

## Contractor mortgages: mortgage products available

[Get mortgage quotation now](#)

Contractors can access a wide range of mortgages, but these are generally not available when you approach a high-street lender directly. "Often branch staff simply don't understand the contracting sector," says [Taj Kang](#) of [Contractor Mortgages Made Easy](#) (CMME), the specialist mortgage broker that specialises in advising contractors.

The good news, though, is that going through a contractor specialist means that contractors can often be offered a higher loan than permanent employees would.

Once contractors have chosen to opt for either a repayment or an interest-only mortgage, they then have a number of choices regarding the type of mortgage 'product' and resulting interest rate that is likely to be applied to their mortgage.

### Contractor mortgage products and interest rates

"Interest rates are generally determined by the [Bank of England](#) base rate," explains Kang. "So, for example, a lender's Standard Variable Rate (SVR) to be charged on standard loans and mortgages will tend to fluctuate according to the base rate. This makes a mortgage more expensive as the rate increases and cheaper as it goes down."

The major mortgage products available for contractors include:

**Fixed interest mortgage:** Also known as a fixed-rate mortgage, the interest is fixed for a specified period after which the lender's SVR applies. The SVR could be greater or lower than the contractor's fixed rate. The advantage is that the contractor knows that their mortgage payments cannot go up during the fixed-rate period, making budgeting easier.

**Variable rate mortgage:** A lender's variable rate mortgages can track the base rate, but they are not obliged to do so, and there are several variable rate mortgage products, which include:

**Variable Rates/Standard Variable Rates (SVRs):** usually higher than most 'tracker' rates and generally fluctuate according to the base rate and by the commercial needs of the lender; good when rates are high as lenders will sometimes absorb some of a peak in repayment costs for borrowers but less so when rates drop dramatically as the lender will try and preserve some of its margin

**Tracker rates:** will be set at a rate above the base rate, e.g. base rate plus 2%, and will track the base rate precisely; often lower than SVR

**Discounted rates:** the lender agrees to discount the SVR by a certain number of percentage points over a certain period and then reverts to SVR or a higher tracker when the term expires

**Capped rates:** the rate can increase or decrease, but cannot increase over a set level agreed with the lender so it can be a useful tool for contractors on a budget, whilst allowing them to benefit from rate reductions.

**Offset mortgage:** Offset mortgages will take into account the balance of linked accounts such as a contractor's savings or current account balance when calculating interest on the mortgage loan. If a contractor has significant savings, the 'negative' mortgage balance will be reduced by this amount so interest on the debt balance overall will be lower. Contractors putting aside personal cash for income tax liabilities can use this money for an offset mortgage, but business funds cannot be used unless you are in the unlikely position of being self employed.

**Flexible mortgage:** Flexible mortgages allow contractors to over-pay, take payment holidays and generally finance their mortgage according to circumstances. For example, if a contractor is working on a contract with high rates, they can overpay, and then take a payment holiday between contracts. By regularly overpaying, contractors can significantly reduce the total amount of interest they pay and the length of the mortgage. Often the key mortgage types mentioned above will also benefit from a degree of flexibility.

### Contractor deposits and 'loan-to-value'

Lenders generally require contractors to provide a cash deposit of at least 10% of the value of the property and will provide the remaining 90% as the mortgage loan. If the lender has provided 90% of the funds to buy the property, then the 'loan-to-value' (LTV) is 90%.

Generally, the higher the loan-to-value (LTV) is, the higher the interest rates. With a lower loan-to-value, where for example a contractor has provided, say a 25% cash deposit, they will generally benefit from more competitive interest rates. That's because, in the lender's eyes, these borrowers represent less of a risk. Mortgage products that allow 100% loan-to-value, or even greater, are no longer available.

A contractor's credit history will also have a major impact on whether they will qualify for a mortgage. Even a few missed credit card payments could impact negatively on personal credit ratings; County Court Judgements (CCJs) and bad credit histories will almost certainly disqualify a contractor from accessing the most competitive mortgage deals.

"Contractors are not only able to access the same range of mortgage options as employees, but in some cases lenders will offer exclusive deals that are superior to the rates that a permanent employee can secure," says Kang. "But contractors should always seek professional advice and ensure that their financial adviser or mortgage broker is a specialist who deals with lenders that are able to offer contract based underwriting."

“  
Contractors are not only able to access the same range of mortgage options as employees, but in some cases lenders will offer exclusive deals that are superior to the rates that a permanent employee can secure ”

Taj Kang, CMME



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](#)

For a more general round-up of contractor mortgages, see the ContractorCalculator article, "[a guide to mortgage options for contractors](#)".

Updated: Wednesday, April 15, 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](#)