

Contractor mortgages – assessment and qualification criteria

[Get mortgage quotation now](#)

Contractors seeking a mortgage offer from a UK lender to buy their next or new home or to acquire a buy-to-let property as an investment must comply with a range of assessment and qualification criteria.

"An experienced and high quality mortgage adviser is usually in a position to help most contractors over the hurdles of the mortgage application process," explains Taj Kang, mortgages expert at [Contractor Mortgages Made Easy](#) (CMME).

"As soon as a contractor decides they want to move home or buy a new property, they should immediately engage with their mortgage adviser. This will ensure they have a mortgage offer in place and know what they can afford before they even begin house hunting."

What are the 'mortgage showstoppers'?

Kang warns that there are what he describes as "mortgage showstoppers", which from the outset may prevent a contractor from successfully applying for a mortgage. Although he stresses that there may be a successful outcome for some contractors if they engage with a financial adviser early enough.

Kang explains: "It is quite reasonable for lenders to fully understand a contractor's financial position and expect full disclosure. So, if a contractor is not currently in a contract and cannot prove their income from conventional means, such as trading accounts or payslips, then the lender has no reference point for current income."

'Serious' bad credit issues can also be a barrier to securing a mortgage offer. Kang defines 'serious': "If a contractor has historic issues such as CCJs and missed payments, then we can still get lenders to make a mortgage offer. The lender may require a larger deposit and the contractor may be penalised on the rate, but there are usually ways to get a mortgage."

"However, if a contractor has recent and/or still current bad debt, such as CCJs or defaults, a discharged bankruptcy or a debt management plan outstanding and the credit problem originally occurred within the last two years, then it tends to be very difficult to get a mortgage."

Bankrupts must be discharged – an undischarged bankrupt cannot get a normal bank account and would not be offered any credit. However, the more historic a bankruptcy, then the less of an issue it would present. "A contractor would still need to provide an explanation as to why the bankruptcy occurred," adds Kang.

Contractors who pay no UK tax cannot get a mortgage

There is one more mortgage showstopper that Kang comes across surprisingly frequently, and there are rarely any solutions: "If a contractor pays absolutely no UK tax then we cannot place their mortgage request."

"This occurs with, for example, financial contractors based in countries such as Sweden and Switzerland where they cannot channel earnings overseas into their UK limited company."

"Oil and gas contractors are also quite frequently in this situation, particularly if they are working in locations such as the Middle East or countries like Kazakhstan where they pay absolutely no tax at all. The lender says the individual is not paying UK tax and is too risky as to protect their favourable tax situation they may not return to the UK."

With nearly all of the mortgage showstoppers, Kang says a solution can sometimes be found if the contractor contacts their mortgage adviser early enough. In cases where no solution is possible, then this early contact also ensures the contractor knows from the outset that they must fund their property purchase using other means.

What contractors need to start the mortgage application process

According to Kang, having established that there are no mortgage showstoppers, the next step in the assessment and qualification process is to confirm basic income details: "Ideally a contractor will have a current contract, an up-to-date CV showing many years of successful contracts, and copies of their past contracts that can be accessed if the lender needs them."

"But not every mortgage applicant is in this position. Many may have a contract just issued but might not be working yet. Others are making the transition from employment to contracting and their increased income has prompted the desire to change property."

"As long as the contractor has a signed contract to start after they finish winding down their employment, then lenders are happy to do the underwriting on that new contract income. The CV and contract will secure an agreement in principle. The real work begins when we start gathering all the information that

the lender's underwriters have requested."

Lenders usually require full disclosure

Typically, a contractor should expect to supply originals or copies of:

Current contract and CV

Historic contracts, depending on the contractor's profile

Latest three months of personal and business bank accounts statements

Evidence of the deposit to be paid for the property, if it is to come from savings

Proof of ID, such as a passport or driving license

Proof of address, such as a utility bill or council tax bill.

Sometimes, if there is a second applicant who is not a contractor such as a partner or spouse, then they may have to supply bank statements and payslips going back three months.

Bank statements are of greatest importance for lenders

"The [Mortgage Market Review](#), a review of the mortgage lending market by the financial regulator that led to tough new rules on mortgage lending in 2009, places great emphasis on bank statements as they show affordability," continues Kang.

"Affordability is the MMR's top priority and is based on an analysis of a contractor's bank accounts. So, this is when it is important that the snapshot of the contractor's finances shown by the bank statements demonstrate the affordability of the new debt."

What not to show a lender in your bank statements

Kang has another list of 'don'ts' for contractors: transactions that will either halt a mortgage application in its tracks, or require a lot of explaining and potentially more documentary evidence to overcome. These include:

Pay day loans: "This smacks of desperation," notes Kang

Jobseeker's allowance payments from the DSS: "If this is accompanied by a contract for the last three months, then something is not right."

Gambling

Overdrafts where for a large part of the month the contractor's account is in the red and not in the black.

Kang highlights that there are other pitfalls relating to documentation, such as ID and proof of address: "If a contractor has adopted an unofficial name that has crept into usage on bank accounts and contracts, but differs from a passport or birth certificate, then this can cause a problem.

"Often, a contractor has to go to their bank or utility supplier and get the name changed to their official name so the documentation is consistent. Contractors who move around a lot can also have problems proving their address history. If a credit report shows they lived at a certain address, then they need to be able to prove they lived there with a bill in their name at that address."

Evidence of deposit

One of the final hurdles that contractors will encounter during the assessment and qualification process is providing evidence of their deposit. Kang explains: "If the deposit is coming via the sale of another property, then the contractor's solicitor will be able to confirm the deposit.

"If the deposit is coming from a contractor's savings or deposit account, then due to money laundering regulations, the lender needs to investigate to confirm it is actually the contractor's money.

"There is zero flexibility from lenders on this score, which is why it is vital that a contractor engages with an adviser right from the start. If the money is coming from overseas or a business, then the contractor has to be able to prove to the lender that it is their money."



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...](#)

[View all our experts](#)

Kang concludes: "Preparation is key and most barriers can be overcome if the contractor's adviser is involved early and has all the facts. Then, when they have their mortgage offer, the contractor can go searching for their dream home and not be disappointed when they find it but can't secure a mortgage."

Published: Wednesday, June 17, 2015

© 2016 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#).



ABCe verified website - last audit confirmed 134,482 monthly unique visitors

© Copyright 2016 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)