

Had trouble as a contractor getting a mortgage?

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Contractors having trouble getting a mortgage could secure the funding they need to buy their new property by [applying via a contractor specialist financial adviser](#) that has access to lenders who understand contracting.

"Contractors may get turned down by their own bank because it is applying standard employee or self-employed evaluation criteria to their case," explains Taj Kang, mortgages expert at [Contractor Mortgages Made Easy](#).

"By using a financial adviser that specialises in contracting, contractors will get their mortgage applications in front of lenders' underwriters who are experts in lending to contractors and understand what contractors do and how they work."

Lenders will also turn down applications that have complications that may have nothing to do with the contractor, but don't fit the lender's standard model and are in the 'too hard basket' for the lender's team to solve.

Why do contractors get turned down for mortgages?

According to Kang, contractors are often turned down for mortgages because they approach their own bank, which looks at their earnings and determines that they fail the affordability test.

"We have frequent examples of contractors who come to us because their [low salary and modest dividend](#) showed half the earnings they needed. High street lenders won't understand, for example, the £85,000 of retained profit in the contractor's business and that this signifies that a contractor can more than afford their mortgage."

Kang notes that most lenders effectively 'outsource' non-standard lending to specialist brokers: "Lenders take a very two dimensional approach when contacted directly, whereas via the broker channel they can be more flexible as it is not their staff having to deliver advice to niche clientele. They would rather outsource this advice to people who know it better."

What do lenders look for in a strong application?

Kang highlights that whilst advice and some processing may be outsourced, many lenders have underwriting teams that understand their markets very well: "One lender has two London-based underwriters who deal exclusively with our business. We have a similar set up with other larger partners.

"Underwriters will delve into the technical content in a contractor's CV that has been supplied in support of a mortgage application. They are not experts in IT, but they understand what a project manager or developer does, what technical skills they need and who the leading clients are."

So, contractors must ensure that their CV is up-to-date and accurate, containing industry experience, relevant qualifications, previous roles and showing no gaps. A lender's underwriter will spot out-of-date CVs and this could impact negatively on the mortgage application.

What complications can get a mortgage application turned down?

Poor credit history, career gaps and undisclosed credit are just some of the reasons that lenders will refuse a mortgage application but which can be fixed if a contractor has gone to the right financial adviser.

There can be other complexities that will result in a lender's underwriters turning down an application. Kang gives an example: "The way that traditional lending works when it comes to flats is that the lender is happy for the borrower to be the leaseholder, but not the freeholder.

"This is because as the freeholder, you have certain obligations for the whole building. For example, if something goes wrong with the roof, the freeholder or management company would have to put it right, and also fund the process. This represents a potential liability.

"We had a contractor client who owned the top floor flat in a two apartment building and was applying for a mortgage to buy the bottom floor flat, which would also have led to the contractor acquiring the whole building including the freehold.

"The contractor had gone direct to their bank and the lender initially turned down the application. A lot of brokers would simply walk away from this scenario because it is too complicated.

"There is a solution to this issue that, when the contractor came to us, we were able to implement. You get the current freeholder to set up a management company so that there is a separate legal entity that is the freeholder and who is not the borrower. This is a simple solution to a surprisingly common situation."

High earning contractors can fail affordability tests

Another example is a financial IT contractor whose principal residence was in Warwickshire but who routinely works on contracts with clients based in London's Canary Wharf. This is not a commutable journey, and rather than waste money on a rented room, B&B or hotel, the contractor decided to buy a property in Essex with a short commute.

"When this contractor approached her bank," continues Kang, "the lender said that the contractor was already paying out £1100 a month on the property in Warwickshire and their taxable earnings could not support an additional £1200 a month for a property in Essex. It would not lend the £150,000 the contractor needed and only agreed to £61,000.

"The contractor has seven years of trading accounts and on paper their income is only £43,000 a year, based on salary and dividend draw. However, they were earning £320 a day, so when the contractor came to us for a solution we approached a lender that used a grossed up multiple of contract rate to determine what they would lend.

"Based on this calculation, the contractor's income was £76,800 and the lender was happy to move forward. The contractor now has an investment property as well as saving money on accommodation when a contract takes them to London. This is a very common example when you get contractors working in London whose home is further away."

How contractors can help make mortgage problems go away

As Kang explains, the simplest way for contractors to make their mortgage problems go away is to approach a contractor specialist financial adviser at least six months before they will need their mortgage.

"The specialist financial adviser will both understand how a contractor works and how best to present their finances. The adviser will also have access to specialist underwriters who similarly understand contractors.



Taj Kang

Mortgage Specialist

Contractor Mortgages Made Easy

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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"The lead time enables the adviser and contractor to go through the lenders' lengthier evaluation processes that have been introduced since the [Mortgage Market Review](#). That way, they can be sure that they have the funds agreed before they start looking for their property, and avoid the disappointment of being turned down."

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