Self-Employed Home Loans

These days more and more Aussies are working for themselves, either running a small business or as a freelancer in the gig economy.

Let's talk about getting a home loan when you're self-employed.

Home Lending For The Self Employed

What lenders are looking for comes down to one basic question. Can you repay the loan?

In practice, there are 3 things they'll examine. Your credit history. Your current financial position. Your employment record, so let's focus on that here.

THE BASICS

How long have you worked for yourself?

The longer you've worked for yourself (or even worked in your industry as an employee), the easier your application process is going to be.

Longer than 2 years in your own business is ideal, but there are a few lenders who will support a well-qualified application under 2 years. Your broker will know who they are.

How much can I borrow?

If you have 1-2 years of tax returns, lenders will generally provide up to 95% of the property value. And up to 80% if you've worked for yourself less than a year.

How will lenders calculate my income?

Some lenders look at your worst recent year, others look at your most recent tax return, and some will use an average of several years. Some lenders also consider whether you're a sole trader or a company.

What documents will I need?

Often what the lender wants to see are personal and business tax returns (with accompanying notices of assessment) from the last 2 years, along with P&L statements, and the dates on your ABN and GST registrations.

You might also be asked for any of these: old payslips, references from past employers, BAS, balance sheets.

HANDY TIPS

"Low doc" loans for the recently self-employed

If you’ve recently branched out on your own after several years of employment and don't have a long enough record of financial stability, a low documentation (“low doc”) loan might be available if you have a 20% deposit - or 10% with some lenders. After several years, you may be able to switch to a “full doc” loan with a more attractive interest rate.

How to protect your credit score

You can avoid adding repeated rejections to your credit history by consulting a mortgage broker who will only apply on your behalf to one lender at a time.

Depreciation and director’s fees

Some lenders don’t automatically include these but they can boost your real income, so if your broker draws this to their attention, it will increase your income… making you a better loan prospect.

Add-backs can boost your borrowing power

These are expenditures that are not part of your normal business operations, so those amounts can be added back when they’re calculating your overall income position. What they will allow varies by lender, so be completely open with your mortgage broker so he can work to get you a great loan.

BEST ADVICE

Because there are so many variables here, and not so many lenders, do yourself a favor. Have a chat with one of our mortgage specialists. It’s free. And there’s no obligation. Give us a call on ...