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Lenders make it hard for the self-employed

Brokers warn that it is increasingly tough for contractors to get a mortgage

Anna Mikhailova Published: 28 October 2012



Mark Doherty, an IT contractor, eventually secured a mortgage via a broker (Murdo MacLeod)

SELF-EMPLOYED and contract workers are finding it harder than ever to secure a mortgage as banks tighten criteria.

The latest figures from the Office for National Statistics show that there are now over 4m self-employed workers in Britain — 5% more than in 2011 — and 1.5m freelance contractors and consultants. But banks have been criticised for not keeping pace with the changing labour market as it remains extremely hard for these borrowers to secure funding.

Last week Barclays Wealth, the private arm of the bank, hit self-employed borrowers by ruling that it would only recognise salary drawn from a business as income, rather than net profits, when applying affordability criteria.

Clydesdale and Yorkshire banks, both owned by National Australia Bank, cracked down on contract workers last week, announcing that they would only lend to those who have been employed in their professional field for at least two years. The group was previously considered one of the most flexible lenders for contract workers and the self-employed.

Another obstacle is the increasingly complicated paperwork needed to secure a mortgage, which can make it hard for applicants to gather up all the information they need, especially when they are trying to meet tight deadlines. Last week Woolwich, the lending arm of Barclays, said it would cancel residential applications if it didn't receive the paperwork requested within 15 working days.

Tom Matthews, a mortgage expert at Coreco, the broker, said: "We have seen a rise in the number of contract workers and freelancers, but lenders have been slow in adapting their underwriting criteria to deal with this."

Contract workers

As an example of the tightening lending criteria for people working on a freelance or contract basis, Clydesdale will lend to people in the banking industry only if they have been employed for two years and have a minimum contract rate of £100,000 per year. IT contractors are looked on more favourably, according to brokers, as are people working in oil and gas and in the medical profession. However, even people in these industries are struggling.

Mark Doherty, an IT contractor on a nine-month contract in Edinburgh, who has been employed in the same field for eight years, found himself with no options when he tried to get a mortgage.

"The immediate answer from just about everyone was no," said Doherty, 32, who had a 25% deposit. It was only after he went through SPF Private Clients, a broker, that he managed to secure his two-year fix at 4.69%.

Most lenders demand that contracts must have been renewed at least once and that the applicant must show an employment history of at least two years. Employers sometimes have to confirm in writing that the contract will be renewed.

Ian Gray at Largemortgageloans.co.uk, the broker, said: "The Woolwich used to look at contract workers on the same basis as the Halifax — based upon the daily rate as shown on the contract — but now they need to provide two years of accounts."

CVs are usually required and scrutinised. Gray said: "Gaps of a few months and for a reason, such as a voluntary stint travelling or studying, are usually okay. [But] if it is more than three months then it's very difficult for them to get a mortgage."

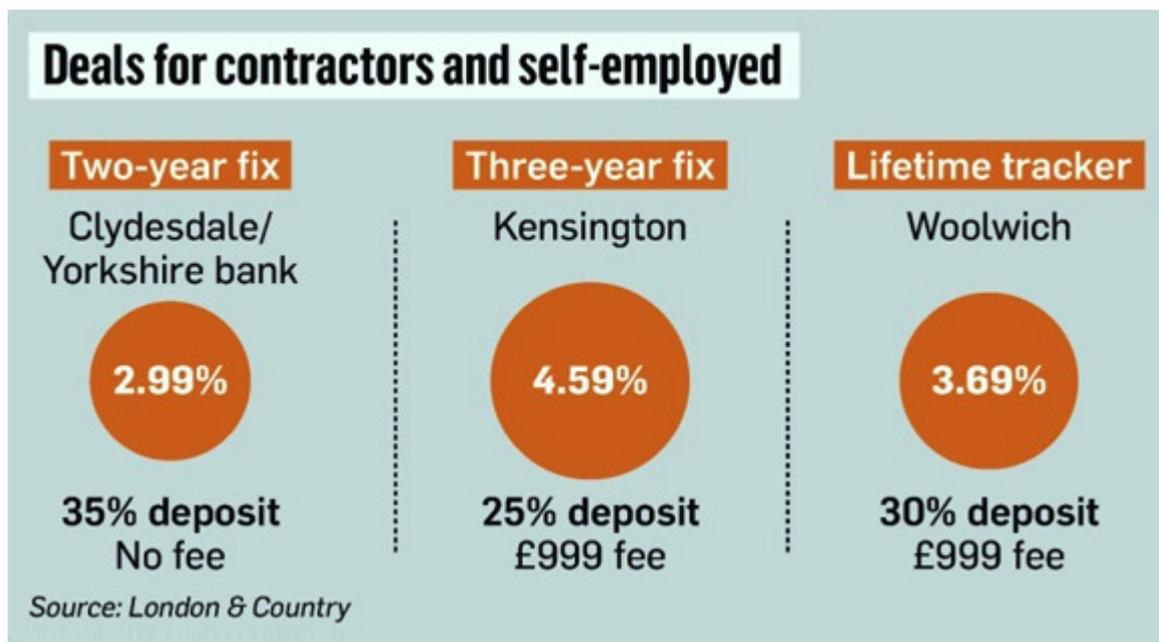
David Hollingworth of London & Country, the broker, said: "There are some lenders that will accept one year of accounts and a projection of earnings."

Leeds building society will take one year and a projection for people borrowing with a 20% deposit; it offers a five-year fixed-rate mortgage through brokers at 3.99% with a £199 fee. Kensington Mortgage Company is another lender that will consider one year's worth of accounts. It has a two-year fix of 4.29%, with a £999 fee, on a 40% deposit.

Self-employed

Over the first seven months of 2012, 7% of all mortgages from mutuals, which tend to look more favourably on self-employed applicants than high street banks, were for self-employed borrowers. The Building Societies Association said: "There should be no issue with someone who has been self-employed for a while, and has two to three years of audited accounts to demonstrate their earnings, in getting a mortgage."

Most lenders want to see the most recent three years of accounts. Some will take an average of the three



years, which means applicants can borrow far less than if the best year was taken into account.

Mark Harris at SPF said: "Computers cannot read accounts like

underwriters, and any dip in income is an immediate fail with some lenders. For example, if your income over the past three years is £80,000, £82,000 and then £78,000, the lender is likely to decline, even if it is a good average salary and the borrower is a good prospect, such as a GP. Accountants' letters explaining the figures are rarely accepted."

Coventry building society, Accord Mortgages and Kensington look more favourably on the self-employed. The private banks are also very good as they look at the complete picture and don't do automated underwriting, but applicants usually must have considerable wealth.

Students and academics

Anyone working in academia or studying for a postgraduate degree, and earning from lecturing and tutoring, will usually have an irregular income stream and find it very hard to secure a mortgage. Jonathan Harris, a broker at Anderson Harris, said: "This group have no salaried and long-term income and no track record of earnings.

"Banks prefer to look at what happened in the past rather than what is likely to happen in the future and can be very limited in the way they view mortgage applications," said Harris.

Those working in academia need to get their finances in order, he added. "If they can demonstrate that they have managed their financial affairs well during times when they have been studying and not earning, this will go down well with the bank.

"They need to think commercially rather than focus on their academic achievements, painting themselves as someone on the up who is going to prosper."