JONES & YOUNG

Guide to Mortgages for Limited Company Directors

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Lets explore

Self Employed Mortgages

Being self-employed has many benefits, but there is no denying that it also has its challenges. Being the director of a limited company can add another layer of complexity to many situations. Although this does not mean it has to be complicated to secure a mortgage.

Some mortgage companies won't take the time to learn about your income if you are a director or self-employed director of a limited company. Some may even tell you that you will not find a mortgage through them, although this is not always true. Don't be disheartened if you have only spoken with mainstream lenders so far.

This Guide will help you understand mortgages as a director of a limited company. We will explain the different options available to you, what counts towards your income, and other important details that you should be aware of.

If I am the director of a limited company, am I considered self-employed when applying for a mortgage?
The short answer to your question is yes. Most mortgage lenders consider you self-employed if you are the director of a limited company that you either own or co-own.

But don't worry! You can still apply and be approved for a mortgage if you provide all the correct information and follow the correct steps. The process may just be a little trickier than if you were employed on PAYE.

If you are the director or managing director of a limited company, there are numerous reasons why some brokers may not offer you a mortgage. But ultimately, it all boils down to your future profitability.

Their accountants generally advise directors to receive their income in dividends, rather than pay as you earn (PAYE). Your personal income then depends on the performance of the company, which will naturally fluctuate. Or perhaps instead of paying dividends, your limited company keeps retained profits that do not count on your income. Or maybe you haven't been trading for a long time and don't have enough accounts yet.

All these factors can make your income more complicated than people who are employed, and unfortunately many mainstream mortgage lenders don't like these complex incomes. They take longer to understand, process and calculate your affordability.

The best option as a director of a limited company is to turn to a specialist broker, one that understands how lenders calculate your income and which banks will be more flexible if you have a complex income. They will be more open to accepting you, take the time to understand the income of your limited company, and know which lenders have a more flexible approach to their lending criteria.

If you need a specialist lender, we're here to help. We know which specialist lenders are willing to lend to directors of limited companies, just like you.

What documents do I need to apply for a mortgage?
As the director of a limited company, there are a few essential things you need before beginning your mortgage application. These include:

- Trading history
- Evidence of your income
- Good credit scores
- A deposit

At first glance, it may seem a little complicated, although we are here to make it as easy and straightforward as possible for you to apply for your mortgage.

What length of time do I have to be trading?

Some mortgage advisers claim you need three years of business accounts to get a mortgage. It may have been true years ago, but it is no longer.

Specialist providers are willing to accept applications with only twelve months of trading records. As long as the records provide an uninterrupted twelve-month view of your company's profits, they can be used to calculate your affordability.

It is possible to obtain a mortgage approval, even if you are just starting out as a self-employed person with limited trading history or accounts. As long as you work closely with a specialist mortgage broker. They can advise you about the evidence the lender will require to prove your income. We are here to connect you with a specialist mortgage lender who can make mortgages a reality for directors of limited companies with limited accounts.

How do I prove my income?
Most lenders want to look at a broad average of your income over a certain period, which can be positive or negative depending on your circumstances. Income fluctuations are a sure way to hinder your mortgage application when it comes to mainstream lenders.

Each lender may have different requirements, although there are three types that you must show as proof of income:

- Accounts between one and three years, signed off by an accountant
- Copies of statements from your personal and business bank accounts
- An SA302

Lenders usually don't consider retained profits part of your earnings. They prefer to regard dividends as a measure of income. However, net profits and remuneration (your salary) are accepted by a few mainstream lenders, but this is rarely known about, and you could spend a lot of effort trawling through banks to find one. We know which lenders accept this, meaning you can receive the mortgage amount you require without having to take extra dividends, and pay more tax! One or two mainstream lenders even allow us to calculate your affordability by only using the latest years net profits and salary, which can help with your affordability. Other specialist mortgage lenders are also there to help, but they tend to charge higher interest rates. Our main goal is to ensure you don't pay any more than you need, so getting your mortgage with a mainstream lender is our priority.

How can I find out my credit score?
All lenders will use your credit score to determine whether you are eligible for a mortgage.

Lenders use the information from your credit reports, along with any additional information that you provided as part of your application, to calculate a numerical score. This score will represent your credit history. This information helps lenders determine what type of borrower you might be and how likely you are to manage your repayments.

Credit reference agencies are independent organisations that prepare your credit score and reports. Four of the main credit reference agencies in the UK include:

- Equifax
- Experience
- TransUnion
- Clear score

These agencies have access to your credit and financial history, which is how they compose your report and credit score. You can use any of these companies to gain a copy of your credit score and report. Although they can differ from agency to agency, it will give you a good idea of your financial health.

How is my credit score calculated?
Your personal credit history determines your credit score. It is not dependent on the creditworthiness of your limited company.

It considers many financial factors, such as how many accounts you have open, your total debts, assets and repayment history. Higher credit scores will make it easier to get your mortgage application approved. However, a low score does not automatically mean rejection.

There are many ways to improve your credit score if it is low. We can provide advice on how to do so.

How much do I need for my deposit?
The general advice on deposits is that you will need between 10-15% of the property value for which your mortgage is being used. If you own a business, however, there are other factors to consider. These are:

- Credit history
- How long your limited company has been in business

There are a few things that can raise red flags in your credit history: late payments, missed payments and bankruptcy.

It will not influence your chances of getting a mortgage approval if your company has been in business for longer periods, but it could allow you to make a smaller deposit or get a better rate.

Can I borrow money based on retained profits?
This problem with retained profits (rather than PAYE or dividends) is that most lenders will not accept this as money you have actually earned. They see it as a safety net that would help your business through difficult times.

If you rely on counting your retained profits as income to qualify for a mortgage, then your best option is to look for a specialist lender, opposed to a mainstream lender. It is worth noting that specialist lenders will still need to verify your financial situation before making a decision. They may also ask for additional proof about your income and company, so that they are absolutely certain of your affordability.

What if my company suffered a loss?
It is difficult to start a company. Even the most successful companies can lose money at the beginning, sometimes for years.

If your accounts show losses for your limited business, some mortgage lenders may be reluctant to lend a mortgage. This does not necessarily mean it is impossible to get a mortgage. Our brokers are specialists who understand the challenges of running a small business. Your application may be approved if your losses are typical company teething problems or have existed for more than two years.

Frequently asked **questions**

As a Limited Company Director, will I need a larger deposit?
If you are a director of a company, you do not have to make a higher deposit. Depending on your situation, you will be eligible for the same offers as other borrowers. This means that in some situations, you can get up to 95% of the value of the property. However, like anyone else looking for a mortgage, if you have poor credit ratings or want to get a mortgage at a lower price, you may need to pay a larger deposit.

What is the best way for the lender to calculate my income if I am a company director?
Lenders who have given mortgages to company directors know that a company director's base salary is only part of its profitability. When evaluating a mortgage application, it is crucial that business owners seek specialist lenders who take into account the following:

- Operating profit (before and after taxation).
- Directors salary
- Figures for the latest years
- Trading for 1 Year
- The company employs other applicants
- Refer to a qualified accountant

Our advisers evaluate your situation to determine the maximum amount you can borrow and the best interest rate. If necessary, they will also talk to your accountant to get the right paperwork.

Can I get a mortgage if I am a limited company director?
There are lenders who will offer mortgages to limited company directors. This includes some of the biggest high-street names. We can help you find the right mortgage lender for your unique circumstances.

Can I get a mortgage even though I am a company director with poor credit?
Yes, although like anyone with poor credit, you will be restricted with the number of lenders you can go to, depending on how severe and recent the credit issues are.

Keep in mind that lenders may be further limited if you have specific lending needs, such as if your most recent figure is not available or if you have only been trading for one year. Our advisers are specialists in these unique areas of mortgage application and are here to put your mind at ease.

What if my company suffered losses over the past three years?
If a director of a limited company has declared a loss within three years, it can be difficult to get a mortgage if you are looking for one with mainstream lenders. Losses are seen as a sign of low income reliability and increased risk.

If you have declared a loss during the last year, it is unlikely that a lender will approve your application. Although if your salary is deducted before your profit, it could still be approved, subject to satisfactory explanations and approval by an underwriter.

You are more likely to be approved if the loss occurred two years ago and you have made a complete recovery. There are also specialist lenders who will consider you if the loss occurred three years ago, and there is a trend of three-year recovery.

Can I borrow based on my business' most recent years figures?
Yes. In many situations, company directors in growing businesses who have made more income in the past year may not be approved by mainstream lenders. This is because most lenders usually take the average of the last two to three years of income.

Although there are mortgage specialists who will consider mortgages for limited company directors based on the most recent years' income.

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