FINANCIAL TIMES

August 16, 2013 6:28 pm

Lenders soften stance on the self-employed

By Tanya Powley

Workers on fixed-term contracts and the self-employed are finding it easier to obtain a home loan as lenders ease their criteria, but product choice remains limited, according to mortgage brokers.

These borrowers have typically struggled to obtain mortgages in the five years since the downturn began, because banks and building societies mostly stopped offering so-called self-certification loans.

Dubbed "liar loans", self-cert mortgages did not require the borrower to prove their income and were therefore misused by some homebuyers to borrow more than they could afford. However, such deals were the only option for self-employed borrowers and others with irregular income.

As the number of UK contract workers has risen, more lenders are beginning to adapt their criteria to enable these borrowers to get a home loan.

"We have seen a shift in the way people work over the past few years, especially within the City of London where many traditionally employed people have switched to contracting or freelance," said Andrew Montlake, of mortgage broker Coreco.

Figures from the Office of National Statistics show the number of self-employed people in the UK has risen by 10 per cent since the start of the financial crisis, while contract staff now make up 14 per cent of the UK's workforce.

While contract workers have always been common in the IT industry, more investment bankers, accountants, lawyers and media staff are now employed this way.

"Lenders have been a little slow to understand this type of contract, which is after all not necessarily any more risky than an employed position. But it is pleasing that in recent months more lenders have begun to shift their criteria to cater for these working habits," said Mr Montlake.

In June, Halifax made its standard mortgage range available through its branches for contract workers who can provide evidence they have been in the same field for at least a year. Borrowers must have a contract where they earn at least £500 per day or £75,000 gross per year.

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Previously, Halifax only offered this to IT contractors and required other contractors to show at least two years' accounts and projected earnings for a third year.

The best two-year fix for borrowers with deposits – or equity – of 40 per cent or more is 1.89 per cent from Halifax, according to SPF Private Clients. This comes with a £1,499 fee. The lowest five-year fix for borrowers with deposits of 25 per cent or more is 3.19 per cent from Virgin, with a £995 fee.

According to Mark Harris of SPF Private Clients, many lenders are still not happy to lend to contractors and there remains a fairly limited choice of products. Those who will advance include Santander, Halifax, Woolwich, Clydesdale, Nationwide and Coventry Building Society.

"Lenders want to see a record of contracting, with most insisting that the contractor has done their job for a minimum time," said Mr Harris. "The length of the current contract is important, including the remaining time – most lenders look for at least six months left on the contract."

Clydesdale Bank will lend up to 90 per cent of a property's value to a contract worker, but they must have at least three years history of

contracting.

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For self-employed borrowers, most lenders still require at least three years of accounts – although some will lend based on two years.

"The self-employed with at least three years' accounts should have no problem securing an attractive mortgage, no different to the employed," said Nigel Bedford of Largemortgageloans.com.

"The only difference between employed and self-employed is that lenders will average increasing self-employed net profits over two or three years. For the employed, they will simply use current salary, which means that the self-employed are at a bit of a disadvantage," said Mr Bedford.

However, self-employed borrowers still need to make sure they have all their documents ready when they apply for a mortgage otherwise they could face a significant delay – and risk losing out on a property.

Springtide Capital, a mortgage broker, said it has seen a growing number of self-employed borrowers facing delays to their house purchase because they do not have the right documents when they apply.

Most lenders now require self-employed individuals to obtain the SA302 form from HM Revenue & Customs. This is a one-page document designed to demonstrate taxable income, but according to Mr Knight, it can take HMRC up to three weeks to supply it.

"Our advice to self-employed people is to keep their brokers informed at every stage of the process so that they can be as well prepared for this as possible," said Mr Knight.

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