YOUR QUESTIONS

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How do I get a mortgage with irregular income post-MMR?

By Adam Palin Author alerts

I've read a lot about banks starting to restrict lending against higher value properties, and that the mortgage market review is making life difficult for people with unconventional income (for instance, from consulting or contracting). Am I better off going to a mortgage broker or to a private bank if I have irregular income?

Where do you go?

In recent weeks, both Lloyds Banking Group and the Royal Bank of Scotland group have imposed a cap of four times income for all mortgages (not properties) above £500,000. This applies to all borrowers, whatever the source of their income.

As there are still many banks that will lend more than four times income – based nowadays on a complex monthly affordability assessment rather than simple multiples – this is yet to have a significant impact on mortgages or property prices.

The mortgage market review, which came into force in April, is however making life difficult for all borrowers. The additional challenges for those with unconventional income are essentially unchanged.

Taking your examples, many consultants or contractors will apply either as a self-employed sole trader or via their own limited company. The benefit of either route is that various expenses can be offset against earnings, thus reducing taxable income and tax due. With a limited company, profits may well be retained within the company, so the taxable income drawn is even less. The downside is that most lenders will only assess borrowing capacity based on that lower taxable figure, meaning a lower mortgage.

There are however a small number of retail lenders, and many private banks, that will take those retained profits into account. For contractors, it can be even better as some banks will work from the contract income rather than taxable profits. For these accommodating lenders, a typical calculation will be the daily contract rate x 5 days x 46 weeks. This invariably gives a much higher income figure and hence a much greater mortgage amount.

Private banks can be great for wealthy individuals borrowing over £1m on property. They can look at multiple income streams, such as from investments, trusts and overseas. Very attractive rates can be negotiated with good flexible terms. However, loan-to-value ratios tend to be lower (60 per cent or so), fees higher (usually 1 per cent of the mortgage value) and most require cash or investments placed with them.

The difficulty that borrowers face is knowing which banks to approach for their own specific situation and requirements. This is when engaging a good broker, who knows both the retail and private banks, can provide you with access to multiple lenders and negotiate terms on your behalf, saving you much time and effort. – *Nigel Bedford, senior partner, largemortgageloans.com*

'Sensitive' lenders

Market values play an important role in the decision making process for banks, but the lender's understanding of the client's financial position and ability to service and repay the loan is usually more important.

It is correct that a number of lenders are sensitive to lending against higher value properties although there is no uniform approach. The term "higher-value" means different things to different lenders, although the £5m-plus sector of the central London market is likely to fall into this category for many lenders. It is here that values are being underpinned by finance professionals with variable income and international buyers for whom a range of political and macroeconomic changes could impact demand for these properties, thus having an impact upon valuations.

Readers answer readers

We want to make questions more interactive and varied by inviting readers to respond to them, as well as seeking input from experts in the field. The next question we'll consider is: **"I am risk-averse and retain my non-pensions savings in a cash Isa, the value of which has been eroded over the past five years. I am keen to earn more on my savings by switching some of my Isa pot into stocks and shares, but I'm worried the market has peaked. Even if it is still worth investing in shares, will the transfer not incur punitive charges?"**

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Under the mortgage market review (MMR), all lenders require a better understanding of customers' financial circumstances and their ability to afford interest and repayments for their loan. Where customers have unconventional income, some lenders, particularly private bank lenders, will have developed MMR-compliant models that are able to adopt a more tailored process that can accommodate them.

With MMR still being relatively new, most banks continue to adjust their models and to improve flexibility for their clients. However, even straightforward mortgage applications will take a lot longer to process. Borrowers, particularly those with complex or unconventional income would be advised to allow plenty of time in their search for the right lender, for engagement and provision of information through the fact finding phase and for the processing of their application. If affordability can be proved, however, an attractive deal should still be available.

Whether a borrower approaches a mortgage broker or a private bank is likely to depend on their personal circumstances. If they have an existing and good relationship with a private bank that provides mortgages, then that relationship and the bank's understanding of their financial circumstances should position them well to make a quick and successful application.

If they don't have a strong existing relationship or feel they'd like a broader search of the market, a mortgage broker should be well placed to match their circumstances to an appropriate lender. In many cases, mortgage brokers are likely to introduce clients to a subset of the private banks that they may have otherwise approached directly, so borrowers will want to consider whether the time and effort saved by the broker is worth any additional cost. – *Samantha Bamert, global head of credit and lending at Barclays Wealth and Investment Management*

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