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# Guide to Mortgages for Independent Contractors

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Managing Director: Robert Whelan. Registered in Ireland, Reg No. 519211. Rockwell Financial Management Ltd trading as Rockwell, Humdinger Mortgages, is regulated by the Central Bank of Ireland (C117291).

## Deciding to go Contracting doesn't mean you're giving up the chance to get a mortgage.

A mortgage is the most important and probably largest financial decision you will make during your lifetime.

Contractors are no different to any other person who's decided to become self-employed and as such the banks are very happy to deal with you on the same terms as they do anyone else not in a permanent capacity.

We've outlined in this booklet the Top 5 Questions Contractors have with respect to getting a mortgage whilst also providing some tips as **'Do's and Don'ts'.**

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# Universal Criteria for Mortgage Applications

It's worth stating from the outset that there are common criteria which everyone has to comply with (irrespective of employment status) when applying for a mortgage.

## 1. Deposit

Applicants will always be required to put down a deposit in order to qualify for a mortgage. The criteria don't change just because you are a contractor. It's 10% for everyone.

## 2. Loan to income

You are capped at 4 x your income. If it is a joint application then this is the joint amount. The banks are in a position to offer exceptions to this rule but only for a limited % of mortgage applications.

## 3. Repayment capacity

The Banks will want to see that you have clearly demonstrated a capacity to repay the mortgage you have applied for. They stress test this repayment by assuming a 2% increase in the mortgage interest rate and will want to see that you have been able to live without the amount for at least the previous 6 months. You can demonstrate this in the form of a rent payment, savings accumulated over the period or a loan repayment which is due to finish prior to the mortgage being drawn down.

## 4. Credit history

All mortgages are underwritten based on your previous credit history. Whether you are contracting or not, if you have had any issues with this in the past you will find it difficult to navigate past this when it comes to getting approval.

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# Top 5 Questions

### 1. How long do you need to be contracting to get a Mortgage?

Here's the GREAT news! Whether you are an Umbrella Company Director/Personal Limited Company Contractor or PAYE Umbrella Contractor

We can now facilitate a Mortgage Application with only 1 years Contracting Employment (some banks require up to 3 years). Ideally you would have a 2nd 12 month contact in place with the same employer to give yourself the best chance of getting approval * subject to the usual lender criteria.

### 2. Will I need a bigger deposit if I'm contracting?

Absolutely not. You're subject to the same criteria as everyone else (10% deposit for everyone)

### 3. Do pension contributions affect my mortgage application?

No. Whether you are in an Umbrella Director/PAYE or have your own Personal Limited Company, all banks see pension contributions are being a 'discretionary' expenditure and therefore don't count against your ability to borrow.

### 4. What happens if I leave contracting? How long do I have to wait to get approval as an employee?

Most banks will accept a Mortgage Application after only 3 months of new employment, with no break in service, and will offer an Approval in Principal but you must be permanent before you draw down your mortgage

### 5. What if my partner is also self-employed?

It doesn't make a difference other than they too will need to provide at least 2 years business accounts. There isn't a penalty for both parties being self-employed.

# Here are some Tips to help get yourself mortgage approval as an Independent Contractor:

## Do:

### 1. Keep your personal finances in order

Whether you are contracting or not Banks don't like to see things such as bounced direct debits or going into your overdraft. Remember that they are only looking for the last 6 months Bank statements so it's vital that these present the very best picture of your financial management.

### 2. Avoid lengthy breaks between contracts

One of the perks of contracting is that you have the opportunity to take breaks between contracts for holidays, family time etc. You have to remember that you are being assessed on a specific time period so you will want to make sure you have earned as much as possible in that period of time in order to enhance your repayment capacity.

### 3. Maintain a good credit rating and demonstrate a strong savings history

It is essential that you have a good credit rating in order to secure a mortgage. Any loan and credit card repayments should be paid on time as any missed payments could result in your application being declined. Lenders will also need to see that you have a consistent savings record.

If you are earning more now that you are contracting it's good practice to save as much as you can, particularly for the 6 months prior to mortgage application as this is the largest determinant of your capacity to repay the loan.

It's worth noting that, as a contractor, you will generally be on a higher rate than a comparable permanent employee which can make it easier to save.

### 4. Find a mortgage broker who understands contracting

It's always considered best to use an independent Mortgage Broker when trying to source a Mortgage as they will effectively do the 'shopping around' for you and also make sure you're getting the best deal for you on the market. Finding a broker who understands contracting is essential. Over the last number of years, lenders have become more cautious and Contractors have found it difficult due to a lack of understanding of their work. Some banks are unsure of how to deal with Contractors as they don't fit the standard criteria.

### 5. Have all the required documents

If you are self-employed you will need to provide at least 1 year of certified accounts. Your payroll solutions provider can provide written confirmation of your employment and confirm your tax affairs are in order.

# Don’t:

## 1. Be unrealistic

The Central Bank limit on borrowing is 4 times your gross income. In some cases you can apply for an exemption which will allow you to borrow in excess of this limit.

You will need to be realistic about the monthly repayments you can afford to make. It is important to remember that interest rates may go up and you should concentrate on how much you can afford rather than how much you can borrow.

## 2. Make regular payments to online gambling websites

Banks take a negative view on this type of activity but it’s not a zero tolerance policy. The occasional €10 here or there isn’t going to cause a problem.

## 3. Borrow prior to drawing down the mortgage

It might sound straightforward but it’s always an issue when a borrower decides to, for example, take out a loan to change their car during the mortgage approval process. You will want to present as strong a case as possible to the bank and taking on additional debt prior to drawdown certainly won’t help your case.

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## About Humdinger Mortgages®

Humdinger Mortgages® is an Award Winning Mortgage Brokerage based in Dublin City Centre. We've over 15 years' experience managing clients' mortgage requirements and bring a straight-talking approach when it comes to helping our clients get Mortgage approval.

The only promise we make is that we'll do everything we can to help you!

**Email: hello@humdingermortgages.ie**
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# Important information

## Consumer protection code 2012

**Effect of missing repayments warning:**
If you do not meet the repayments on your credit agreement, your account will go into arrears. This may affect your credit rating, which may limit your ability to access credit in the future.

**Tracker interest rate warning:**
If you switch to an alternative interest rate you will not be contractually entitled to go back onto a tracker interest rate in the future.

**Residential mortgage warning:**
If you do not keep up your repayments you may lose your home.

**Variable rate mortgage warning:**
The cost of your monthly repayments may increase.

**Debt consolidation mortgage warning:**
This new loan may take longer to pay off than your previous loans. This means you may pay more than if you paid over a shorter term.

**Fixed rate loan warning:**
You may have to pay charges if you pay off a fixed rate loan early.

**Interest only mortgage warning:**
The entire amount that you have borrowed will still be outstanding at the end of the interest-only period.

## Consumer credit act 1995

**Housing loan warning:**
Your home is at risk if you do not keep up payments on a mortgage or any other loan secured on it.

**Variable rate loans:**
The payment rates on this housing loan may be adjusted by the lender from time to time.

***Lending criteria, terms and conditions apply.***

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