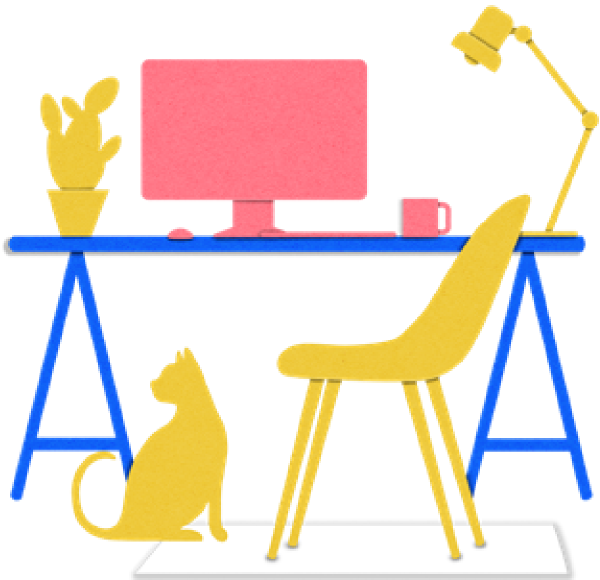
Self-employed lending - our approach

A self-employed lending policy that's flexible and true to life

Lending to self-employed clients is an important part of our business. We understand the challenges faced by your clients so our underwriters look at each case individually.

With more and more people choosing to work flexibly, we're here to support your self-employed clients with a range of residential repayment and Interest-only mortgages.



Our policy

We ask for proof of income over two years, but only use the latest year's figures to determine income (unless the two figures vary significantly).

For Limited company directors with 20% or more shares, we take their share of net profit (after corporation tax) + salary rather than dividends into account – so your clients could borrow more.

And we have a policy specifically for daily rate contractors so we can calculate affordability based on your client's day rate.

Our flexible Interest-only and Repayment product range

Products such as Offset and our tracker rates offer self-employed clients added choice and flexibility – and some products have no ERCs.

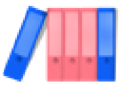
You'll find the important bits of our policy and case studies in this leaflet.

Directors with 20% or more shares

We use net profit after corporation tax + salary (rather than dividends) to calculate income. It often means your clients can borrow more.

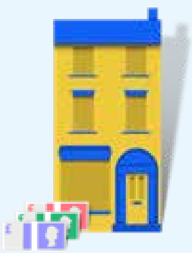
Income – calculated using net profit + salary
Net profit after corporation tax

Trading – minimum 2 years
And 2 years' proof of income



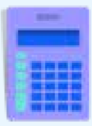
Latest year's figures determines income
Unless the figures vary significantly

- We need to see an accountant's certificate covering the most recent two-year accounting period.
- The latest financial year on documentation should be no older than 12 months (or 15 months with supporting bank statements).



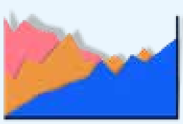
Julie is a director of a limited company that provides computer equipment to businesses. She's a 50% shareholder and wanted to remortgage with some extra borrowing.

Her broker found that other lenders would assess using her salary + dividends.



But Julie and her partner in the company have limited the amount of dividends they've taken and this has left her unable to borrow the amount she needs.

We assessed Julie's case using her share of net profit after corporation tax plus salary, rather than dividends.



We also based our lending on the company's last year's profits, rather than an average of the last two accounting periods, because there wasn't a substantial difference between the two.

Taking into account their share of net profit after deduction of corporation tax plus salary allows clients to leave money in the business – they don't need to draw everything out of it.

Daily rate contractors

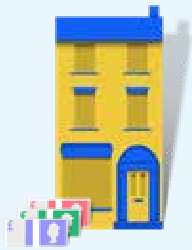
We use their day rate to calculate affordability.

Income – minimum £50k gross
Daily Rate x 5 days x 41 weeks or equivalent if monthly/hourly rate unless otherwise specified on contract

Experience – minimum 12 months
Contracting in the same line of work

Current contract – minimum 6 months remaining
Or 24 months' continuous employment in the same line of work

- If your client doesn't meet the criteria, we could still lend to them on a self-employed basis, but using our policy for sole traders or directors with 20% or more shares.



Cameron is a director of his own limited company, but has been working as a daily rate contractor for two years.

He's just signed a new 12-month contract working as an IT consultant and wants to buy a bigger house.

Some lenders would assess him as a limited company director. But under our policy for daily rate contractors, he could potentially borrow more.

We assessed Cameron for affordability using our DRC calculation – day rate x contracted number of week days (as per Cameron's contract) x 41 weeks – happy to lend him the amount he needed

If Cameron hadn't met our DRC criteria, we could still have treated him as the director of a limited company with more than 20% shares.

But unlike many other lenders, we'd have taken into account his share of net profit after the deduction of corporation tax plus salary.

Sole traders

We take into account their share of the latest year's net profit to determine income.

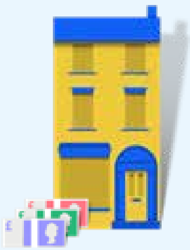
Income – calculated using share of net profit

Experience – 2 years as business owner
And 2 years' proof of income

Latest year's figures determines income
Unless the figures vary significantly

Includes LLPs and sub-contractors.

- We need 2 years of HMRC tax-year calculations, plus Tax Overviews or latest SA302s.
- The latest financial year on documentation should be no older than 12 months (or 18 months with supporting bank statements).



John and Helen are both sole traders. They were looking to remortgage their home and hoping to borrow up to the highest amount based on the lenders affordability calculations

John is an international speaker and Helen is a business consultant. Their incomes have increased gradually year on year.

Most lenders would take an average of the last two years figures for affordability, but we use the latest year unless there's a substantial difference between the two.

There wasn't a significant increase between the latest years self employed income and the year before, but it was enough to make a difference to their mortgageable income.

0800 121 7788 Monday to Friday 9am - 5pm

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