencies against one another.

Mr. Bauer's Money

Mr. Bauer, our new client from Germany, has his money in euros. He tells you he is prepared to spend 200,000€ on a new vacation residence. How much is that in US\$?

The value of currency changes from day to day and it is an important professional skill knowing how to convert the value of one currency into another. We need to determine how much Mr. Bauer's euros are worth today in US\$. We go to XE.com and learn the values of the dollar and the euros today are:

$$\left\{ \begin{array}{l} 1 \text{ €euro} = \$1.30 \\ \$1 \text{ is worth } \$.76 \text{ cents against the euro} \end{array} \right.$$

Question: Will Mr. Bauer get more or less dollars for his 200,000€?

Answer: MORE (It takes more US dollars to equal his 200,000 euros).

Calculating Mr. Bauer's Currency Conversion Euros to US Dollars

Formula:

Amount to be converted (**X**) today's US\$ conversion value

Multiple resources are available for determining the daily value of currencies. Wall Street Journal, USA Today, and XE.com (a currency conversion website) to name a few.

Today's conversion rate for the euro is 1€=\$1.30

$$200,000€ \times \$1.30 = \$260,000$$

(Amount to be converted (**X**) today's conversion value)

Based on the value of the US\$ today, Mr. Bauer could convert his 200,000€ into \$260,000.

Currency Conversion US\$ to Euros

After finding a home and getting settled, Mr. Bauer returns to Germany for business. He goes to the bank to convert his dollars to euros, planning to spend \$4,000 on his trip. How many euros will he get at the current exchange rate?

XE.com shows us that today's value of the US\$ is:

\$1 = \$.766 when purchasing euros.

Question: Will Mr. Bauer get more or less euros for his \$4,000 dollars?

Answer: **LESS**

Problem:

\$4,000 X \$.766 (today's conversion value) = **3064€**

Mr. Bauer **lost almost 1/4** of the value of his \$4,000 because of the **fall** in the value of the US\$! His money will not go as far as he had hoped.

Currency Fluctuation

Mr. Bauer intends to travel back and forth between Germany and the U.S. several times a year over the next few years, maintaining a business in Germany (the source of his income paid in euros) and spending extended holidays in the U.S.

The first time he returns to the U.S. from Germany, he discovers there has been a fluctuation in the dollar against the euro. The dollar has strengthened. He expects to spend 4,000€ while in the U.S.

Today's conversion rate for the euro is 1€ = \$1.10

$$4,000€ \times \$1.10 = \$4,100$$

(Amount to be converted (X) today's conversion value)

Nine months later, he again plans to travel to his U.S. home and spend 4,000€ during this trip. He goes to the bank to convert his euros into dollars and learns that the dollar has further strengthened, and is now *stronger* than the euro.

How many dollars will he get at the current exchange rate?

Today's conversion rate for the euro is 1€=\$.90

$$4,000€ \times \$.90 = \$3,600$$

(Amount to be converted (X) today's conversion value)

Broker-led market impact discussion questions (for optional use):

- Should the value of the dollar continue to strengthen, what possible impact might this have on Mr. Bauer's decision to use his vacation home?
- Should the value of the dollar continue to strengthen, what possible impact might it have on his decision to lease or sell his property?

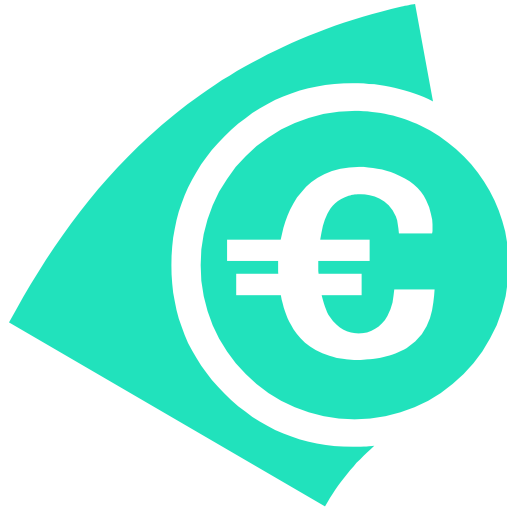
Resources

Websites: (currency conversions)

<http://www.xe.com/>

<http://www.oanda.com/converter/classic>

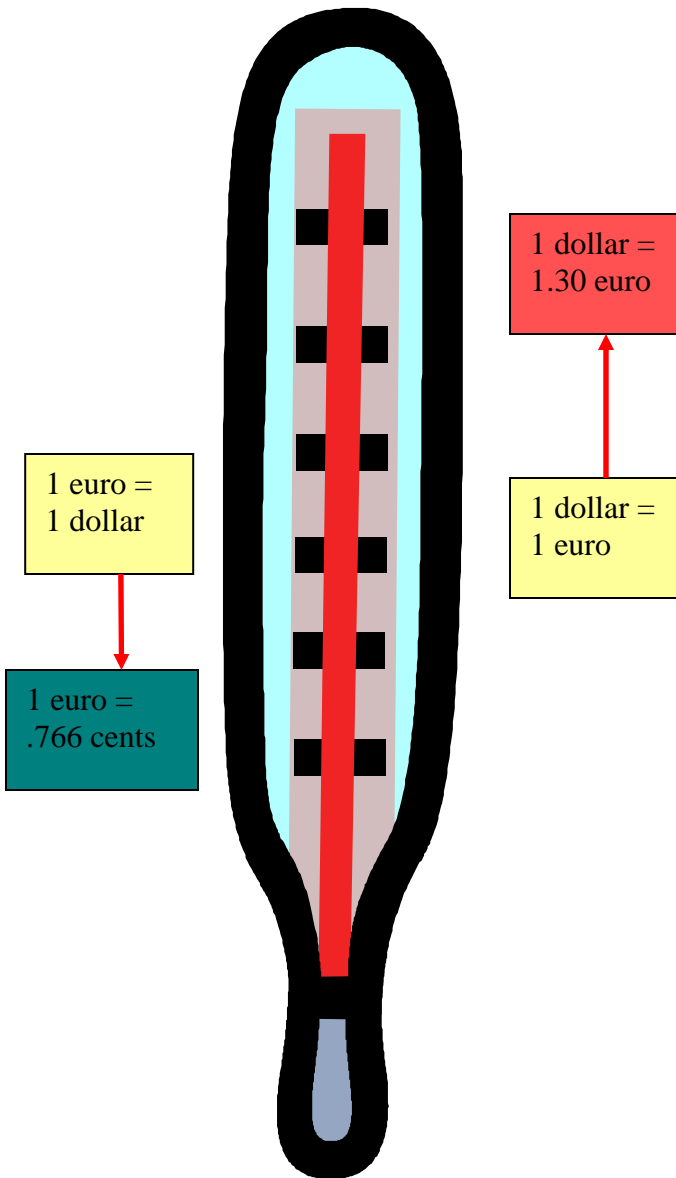
Newspapers: USA Today, Wall Street Journal (finance sections for daily currency conversion factors)



Currency Calculation & Fluctuations

Participant Handout

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$$\left\{ \begin{array}{l} 1 \text{ €euro} = \$1.30 \\ \$1 \text{ is worth } .76 \text{ cents against the euro} \end{array} \right.$$

Question: Will Mr. Bauer get more or less dollars for his 200,000€?

Answer:

Currency Conversion US\$ to Euros

After finding a home and getting settled, Mr. Bauer decides to go back to Germany for a visit. He goes to the bank to convert his US\$ into euros. He plans to spend \$4,000 on his trip. How many euros will he get at the current exchange rate?

XE.com shows us that today's value of the US\$ is:

\$1 = \$.766 when purchasing euros.

Question: Will Mr. Bauer get more or less euros for his \$4,000 dollars?

Answer: _____

Problem:

\$4,000 X \$.766 (today's conversion value) = _____ €

Mr. Bauer (lost or gained) approximately (1/2, 1/3 or 1/4) the value of his \$4,000 because of the (rise or fall) in the value of the US\$.

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Today's conversion rate for the euro is 1€=\$1.10

$$4,000€ \times \$1.10 = \underline{\hspace{2cm}}$$

(Amount to be converted (X) today's conversion value)

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How many dollars will he get at the current exchange rate?

Today's conversion rate for the euro is 1€ = \$.90

$$4,000€ \times \$.90 = \underline{\hspace{2cm}}$$

(Amount to be converted (X) today's conversion value)

REMEMBER:

STRONGER currency takes to buy goods

WEAKER currency takes to buy the same goods

Resources

Websites: (currency conversions)

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<http://www.oanda.com/converter/classic>

Newspapers: USA Today, Wall Street Journal (finance sections for daily currency conversion factors)