Borrowing boost for the self-employed

Act fast as new mortgage deals may be short-lived, writes **Esther Shaw**

SELF-EMPLOYED borrowers and those seeking large loans are finding it easier to secure a mortgage as banks and building societies relax lending rules.

However, directors of limited companies who retain profits in the firm for tax or business reasons may still struggle to secure a deal on the high street.

Northern Rock, the state-owned bank, last week relaxed its rules on self-employed borrowers, requiring them to provide only two years' accounts, rather than three years previously. It has a five-year fixed-rate deal at 3.59% for those with a 30% deposit, with a £995 fee.

Leeds building society now requires only one year's accounts and evidence of future earnings. It has a five-year fix at 4.03% for those with a 20% deposit, with a £999 fee.

Kensington, the specialist lender, also requires only one year's accounts, though brokers said other providers, including Halifax, could be more flexible in some circumstances.

David Hollingworth of London & Country Mortgages said: "While the market remains tough for those with little evidence of income, we are seeing chinks of light, with some lenders now prepared to consider just one year of accounts and a projection of the next year's future earnings."

However, experts warned that borrowers may have only a narrow window of opportunity to pick up a deal. Aaron Strutt of Trinity Financial Group said: "Fears over the eurozone fallout could lead banks to reduce the funding for new mortgages, which would likely lead to a rise in rates and a clampdown on lending rules."

The self-employed have seen their options reduce markedly in recent years. Self-certification mortgages, which were known as "liars' loans" because borrowers did not have to prove their income, have disappeared.

There continues to be a problem for those trading as a limited company who choose to retain some of the profits in the business. They could find that the amount they can borrow is limited, as lenders commonly recognise only income drawn from the business as salary and dividends. Mark Harris of SPF Private Clients said: "Lenders were happy to recognise profits retained in a limited company prior to the credit crunch. Now, most of them will no longer let that count towards income."

Andrew Montlake of Coreco, the broker, suggested those affected should try the smaller building societies. "Lenders such as Kent Reliance and Harpenden have the ability to look carefully at an actual set of accounts and can examine the whole picture, such as retained profits," he said.

Ian Gray of largemortgageloans.com said private banks could be more willing to lend in more complex cases. However, many have a minimum loan of £1m and require assets to be transferred. He recommends Coutts and Barclays Wealth, which still offer to lend against Bank rate. Coutts has a two-year tracker at 2.49 points above Bank rate, so 2.99%, for those with a 20% deposit. It has a 0.5% fee.

The self-employed are not the only borrowers benefiting from a slight easing in lending terms. Those looking for larger loans received a welcome boost last month when Accord Mortgages, which is part of Yorkshire building society and available via brokers, raised its maximum loan size from £1.5m to £3m.

The lender has a two-year tracker at 1.59 points above Bank rate, so 2.09%, with a flat £3,990 fee for borrowers with a 25% deposit. It also has a best-buy five-year hybrid deal, which starts with a two-year tracker at 1.99 points over Bank rate, so 2.49%, before moving to a three- year fix at 3.69%. It is available to those with a 25% deposit and has a £995 fee.

PICK OF THE BEST-BUY DEALS

Lender	Rate	Type	Deposit	Fee	Accounts
Chelsea BS	2.39%	Two-year fix	30%	£1,495	Two years'
Kensington	3.99%	Two-year fix	25%	£999	One year's
Northern Rock	3.59%	Five-year fix	30%	£995	Two years'
Leeds BS	4.03%	Five-year fix	20%	£999	One year and a year projection
Halifax	2.64%	Two-year tracker	40%	£995	Potentially one year's
ING Direct	2.89%	Term tracker	25%	£945	Two years'

Source: Trinity Financial Group