CHAMPAIN
FINANCIAL SERVICES

Bawtry
Selsfield Road, Ardingly
Haywards Heath
West Sussex RH17 6TJ

T: 01444 229 520
F: 01444 229 521
info@champain.co.uk
www.champain.co.uk

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Property Owner

House prices continue to rise

Yearly house price growth increased to 5.8% in the year to October 2020, Nationwide's House Price Index has found. This represents an increase from the 5.0% growth in September 2020. Monthly price growth has slowed from 0.9% between August and September to 0.8% between September and October. Commentators believe that data suggests that the economic recovery has lost momentum in recent months with economic growth slowing sharply to 2.1% in August, down from 6.4% in July, despite a strong boost to the hospitality sector from the Eat Out to Help Out scheme, which has since expired. Labour market conditions also weakened with the unemployment rate rising to 4.5% in the three months to August – still low by historic standards, but up from an average of 3.8% in 2019. Nevertheless, housing market activity has remained robust. Mortgage approvals for house purchase climbed to 91,500 in September – the highest level since 2007. The outlook remains highly uncertain and will depend heavily on how the pandemic and the measures to contain it evolve as well as the efficacy of policy measures implemented to limit the damage to the wider economy. Behavioural shifts as a result of Covid-19 may provide support for housing market activity, while the stamp duty holiday will continue to provide a near term boost by bringing purchases forward. However, activity is likely to slow in the coming quarters, perhaps sharply, if the labour market weakens as most analysts expect, especially once the stamp duty holiday expires at the end of March.

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Property Owner / Investor

Finding the best buy-to-let mortgage

Due to the coronavirus pandemic, most 90% Loan To Value (LTV) buy to let mortgages are currently unavailable, with 85% LTV being the closest mortgage product on the market. But what if you only have a small deposit? Is it possible to find a buy to let mortgage with a 10% deposit? It may be worth waiting for the market to stabilise. With redundancies on the rise and the economy unlikely to return to pre-pandemic levels anytime soon, you may find it difficult to launch a letting venture at this time. When searching for buy to let mortgages with 90% LTV you'll find the usual suspects available, such as fixed rate, discounted variable rate and tracker mortgages. Which you choose will depend on a number of factors. If you are a first time landlord and stretching yourself to take out a buy to let on top of your residential mortgage, the security of a buy to let fixed rate mortgage may be a good option as you know your payments will not rise during the term. However, interest rates are historically low at the moment at just 0.1%. Buy to let variable rate mortgages, which are usually fixed at a set percentage below the lender's standard variable rate (SVR) are correspondingly low, making them an attractive option. Buy to let tracker mortgages, which typically track a fixed amount above the Bank of England base rate are also extremely low. What's more, if you believe interest rates will drop even further, they may get cheaper still. However, with both discounted variable and tracker mortgages, should the base rate rise, so too will your payments, as most lender standard variable rates loosely track it too. This level of uncertainty can prove difficult to budget for. Indeed, if rates continue to rise, you might risk not being able to make your mortgage payments at all. If you do choose any type of variable rate mortgage, it could be well worth looking for capped deals. With this type of mortgage product, a 'cap' is placed on the mortgage rate. Should the base rate rise above this cap, your mortgage rate will be prevented from following suit, a useful safeguard in today's low interest climate. On the other hand, some lenders employ a 'collar' to their rates, meaning that should the base rate drop below the collar, your mortgage rate will not follow it. This, rather disappointingly, is to prevent mortgage rates going into negative interest, which would mean your lender would have to pay you interest! When you are looking for a buy to let mortgage with a 10% deposit, not only will you face hefty fees and charges, but you may also be subject to a higher lending charge. For this reason, it is vital to work out how much your mortgage will cost for the entire discounted term, including the fees and charges. You can also see the actual cost over the entire term of the mortgage as the Annual Percentage Rate of Charge (APRC).

All

What lockdown 2.0 means for your finances

Billions of pounds in support for struggling households has been paid out since the first lockdown, protecting more than nine million jobs. The furlough scheme had been due to end on October 31 but has now been extended. It means staff who cannot work will have 80% of their wages (up to £2,500 a month) paid by the Government. Employers will have to pay their furloughed staff's National Insurance and pension contributions - roughly 5% of their wages. The extension is available to any UK worker on their employer's payroll before October 30. The less generous Job Support Scheme due to start this month has been postponed until after lockdown. Chancellor Rishi Sunak last week announced more help for self-employed workers. The Self-Employment Income Support Scheme will now allow workers to claim 80% of their earnings this month, and then 40% in December and January. The claim window will open at the end of the month, and the maximum grant over three months is £5,160. Grants will also be available for February to April. To claim, you have to earn more than 50% of your income from self-employment and make less than £50,000 a year. Unfortunately, those locked out of help due to previously having had trading profits of more than £50,000, or who employ themselves through a limited company, are recently self-employed or freelancers, are still excluded. Borrowers who have not yet taken a six-month payment holiday will still be able to under new measures announced last week. The rules apply to mortgages, personal loans, credit cards, motor finance, rent to own, buy-now pay-later, pawn broking and high-cost short-term credit. However, the maximum payment holiday remains six months: those who've already reached that limit cannot extend it without it being recorded on their credit file. Borrowers have until January 31 to request a payment deferral, but the Financial Conduct Authority (FCA) is asking customers not to contact their lenders yet. It says further updates, including from lenders, are imminent. Those who've already taken a six-month holiday but are worried about resuming payments are advised to speak to their lender to arrange alternatives. Those opting for new deferrals within the six-month limit should note that it could still impact on your ability to borrow — even if it isn't recorded on your credit file. Banks also handed out more than 27 million £500 interest-free overdrafts during the crisis but will no longer be required to do so. Banks can now charge overdraft rates of up to 40% or more.

Business Owner

Many self-employed still excluded from Covid help

The UK government has pledged £7.3bn in a refreshed package of support for self-employed people. But critics say that almost 3 million workers may be out of pocket, with the second coronavirus lockdown in England, and the Covid-19 restrictions in Scotland, Wales and Northern Ireland leaving many freelancers and contractors out in the cold again. Last week the Treasury presented a revised self-employment income support scheme (SEISS) that will pay out up to a maximum of £7,500 for the three months from November to January, with the first payments made in December. Under pressure from unions and small businesses, the government has also extended a universal credit allowance that was due to run out in mid-November. That will now continue into April next year. Announcing the changes, the chancellor, Rishi Sunak, said: "It's clear the economic effects are much longer lasting for businesses than the duration of any restrictions, which is why we have decided to go further with our support. However, ExcludedUK, a group that emerged in March to campaign on behalf of those unable to access government support, says much more needs to be done to help the recently self-employed, limited company directors and other groups that do not benefit from the SEISS. Aron Padley of ExcludedUK says: "Nothing has changed. The eligibility criteria are exactly the same. Seven months on, many people in our group are now in a dark, dark place. Many people have lost everything." An inquiry set up by the trade unions Prospect and Community has warned that the government risks creating a "stampede" away from self-employment that will damage the economy as well as crushing the entrepreneurial dreams of thousands.

Investor / Saver

What does the close US election mean for investors?

After a much closer contest than the polls had forecast, markets have been forced to align with a new reality and not the one they were probably expecting. The US election night did reveal one thing. It showed the Democratic "blue sweep" of America the pollsters had been predicting wasn't going to materialise. America now faces the real possibility of having to operate under a divided government and accepting a smaller economic stimulus bill than might otherwise have been the case. Positively, from the point of view of markets, this outcome would effectively take big tax rises under a Biden-led government off the table. It would also make stricter regulations for big business, including technology companies, much less likely than under a Biden landslide. Perhaps because of these factors, markets held up well to the onslaught of this election. Stocks and bonds rallied together last week, as some of the heat of the battle dissipated. Healthcare stocks led the advance as markets looked forward to a more favourable regime of healthcare benefits under a Biden administration. For now, as America awaits a stimulus bill, the focus is likely to return to the US Federal Reserve's ability to provide more support for the economy through yet easier monetary policies. That's a positive for bonds as well as equities, and probably another reason why both have performed well over recent days. Under more normal circumstances, the main focus this week might have been the start of a month-long lockdown in England. Non-essential service providers are set to remain closed until 2nd December, further pushing back the recovery for airlines and businesses in the retail and hospitality sectors. There was no breakthrough for post-Brexit trade talks in Brussels, negotiators emerging to confirm that fishing rights and state aid for businesses are still the main sticking points. It's understood negotiations will resume in London. That the EU and the UK are still talking and plan to talk some more implies the UK, as well as the EU, are still seeking a deal. Moreover, it seems almost inconceivable that the present UK government would consider the main outstanding issues important enough to relinquish a free trade deal. Expect talks to go to the wire. Much like the US electorate, stock markets remain split down the middle. After almost a year of coronavirus, growth stocks – those able to increase their earnings irrespective of the economic environment – have held the lead. Shares offering good value have lagged behind, waiting for a big push upwards for the economy as a whole. In view of developments this week, both here and in the US, the status quo may not be under threat anytime soon. However, in uncertain times such as these, it makes sense for investors to continue to cast a wide net.

Property Owner

Second mortgage holidays

Homeowners whose finances have been affected by COVID-19 will be able to apply for mortgage payment holidays of up to six months, despite plans to end this type of financial support on 31st October. The move follows the announcement of a month-long lockdown in England starting on 5th November. On 2nd November, The Financial Conduct Authority (FCA) set out proposals to extend the availability of payment holidays. The proposals are as follows:

- If you've not yet taken out a payment holiday, you'll be eligible for two payment deferrals up to a maximum of six months in total.
- If you currently have a payment holiday in place, you'll be able to apply for one further three-month deferral.
- If you've resumed repayments after a payment holiday, you'll be eligible for another three month deferral.
- If you've already had two three-month payment holidays, or have agreed alternative support with your lender, you won't be eligible for a further deferral.

Borrowers will have up to 31st January to request a payment holiday, and deferrals will not be reported as missed payments on credit files. The FCA has also proposed that the ban on repossessions will be extended to 31st January. Banks have until Thursday 5th November to respond to the proposals, after which the FCA will provide full guidance. A formal payment holiday won't be shown as a missed payment on your credit file, so it shouldn't affect your credit score. The FCA has confirmed, however, that customers who seek further support from lenders after their payment holidays end should have this reflected on their credit files. It says doing so will help ensure lenders have an accurate picture of customers' financial circumstances.

Investor / Saver

UK stock market: The upside to a lack of confidence

There are plenty of reasons for investors to be fearful about buying cheap UK shares just now. After all, the outlook for the global economy remains very uncertain. And the domestic economy could face a particularly challenging period due to Brexit. However, low valuations in many sectors mean this could be the right time to buy a diverse portfolio of shares. Such a portfolio could outperform other popular assets, such as cash and bonds, and generate impressive long-term returns. It's been a volatile year for world stock markets. We had the spring crash, followed by a fairly rapid rebound. However, the UK recovery has been feeble compared with other major stock markets. According to the Financial Times, "UK shares are at their lowest valuation relative to the MSCI World Average since the early 1970s, as measured by a combination of price/earnings, price/dividend and price-to-book ratios." As the UK stock market is so cheap, buying a diverse range of FTSE shares today could lead to impressive returns in the long run. Some cheap UK shares are deservedly priced at low levels by the market. For example, some may be in such a precarious financial position there's a very real danger they'll go bust. However, there are others with robust balance sheets, cash flows, and business strategies that could produce improving financial performances in the years ahead. They appear to be suffering from weak investor sentiment towards their industry and/or the UK stock market in general. Their low valuations suggest investors have priced-in many of the risks facing the domestic and global economies. Therefore, they seem to offer wide margins of safety, and significant upside potential in the long run. Individual advice is always recommended.

Past performance is not a guarantee to future performance. You may get back less than invested.
Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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