

Contractor Mortgages – Frequently Asked Questions (FAQs)

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Contractors will rarely encounter obstacles in the way of securing a competitively priced mortgage as long as they choose a lender and financial adviser that understands how contracting works.

This is according to [Taj Kang](#), mortgages expert at [Contractor Mortgages Made Easy](#), who highlights that the reasons why contractors struggle to obtain a mortgage are rarely to do with their contracting status. "The contractor occupation is no barrier to mortgage applications," he says. "Contractors only encounter issues as a result of factors such as an impaired credit rating."

Kang has assembled a list of the top frequently asked questions he receives from contractors, and urges those who have experienced problems with mortgage applications, or who want to secure a competitive deal, to contact a financial adviser who is a specialist in contracting.

1. Can I get a mortgage if I am a contractor?

"Yes, is the short answer," confirms Kang. "Of course there are factors that impact on a contractor's eligibility, but just by being a contractor you should not expect to be turned down by a lender as long as they understand contractors and contracting."

However, Kang warns that factors that would prevent anyone from securing a mortgage, such as a poor credit history or a bad payment record will apply just as much to contractors as to employees.

2. Will a high street lender give me a mortgage?

"By all means go to a high street lender to satisfy your curiosity, but in most cases the lender will have issues with how income reaches the contractor," continues Kang. "High street lenders understand [dividends](#), but contractors who are tax efficient and only draw down a [minimum salary](#) and dividends to meet their needs won't look good."

This is because the contractor's net income averaged over two years will look low, even though their fee income may reach five figures. Kang also urges contractors not to formalise anything with a high street lender because if they conduct credit checks and subsequently refuse the mortgage, this will cause problems later on.

"We go to the same lenders you see in the high street, but at head office underwriter level. This means we are speaking to people with a bigger lending mandate and a knowledge of contractors and they use the contract to define a contractor's income," adds Kang.

3. Do I need three years of company accounts before I apply?

According to Kang, lots of contractors have the misconception that they cannot get a mortgage without three years of accounts. Whereas that might have been the case several decades ago, this is certainly no longer true.

"We can deal with someone who does not have three years of accounts as long as they are not new to their contracting profession," says Kang. "We include a copy of the contractor's contract, which clearly demonstrates their ability to earn, alongside a copy of the CV that demonstrates their expertise and future earning potential."

"For new contractors on their first or second contract, a CV with a strong employment track record is also sufficient to convince a lender of a contractor's earning potential."

4. Will I qualify for a competitive interest rate deal?

Not only can contractors qualify for the same sort of rates as employees: some lenders will offer even more competitive rates for contractors. Kang explains: "When viewed as a whole, the contractor lending market shows typically much lower rates of mortgage default than the wider market."

"This makes contractors less risky than other lending groups, and contractors can benefit from more competitive interest rate deals as a result. Not every lender has realised the benefits of lending to contractors, but there is no dual pricing for employees versus contractors."

5. What does 'self-certification' mean?

'Self-certification' was what the self-employed, small business owners and contractors used to do to prove their incomes. Kang notes that the practice of self-certification was banned in 2008 by the regulator at the time, the Financial Services Authority.

“There is a modern equivalent called ‘Fast Track’ that the Mortgage Market Review tried to eradicate. Until recently, some lenders applied this ‘Fast Track’ approach that means applicants with, for example, a strong application and high credit scoring can skip some of the mortgage application paperwork.

“However, lenders reserve the right to withdraw mortgage offers right up to the day the householders exchange contracts. What can happen is that the lender conducts some due diligence after the fast track offer has been made that causes them to decline the offer of funding.”

Kang has had good success in salvaging mortgage applications of this kind on behalf of contractor clients, but he strongly believes prevention is better than cure: “Contractors should ideally get it right first time.”

6. How is my application going to be looked at?

This is an important question for contractors, because many don’t quite know how to describe their employment status. Kang says that it is actually quite straightforward for contractors who are receiving the right advice, as most lenders now recognise a ‘third way’ for professional contractors.

Even though umbrella company contractors are employed by their umbrella company service provider and limited company contractors are similarly employed by their limited company and contractors are typically not self-employed [sole traders](#), more and more lenders are recognising professional contractors as a valid third way, and a much safer lending risk.

7. Do I qualify to be assessed for a mortgage on contract value?

As Kang explains, lenders who specialise in contractor mortgages typically assess the amount that can be borrowed on the annualised contract value: “Although each contractor is evaluated on the basis of their personal circumstances, generally they can borrow a multiple of their annualised contract value.

“However, they need to be in contract at the time of the application and must be able to demonstrate continuity. For example, if a contractor comes to us after having been on the bench for 18 months and just won a new contract, it can be challenging to help.”

Kang notes that new contractors can also qualify: “A contractor applying with their first contract can get a mortgage as long as they had continuity of employment before approaching us.”

8. How long does the mortgage application process take?

This is where a contractor specialist financial adviser differs from most brokers. Kang says that there is a two stage process. The first stage is the pre-approval and the second stage is the full application.

“In stage one, we approach the underwriters at the lender’s head office with the contractor’s contract and CV and secure feedback within 48 hours. This tells us how much the contractor can borrow and the shopping list of conditions that will accompany a full application.”

These might be a copy of the previous contract, two years of the contractor’s business bank statements, evidence of existing investment properties and so on. Mostly what the lenders require are personal bank statements and contracts. Assuming these can be satisfied, the lender and the contractor have an agreement in principle within two working days.

Stage two is the full application stage. As long as the preapproval has been completed successfully, the contractor can receive a full formal offer within a couple of weeks. Slower lenders may take as much as seven or eight weeks.

“We need to understand any critical deadlines and timelines at the start as that will influence the lenders we approach,” adds Kang.

9. I have a poor credit history – can you get me a mortgage?

“We do have options for contractors who have a poor credit history and need contractor underwriting for their mortgage,” confirms Kang. “We need to present a relatively positive picture of the contractor’s current circumstances and as long as the credit issues are historic and there has not been an issue within the last two years, we can usually find an option.

“There are lenders who don’t do credit scoring but just complete credit checks. Financial advisers with unrestricted access to the market and who are not restricted to just a handful of lenders should be able to find a solution. However, the contractor will pay a premium with an elevated interest rate as a result of their poor credit history.”



Taj Kang

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Taj Kang was formerly a Mortgage Consultant with 12 years of advice experience, and is now Business Development Director for Contractor Mortgages Made Easy.

Contractor Mortgages Made Easy are a specialist, mortgage and protection advisory service who have been servicing the needs of contractors and freelancers since 2004. [Read Full Profile...](#)

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Kang concludes: "If a contractor has any plans to buy a property or refinance it is important that they talk to a specialist contractor financial adviser as early as possible, even if their plans are 12 months away.

"That way we can find out early if there are any challenges and we can overcome them in plenty of time for the contractor to secure their mortgage when they need it."

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