ISSUE · ISSUE · ISSUE · 01

SELF-EMPLOYED

· Mortgage Guide ·

SELF-EMPLOYED *mortgage guide*

Welcome to our Self-Employed Mortgage Guide, which provides essential information and advice on getting a mortgage when working for yourself or running your own business.

If you're self-employed, including running your own limited company, you may have heard or read negative stories about your chances of getting a mortgage, but we're here to tell you to forget everything you've been told. Yes, it may be more involved, and yes, you may need to provide more information, but with the right help, there's no reason why it should be more difficult for you than it would be for someone who is in contracted employment.

Over the course of the past 20 years, self-employment in the UK has increased by more than 50%, with the 2019 total at over 5 million people. While many mainstream mortgage lenders have been slow to react to this increase, rest assured that there are now many more options for self-employed people than there used to be, so read on to find out more.

DON'T *forget...*

Getting a mortgage can be a confusing business, especially if you're self-employed, so remember that our expert team has all the knowledge and experience to help you avoid the pitfalls.
Why not give us a call for a friendly chat?
It could save you a lot of hassle in the long run.

WHAT IS A *self-employed mortgage?*

Technically speaking, a self-employed mortgage isn't any different from any other mortgage, but the way you are assessed for it is.

As a self-employed person, what you may gain over a contracted employee in flexibility, you potentially lose in possible fluctuations to your income when this is, for most, directly affected by the business performance. Just as this is a risk for you, it's also a risk for mortgage lenders.

Therefore, even if you're earning significantly more money working for yourself than you would be working for someone else, your income can still be seen as more unstable, and that means lenders can take a little more convincing.

Having said that, with such an increase in self-employment in the UK, more and more providers are open to lending in this way and as such have made things simpler, by reducing the number of hoops you need to jump through.

We'll go into more detail about exactly what's required from you later in this guide, but first, turn the page to learn about a few different kinds of self-employment and how they're treated.

DON'T *forget...*

When your circumstances are unique, it's best to contact a range of providers to find the most appropriate deals, many of which are not available on the high street. Mortgage brokers hold the key to the market, offering access to specialist lenders.

DIFFERENT ASSESSMENTS *for different circumstances*

There are many different types of self-employment, each one with its own individual specifics, and therefore its own individual mortgage assessment.

Below is a rundown of the most common types. If you see yourself here and want to know more, or if you don't and you want to discuss your options, give one of our experts a call:

SOLE TRADERS

As it just involves yourself as a sole trader, this is typically the simplest set up for a lender to understand, and also in regard to their verification requirements for your income.

PARTNERSHIPS

If you're in a partnership, the rules have little difference to that of sole traders, except that you're assessed on your individual share of net profit for your income.

LIMITED COMPANY DIRECTORS

While it's absolutely possible to be considered for a mortgage, the verification of a director's income can represent a more complicated structure.

CONTRACTORS

As a contractor, you may be eligible for a specialist mortgage product that's specifically designed to cater for the nuances around your pay.

DIFFERENT ASSESSMENTS *for different circumstances* (*continued*)

SUBCONTRACTORS

If you're registered for the Construction Industry Scheme (CIS), you could benefit from a CIS mortgage, which can save a lot of hassle.

PROFESSIONALS

If you're a professional such as a doctor, solicitor or architect, lenders may offer specialist products because statistically, you're lower-risk.

ZERO HOUR CONTRACTS

Not always strictly self-employed but, with more and more people working under this type of contract, many lenders now offer specialised products that can cater for your needs.

FOSTER CARERS

This can prove difficult when looking to verify income for a mortgage. However, there are lenders who understand the complexities of a foster carer's financials.

WHAT *do you need?*

As mentioned previously, if you're self-employed, many lenders may still regard you as a potential higher risk and will therefore possibly require more information than if you were employed under contract.

Here's a list of the typical minimum requirements you'll need in order to receive approval:

- **At least one year's full trading accounts**
- **Minimum 5% deposit (this may vary depending on circumstances)**
- **SA302/tax return documents and tax overview forms**

DID *you know?*

If you have bad credit, you may still qualify for a mortgage with specialist lenders. Turn to page 11 of this guide to find out more.

HOW MUCH *can you borrow?*

Just like any other mortgage, the amount you can borrow when self-employed depends on how much you earn – the complicated part is presenting that income in the first place in relation to how a lender will assess it for your application.

As we learned on pages four and five, depending on your circumstances, your self-employed income can come from many different places, in many different forms. This can make it notoriously difficult to calculate and present in relation to a mortgage.

The way in which lenders determine what you earn can vary enormously. Some base it on your most recent year's declared income, while others may take an average of the past two or three years' figures. When you also throw dividends or retained profits into the mix, things can become quite complicated.

The best place to start is to speak to a professional mortgage adviser who, with their specialist knowledge of both the processes and the lenders in the market can calculate the correct figure to work from.

DID *you know?*

Being self-employed does not disqualify you from the government-backed Help to Buy: Equity Loan, which can cover a significant amount of the property's value and reduce the size of the deposit you may require.

Help to Buy
Backed by HM Government

PROVING *your income*

Gone are the days of self-certification mortgages, but although you now need more proof of income, it's not generally as hard as you might think.

It used to be possible for self-employed people to declare their income without any documents to back it up. These were called 'self-certification' mortgages, but they were open to abuse. Therefore self-certification products were removed from the regulated mortgage market following the 2008 financial crisis.

In the current market, lenders will typically require either your SA302 Self Assessment tax calculation documents together with the corresponding tax overview forms and some lenders may need to see your full, verified accounts. Certain lenders will however always request an accountant's certificate that will be specific to their requirements.

DON'T *forget...*

Not all lenders accept retained profits or dividend income, but there are specialists that do, so speak to our team to find out more.

SA302

An SA302 is the document produced by HMRC to summarise your Self Assessment tax calculation. It breaks down your income for that tax year from all sources and is now accepted by most lenders as a means of proof of income.

Most lenders accept copies of SA302s, so if you or your accountant go online to do your Self Assessment or use commercial software to submit annual tax returns, it's possible to log in and print them out yourself. Alternatively, if you need an original or don't have a printer, it's possible to request the relevant documents from HMRC by phone or mail.

TAX *overviews*

These are not to be confused with your SA302s. A tax overview form is an additional document that is used to verify that your tax affairs are up to date and that the tax quoted corresponds with your SA302s. These can be obtained in much the same way as your SA302s.

PROVING *your income* *(continued)*

VERIFIED ACCOUNTS

In order to prove your income, some lenders will need to see full accounts for the past two or three years that have been verified by a chartered or certified accountant. From here, they'll take an overall profile of your business and work out your average net profit for the period.

Having said this, in recent years, lenders have become more open to accepting self-employed applicants who only have one year's accounts. Of course, the bigger your deposit or equity value, the easier this is to achieve, but it's by no means impossible for those with a smaller deposit.

In some cases, your profits from the last year can be greater than previous years. This could be due to initial growth after startup, market expansion, or countless other reasons. In this case, an average for the past three years would not give an accurate picture. Historically this has been a source of great frustration for self-employed applicants, but thankfully there are now some lenders that will consider basing your application on your last year's accounts, as long as you and/or your accountant, can confirm that level of profit is sustainable.

For access to these specialist lenders, you'll likely need the help of a mortgage broker, so why not get in touch for an initial chat?

DID *you know?*

Even if you've been self-employed for less than a year, there may be some specialist lenders that could still accommodate your application and our experts can help you find them.

COMPLEX *income*

If you have multiple sources of income, getting a mortgage can be more challenging, but not necessarily impossible with the right presentation.

More often than not, self-employment means taking income from many different sources. Examples could be freelancing at weekends in addition to your 9–5, receiving dividend payments, or maybe gaining rental income from Buy-to-Let. This is known as complex income.

Unfortunately, most high-street lenders prefer everything to be neat, tidy and easily accessible because complex income, while regular, can often be variable and therefore harder to risk-assess.

The key to overcoming this is to ensure the information is presented in the best possible light. For this, we would recommend getting advice from a specialist mortgage broker who will know the best approach to take to maximise your chances.

DON'T *forget...*

Just because you've been declined for a mortgage by one lender, it doesn't mean you can't get one elsewhere. Call our friendly team to increase your chances.

WHAT IF
you have bad credit?

Getting a standard mortgage with bad credit can be difficult, so when combined with the complexities of self-employment it can make this seem even more daunting, but there are lenders out there if you know where to look.

As with any mortgage, having items of bad credit on your file such as bankruptcy, county court judgments, defaults or missed payments can make you appear a higher-risk to potential lenders. Although this can often mean that your options are limited to niche lenders inaccessible on the open market and rates that may be higher than normal, there are many providers who are ready and willing to lend, and our experts know where to find them.

These lenders will take a much wider view of your circumstances, paying more attention to your current employment status and the steps you have taken to repair any damage caused by the adverse credit event.

With the above in mind, it is extremely important that you do everything you can to ensure your affairs are in order and looking the best they can be. Refer to pages 12 & 13 of this guide for some pointers or give us a call, and we'll walk you through it.

DON'T
forget...

As time goes by, blemishes on your record become less of an issue until they are removed from your file completely after six years. So, if you can wait a while, it may make your application a whole lot easier.

DO YOURSELF *a favour...*

There are many ways that you can make it easier for yourself to get a mortgage when self-employed. This section outlines a few of the most effective.

REGISTER *to vote*

You'd be surprised just how much of a difference this simple task can make to your chances of a successful mortgage application, so do it now if you can! This is one of the simplest ways a lender can check that you reside where you advise you live.

PAY YOUR BILLS *on time*

Any bills that are missed or paid late could result in a bad credit rating which could cause issues with your mortgage choices.

FINANCIAL *housekeeping*

Make sure addresses and all other details are up-to-date on all accounts – from credit cards to phone bills.

MAKE NO OTHER *applications*

Numerous credit checks can have a detrimental effect, so keep all credit applications to a minimum in the lead up to your application where possible.

DO YOURSELF *a favour...* *(continued)*

BOOST YOUR *credit score*

Strangely enough, sometimes the best way to improve your credit rating is to borrow money. One way to do that is to spend a small amount on a credit card each month, but make sure you pay it off on time each time! Top tip, set up a direct debit to ensure the minimum payment is made on time.

NO CASH *on credit*

Withdrawing money on a credit card can be a warning to a prospective lender, plus it's typically not cheap, so best to avoid it altogether if at all possible.

REVIEW UNUSED *credit*

Look at any unused credit facilities on your file, such as old credit cards that you no longer use. A large amount of available credit can be detrimental so close these completely.

STEER CLEAR OF *payday loans*

Payday loans might seem like a lifeline, but for most mortgage providers they are an indication of cash flow problems. We recommend you consider alternative solutions wherever possible.

PLAN *ahead...*

Self-employed income is typically about the preceding year's declared income, therefore it is always good to plan ahead wherever possible. Speak to your accountant and let them know about your plans to move or obtain a mortgage in the future so they are aware and can factor this into any business plans/expenditure.

SPECIALIST *help*

Save yourself the time and effort of an often fruitless search; give us a call today and gain access to the lenders who can really help.

You should always get yourself acquainted with the market before deciding whether to commit to a mortgage. However, even the most diligent researcher may only have access to a limited proportion of lenders that are available on the mainstream market, so your efforts could often not provide the best solution.

It's for this reason that we would strongly recommend speaking to a specialist mortgage broker before making any decisions. Not only will this ensure that you have access to the niche corners of the market, where some of the most favourable deals can be found, but also that your earnings are presented in the best possible light.

DON'T *forget...*

Not all mortgage brokers have complete access to the market, some are tied to certain providers and are limited to certain portfolios, so always check before moving forward.

LET US DO
all the hard work

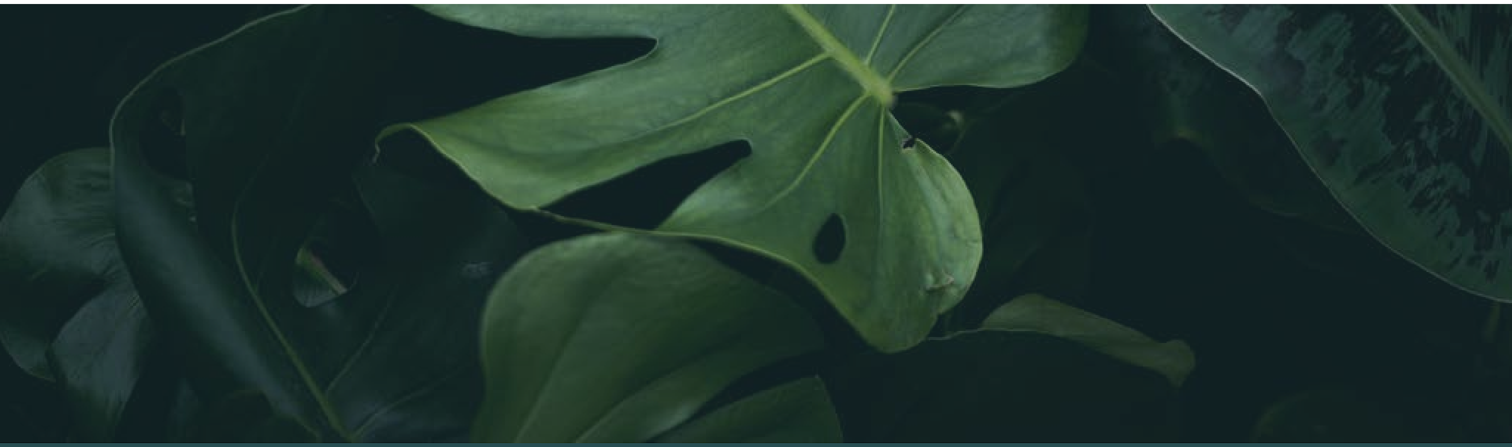
With unlimited access to the mortgage market and extensive experience in self-employed mortgage applications, The Mortgage Centres can take the stress out of the process.

Here at The Mortgage Centres, we have experts that specialise in self-employed applicants and know the market and the process inside out. With such extensive experience, these experts are perfectly placed to guide you through.

We have access to about 12,000 mortgage products across 90+ lenders, so we can obtain many deals from specialist lenders that you won't see on the high street, often on an exclusive basis.

With all this expertise at your disposal, teaming up with a self-employed mortgage expert at The Mortgage Centres gives you the peace of mind that you're making the most of your situation.

Simply give us a call, answer a few questions about your situation, and we'll do the rest.



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