

Mortgage Guides

by Key Mortgage Advice

Self-Employed

Talk to the experts

What do lenders class as self-employment?

- If you are a **sole trader** or in a **partnership**, banks will class you as self-employed.
- If you are a **share holding director**, you will also be classed as self-employed, if your shareholding is above a certain percentage. This is normally 20%, although this varies from lender to lender.

What is the main criteria when lending to the self-employed?

- Lenders will expect you to have been self-employed for normally at least 2 years, although there are a few exceptions, with some lenders accepting 12 months' worth of trading figures.
- Changing from a sole trader company to a limited company can sometimes start the clock again, as some lenders see this as a brand new business.
- When calculating what you can borrow, lenders will be wary if they see declining profits or a big jump in the last trading year.
- Lenders won't base borrowing on projections and will need completed accounts or tax returns to assess affordability.
- If your business liabilities exceed your assets, some lenders will not offer a mortgage to you.

How do lenders calculate affordability?

- If you are a sole trader, lenders will take your net profit figure to calculate what you can borrow.
- The above is normally worked out as an average over the last 2-3 years, although some lenders will consider using the latest years trading profit to calculate affordability.
- If you are a limited company director, most lenders will average out the last 2-3 years' salary and dividends you have paid yourself before they calculate what you can borrow.
- Again, some lenders will work from the most recent year if it is higher than the average.
- If you have not drawn available dividends from your profit, some lenders will consider using net profit after tax, along with the salary you have drawn, to calculate what you can borrow.
- Most lenders do not consider retained profits or income drawn from directors' loans.
- Lenders will ask to see your business accounts, SA302 tax documents and tax year overviews to calculate your overall affordability.

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Self-employed and wanting to apply for a mortgage?

This is what you need to have upfront to start an application:

- ✓ 3 months accounts - signed by you and your accountant
- ✓ Last 3 years SA302's ← Download from HMRC
- ✓ Last 3 years Tax Year Overviews
- ✓ 3 months personal bank statements
- ✓ 3 months business bank statements ← Download from online Banking site

**Need help?
Book your FREE
appointment with
us now!**

How to read your accounts:

A set of accounts can look different from business to business, but here are the main areas you need to be aware of when working out what you can borrow on a mortgage:

Turnover – This is the amount of revenue the business has generated during the accounting period. It is not profit and it is not taken into account by a lender

Gross profit – This is the revenue the business has generated once the costs of buying its product are deducted. For example if you are a shop keeper, the gross profit would be what you are left with once the costs of buying the food at wholesale was deducted. This figure is profit before other expenses and, again, is not used to calculate affordability

Profit before taxation – this is the profit the business has made once all allowable expenses are deducted. Some lenders calculate affordability based on profit before tax, others will work out your income based on profit after tax

Making a loss – If you see figures in brackets, this means the business made a loss

Dividends – If a limited company, the dividends paid to directors will normally show further into the accounts although it is not uncommon for this information to be omitted

The directors' salary will be shown at the back of the accounts in the expenses list.

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