BENNISON BROWN

Guide to self-employed mortgages

It is no secret that getting a self-employed mortgage is sometimes seen as a challenge. With the same requirements to prove your income and a less simple means to doing so, self-employed people often need to take a few more steps than those in salaried employment to make it through the application and come out on the other side with a mortgage.

For self-employed people, getting the right advice for your unique needs is even more essential. Although there may be more work involved, you are far from alone in looking for a loan without an employer. With an adviser by your side, securing a self-employed mortgage may turn out to be easier than you think.

Who counts as self-employed?

For mortgage purposes, self-employed usually means that you own at least 20% or 25% (depending on the lender)[1] of a business from which you get your main income. This means that you could be a sole trader, running your own business, a partner or director in a larger firm, or a contractor who has set up a limited company.

How long do I need to have been self-employed?

Lenders typically ask to see the last two or three years of complete accounts. From these figures, they will then take an average of earnings and use that amount to decide how much they are willing to lend.

If you have been self-employed for fewer than two years but were previously working full time, your pay slips from this time are likely to be acceptable as evidence. Other situations where you have a mixed employment history may be dealt with differently – one reason why it is essential to engage the services of a mortgage broker.

[1] natwest

The challenges with self-employed mortgages

It's well known that getting a mortgage can be tougher if you're self-employed. Here are some of the main reasons:

More steps	Primarily, the process of applying for a mortgage can be more onerous for self-employed people. Being self-employed means you'll have to prove your earnings without having a regular salary and without the other protections of a full-time job. As such, for self-employed applicants, lenders typically require proof of your income from the past two full tax years.
Fluctuating income	Similarly, some lenders have a bias towards employed applicants. The impression that self-employed people have a harder time getting a mortgage mainly comes from the fact that mortgage lenders love stability. A regular salary is therefore much more appealing than highly changeable earnings. Of course, many self-employed people do have stable and plentiful incomes. The bar to proving this for self-employed applicants, however, is higher, which leads to some being limited in the amount they can borrow. Periods of lower earnings can also be a difficulty. For example, if you have taken time off or suffered illness for a prolonged spell, this might bring down average income in the eyes of a lender.
Applying to the 'wrong' lender	Although in many cases this will be unfair, the default position of some mortgage lenders is that lending to the self-employed is riskier than lending to the employed. Since some lenders use automated assessments to screen mortgage applications, speaking to a mortgage broker is essential to understanding which lenders will give you a better chance of being accepted; rather than sending out shots into the dark, we can guide prospective borrowers towards lenders with a more favourable stance on self-employment.
The border of affordability	Lenders need to be reassured that the loan is affordable to the borrower. They do this with stress-testing, which ensures borrowers will be able to afford repayments if rates were to increase by a certain percentage. The long-term viability of a sole trader's work may also be considered, taking into account personalised factors, as well as the overall sector's stability. If a lender has doubts about a business's long-term prospects, this could limit how much they will lend. Since lenders' definitions of affordability are not publicly accessible, advice from a mortgage specialist is invaluable in this regard.

What will I need to provide?

Although the process may be a little more complicated, applying for a mortgage as a self-employed person works in much the same way as it does for anyone else. Before you start, however, it is important to be as prepared as possible because you will need to provide specific documents.

These could include:[2]

- Two or more years of certified accounts
- SA302 forms or a tax year overview (from HMRC) for the past two or three years, based on your tax returns
- Evidence of upcoming contracts (if you're a contractor)
- Evidence of dividend payments or retained profits (if you're a company director)
- Passport and driving licence
- Proof of address – such as a council tax bill or utility bills dated within three months
- Six months' worth of bank statements
- Proof of any savings accounts.

Of course, based on the type of self-employed worker you are, lenders may have different requests and expectations. Contractors, freelancers and anyone else classed as a sole trader will need to fill out a tax self-assessment and have it undersigned by an accountant. To certify income, sole traders have to fill in an SA302 form.[3]

For business partners, lenders will want to see proof of your share of the profits. If you own a registered limited company and pay your own salary and dividends, meanwhile, your lender will need to see evidence of your earnings. All borrowers will have to provide bank statements for lenders to examine how much you spend on bills and other costs.

Why can't I self-certify affordability?

Previously, self-certification mortgages allowed self-employed people to declare how much they earned without any evidence. Since the Mortgage Market Review in 2014, however, mortgage providers have tightened up their lending criteria, with self-cert mortgages banned completely that year.

[2,3] Comparethemarket

What types of mortgage can I get?

The type of mortgage available to self-employed people should not vary much for those available to salaried workers. Whether you are a first-time buyer or are looking to remortgage an existing property, self-employed people will have a range of options. As with any borrower, having a larger deposit can open up a wider choice of products.

How much can I borrow and will I pay higher rates?

The amount of debt any mortgage applicant can take on depends principally on income and the size of deposit. Historically, lenders have typically offered mortgages of around 4.5 times your annual income. However, banks are now allowed to issue more high loan to income mortgages. As discussed above, this can vary considerably based on individual circumstances.

Self-employed mortgages are not by default more expensive. Factors like a larger deposit and higher credit rating can drastically improve mortgage rates.
A self-employed person who provides strong evidence of stable earnings should qualify for the same mortgage deal as someone with a comparable income in a salaried role.

How to boost your chances of getting a mortgage

There are a number of steps that self-employed applicants can take to increase the likelihood of being accepted for a mortgage, including:

- Saving as much as possible for the deposit
- Getting on the electoral roll
- Correcting any mistakes on your credit report
- Speaking to us.

If you are struggling to get accepted by a mainstream bank, there are specialist lenders that deal with self-employed borrowers.

Seek professional advice

Dealing with something as complex and changeable as mortgages is so much easier with an experienced mortgage specialist by your side, so please do get in touch with us if you would like friendly, professional advice. We can help you navigate the challenges, prepare all the evidence, find suitable lenders and take the burden off your shoulders.

Your home may be repossessed if you do not keep up repayments on your mortgage.

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