KINNISON
PROPERTY FINANCE EXPERTS

Mortgage Market Update – COVID-19 Self-employed and Partners

For the self-employed/partners either with an existing mortgage looking to remortgage or those purchasing a new home, the big question is, how will lenders review their position and assess their affordability? In recent years a number of lenders have broadened their product offering and introduced greater flexibility to facilitate lending to borrowers who do not earn regular salaried income. During the current COVID-19 period this lending approach is being impacted and may take some time before all lenders return to the levels of criteria, pricing and underwriting we have come to expect. However, there is still appetite to lend to this expanding group of borrowers and it's critical that they approach the right lender who has the mortgage product which meets their personal financial circumstances.

How have lenders changed their policies for lending to self-employed borrowers?

Unfortunately, mortgage lenders have not adopted a consistent approach towards the self-employed. Most have tightened up significantly and seem quite concerned about all self-employed borrowers, for instance, some lenders are asking for a minimum 15-20% deposit on purchases, certain types of income eg commission income, are not being recognised at the moment, and some have imposed caps on the amount they'll lend on any application until things improve. Generally speaking, most are asking to see your latest three months' business bank statements and are looking for a level of turnover which seems consistent with your previous few years' turnover. However there are some lenders who have avoided making significant changes to their lending policy and adopted a "business as usual" approach with additional questions about the viability of your business going forward.

I am a partner at my firm. How will lenders assess my affordability for a mortgage?

If you're a partner of a firm such as an accountancy practice, assuming your firm is still operating and you are still being paid, then we've not seen any significant changes to lending policies which would affect you in particular. Some lenders have lowered their loan to values across their lending product and some may not take into consideration anything but your basic drawings or fixed salary. If you're looking to borrow no more than 4.5 x your gross annual fixed draw or salary, then we can still look to apply for your mortgage today. If your compensation involves a significant element of variable partnership profits/bonuses/commissions, the application process could be more complicated, however there are lenders who will consider a well prepared detailed mortgage application.

My business been forced to temporarily cease trading, how will this affect my ability to get a mortgage?

If your business has been temporarily forced to close then most lenders will not accept a mortgage application until you can demonstrate at least three months of turnover after you've been able to resume business activity. However, given the government's recent changes to the lockdown, there are some flexible lenders who may consider your position if you can demonstrate a compelling reason to show that you're on the cusp of beginning to operate relatively normally. If you need to apply for a mortgage we would be happy to discuss with you how to approach them.

How does the Self-Employed Income Support Scheme (SEISS) affect my ability to get a mortgage or re-finance my existing mortgage?

It is very likely to affect a current or near-future mortgage application, lenders are adopting their own specific approach in assessing your ability to afford the mortgage. On one end of the spectrum, many lenders are refusing to recognise any of your past years' net profits at all if you've applied for support now. Other lenders may recognise the amount you're receiving from the scheme as income to support your mortgage application, as long as you can prove that you usually earn this much or more by providing evidence of historic net profits for at least 2 years in your business.

If my business is required to take a Bounce Back Loan (BBL), how will this affect my ability to get a mortgage or refinance my existing mortgage?

The future expense/cashflow involved with servicing the BBL – interest and repayment of the amount borrowed – will be factored into the analysis of what lenders feel you're likely to earn as far as net profits available to service the mortgage you're applying for. If you're considering applying for a residential mortgage or refinance an existing mortgage in the next couple of years careful consideration needs to be given before applying for the loan in your business. We can help you understand the effect the added business expense might have on your ability to get what you need for a residential mortgage.

Generally if you're looking at a larger mortgage, say over £1,000,000 then we also have access to private banks who have been far more pragmatic and understanding of specific situations in the last few months.

Whilst lenders are keen to assist self employed/partners with your financing requirements, they are experiencing significant pressure on their staff resources. As such most are relying on and working more closely with external mortgage advisers who can prepare all the information required for the mortgage approval process. A carefully prepared mortgage application detailing your financial circumstances and relevant information about your business can certainly increase your chances of getting the financing needed.

If you are currently looking to finance the purchase of a new home or to refinance your existing mortgage, or would just like to discuss your personal position and current options please contact the Kinnison team at www.kinnison.finance or directly at e: info@kinnison.finance ; t: +44 (0)20 3871 2823

In the upcoming ICAEW webinar on 17th June 2020 we will provide a more detailed update on the mortgage market, take a look at the approach lenders are taking towards the self employed/partners and borrowers looking to move up the property ladder and the options available for individuals approaching retirement or in retirement.

The above information is our understanding of the position as at 21st May 2020. Both the government and lenders are introducing changes on a regular basis.

Your home or property may be repossessed if you do not keep up repayments on a mortgage or any debt secured upon it.

Through our partnership with the ICAEW we have a dedicated mortgage advisory service for ICAEW members, through Kinnison Limited, offering our bespoke service at a significantly discounted fee structure.For mortgages below £750,000 our typical fee is £498 (£199 payable on application and £299 on completion). For more complex cases and mortgages above £750,000 our typical fee is up to 0.6% of the mortgage amount. Of this, 20% is payable when you receive your mortgage offer and the balance of 80% on completion. For example on a mortgage application of £800,000 the fee would be £4,800 in total. Of this, £960 (20%) would be payable on issuance of your mortgage offer and the balance of £3,840 (80%) on completion. The total fee is non refundable. We may also be paid commission from the lender.
These fees apply to mortgages regulated by the Financial Conduct Authority. The Financial Conduct Authority does not regulate most buy-to-lets, commercial lending and some bridging finance. Fees for non-regulated mortgages will vary depending on your requirements and individual circumstances.

Kinnison Ltd is an appointed representative of HL Partnership Limited which is authorised and regulated by the Financial Conduct Authority