Remortgage market picks up with new opportunities for contractors

Following six months of tough market conditions, mortgage lenders have started to ease their lending restrictions and expand their range of mortgage products.

Contractors who are approaching the end of their fixed rate or tracker mortgages and want to change lender now have more options; but new applications are taking longer to process due to tighter lending criteria, so leaving it to the last minute could leave contractors out of pocket.

"Mortgage lenders drastically cut their new business requirements six months ago when it was feared they would not be able to find finance to underwrite new mortgages," explains an expert independent financial adviser (IFA). "Many lenders were also unsure as to how exposed to bad debt in the US they really were."

According to the IFA expert, mortgage lenders are cautiously dipping their toes back into the market: "We have been seeing more products becoming available, but nothing like a year ago."

No more freebies

"Although many lenders are no longer actively discouraging new business like they have been," continues the IFA expert, "they are not providing as much support, such as free valuations and legal fees, as before. But at least there are new products emerging with competitive rates, which is a significant improvement."

The mortgage market had moved on greatly from the rationing of the 1970s and 1980s to liberalisation in the early 1990s, which led to an explosion of new lenders and a 'land-grab' by lenders to capture as many new customers possible. Over two decades mortgage finance swung from under supply to over supply.

"Lenders left no margin for risk in their portfolios when offering 100% mortgages and accepting borrowers with adverse credit ratings or who can't prove their income," says the expert, "and it is likely that the market going forward will price for these risks."

Remortgaging

As contractors get closer to the point when their fixed rate or tracker mortgage expires they face the prospect of transferring to their lender's standard variable rate, the IFA expert warns that this is definitely best avoided: "Contractors who find themselves moving to their lender's standard variable rate may be in for a shock, as the monthly payments can increase substantially."

So what should contractors do as their mortgage deal is nearing its end? "Don't leave it too late," advises the IFA expert, "allow at least two, preferably three months before the deal expires to find a new one."

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There are three obvious routes for contractors to try when seeking a new mortgage deal:

Use an online comparison site

Talk to an independent mortgage broker

Speak to the existing lender.

"Comparison sites can be great if you are a regular, permanent employee," warns the IFA expert, "but what they don't tell you are the qualification criteria, and many sites simply can't cope with providing a quote to anyone who doesn't have a regular income, like professional contractors."

So what about the other options? "Mortgage brokers have access to a huge number of products and can check eligibility criteria, saving contractors time and trouble," adds the IFA expert.

As for a clients existing lender, contractors should be aware that they frequently do not make competitive 'new customer' deals available to existing customers.

Once a contractor has identified an attractive product, it then generally takes about six weeks to prepare the paperwork, submit an application and receive an offer. That is why the IFA expert recommends contractors start their search early.

Contractors – employed or self-employed?

There can also be other complications: “Unfortunately, contractors inhabit a place that is not quite employment and not quite self-employment,” says the IFA expert. “And of course, any contractor **running a limited company** is being advised by their accountant to keep their salaries and profits low to reduce corporation tax. This means that many lenders who don’t know the contracting market are nervous about lending to contractors.”

A mortgage broker can help in these circumstances; but beware, as many mortgage brokers charge contractors for the advice. Not all do though – many take their introduction fee from the lender.

Where contractors do find it difficult to demonstrate their income is as steady as a full time employee’s, some lenders insist on self-certification, which can lead to lenders charging higher interest and insisting on a larger deposit.

Multiple of contract rate

According to the IFA expert, new models have been developed that may grow to be the preferred solution for contractors: “Some IFAs are able to short-circuit traditional, company accounts based income verification and instead work using the contract rate alone, having negotiated specialist underwriting for their financial products.”

Basically, a contractor can apply for a total mortgage, or remortgage, that is a simple multiple of their current contract rate. This gets around some of the issues thrown up by tax-efficient accounting methods that lead to contractors’ incomes appearing on paper to be quite low. And the service is not just available to established contractors, as the IFA expert confirms that a new contractor just a week into their first contract could also apply: “The largest variable, income, is removed and so nothing is left open for interpretation.”

Although the market is moving slowly, at least it is moving, which again provides contractors with the ability to find reasonable mortgage deals.

Published: Monday, September 15, 2008