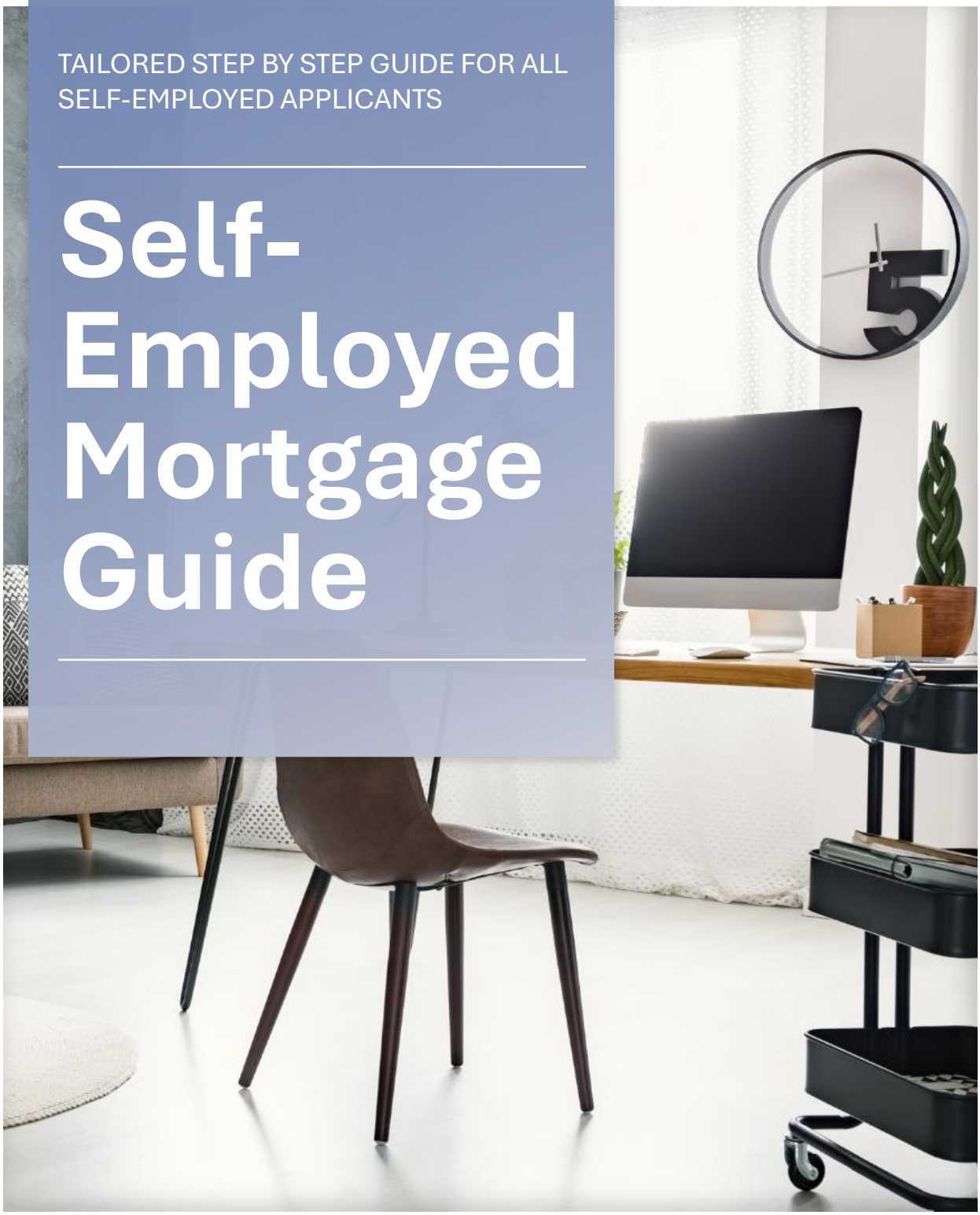
TAILORED STEP BY STEP GUIDE FOR ALL SELF-EMPLOYED APPLICANTS

Self-Employed Mortgage Guide



City Mortgage Solutions Ltd

Get In Touch

020 7481 3736

info@citymortgagesolutions.co.uk

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up the mortgage repayments. We are a credit broker not a lender.

Self-Employed Mortgage Guide

Welcome

Applying for a mortgage as a self-employed individual might seem daunting, but with the right information and preparation, the process can be smooth and straightforward. This guide is designed to simplify the steps, explain key concepts, and provide tailored advice for all self-employed applicants, including sole traders, limited company directors, LLP partners, and contractors.

So whether you're buying your first home or moving up the property ladder, this guide will empower you to approach your mortgage application with confidence.

By working with an experienced whole-of-market broker, like City Mortgage Solutions, who have access to over 150+ lenders and who understand the nuances of self-employed income, can help you find a solution tailored to your needs.

City Mortgage Solutions Limited is Authorised and Regulated by the Financial Conduct Authority. Our Financial Service Registration number is 466719.

Self-Employed Mortgage Guide

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01.

Why Do Self-Employed Applicants Need Specialist Advice?

Unlike salaried employees, self-employed individuals often face additional scrutiny when applying for a mortgage.

Lenders assess income stability, business performance, and affordability differently, making it crucial to present your finances in the best possible light.

Specialist advice ensures you have access to lenders who understand your circumstances and can offer competitive rates.

02. The Mortgage Process

This gives a guide to the stages involved in buying your first property and the ideal process if engaging with a whole of market broker like City Mortgage Solutions.

FINANCIAL ASSESSMENT: HOW MUCH CAN I BORROW?

First stage would be to assess your finances to determine your borrowing capacity and budget. This involves understanding your deposit, income, credit commitments, credit rating, and your property goals such as when and where you want to buy. Armed with this information a broker can then run affordability checks with suitable lenders to give you an estimate of how much you can borrow.

It is advisable to arrange a “Decision in Principle” at this stage, which will involve a credit check and aims to give you comfort that a mortgage lender can proceed. It also gives the seller and estate agent comfort that you are serious about buying.

PROPERTY SEARCH

With your budget and mortgage availability set, you can start your property search. Befriend local estate agents—they know the area and can prioritise your interests. Plus sign up to online sites such as Rightmove and Zoopla to ensure you see properties as soon as they become available. In the current climate, estate agents often require a decision in principle or verbal confirmation from a broker about your finances before booking a viewing. Sharing any potential properties with your broker, if instructed, to check for mortgage suitability is important. For example, ensuring a flat has a certain number of years remaining on the lease or that a house is not in an area of high flood risk.

OFFER AND ACCEPTANCE

Once a suitable property is found and confirmed as proceedable by your lender and broker, you can make an offer. While verbal offers can gauge interest, a written offer is always required. The offer should highlight key reasons for acceptance, such as your ability to act quickly because you're not in a property chain, don't need to sell another property to proceed, have secured a decision in principle, and have confirmation from the lender that you can move forward.

You’ll also need to instruct a solicitor to act on your behalf and it is best to take recommendations from a broker, friends or family as costs can vary greatly based on location and experience. Various costs involved in the process is explored later in this guide.

MORTGAGE APPLICATION

Once the offer is accepted, the estate agent will send a Sales Memorandum to both the buyer and the solicitor, and approximate timescales for the next steps will be agreed upon. At this stage, it's advisable to review mortgage rates and finalise the lender choice, which may differ from the initial lender used for the decision in principle. The formal mortgage application will then be submitted, with all necessary documents provided for underwriter assessment. This application will be sent to the chosen lender, managed by the mortgage broker or advisor, and typically takes several weeks to process. Required documents generally include proof of income, bank statements, and identification.

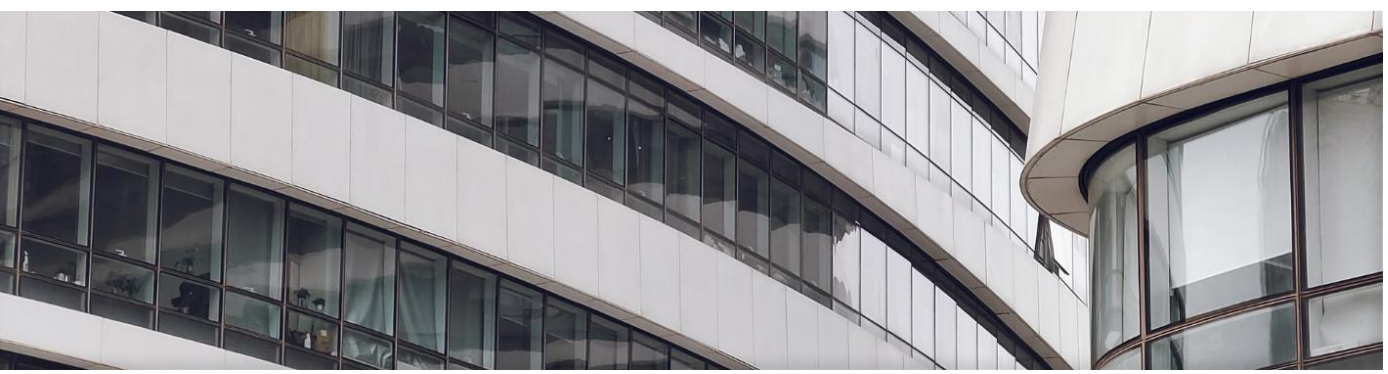
GETTING AN OFFER

The application requires two approvals: underwriting and valuation. Underwriting assesses income, expenses, employment, and overall financial situation to ensure mortgage payments can be managed. The lender's surveyor values the property to confirm its condition. A detailed survey is recommended for added peace of mind. Once these conditions are met, the mortgage offer is issued. Recommendations for surveyors who conduct thorough inspections on the property are available and full details of options available are noted later in this guide.

COMPLETION AND LEGAL PROCESS

During mortgage processing, solicitors address legal queries. After receiving the mortgage offer, legal contracts are signed, an agreed deposit is paid to secure the property, and contracts are exchanged. Once exchanged, the completion date is set, marking the time to move in and pay the remaining deposit. Legal obligations begin once contracts are exchanged.

FINISH



03. Key Categories of Self-Employment

Self-employment comes in various forms, and mortgage lenders assess income differently depending on your business structure.

Whether you're a sole trader, limited company director, LLP member, or a fixed-term contractor, understanding how lenders calculate affordability is key to securing the right mortgage. This section breaks down the main self-employment types, the income evidence required, and how lenders view different earnings structures to help you prepare for your application.

Sole Traders

As a sole trader, lenders assess your net profit based on your self-assessment tax return. Typically, they require tax calculation and tax year overviews provided by your accountant from the past two years. However, some lenders may accept a shorter trading history, particularly if you were previously employed in the same industry or line of work.

Limited Liability Partnerships (LLPs)

Income assessment for LLP members is typically based on either their share of net profit from the finalised accounts or their share of total income as reported on self-assessment tax returns. Most lenders average the past two years' figures, but some may take a more flexible approach if you've recently joined a well-established and long-standing LLP.

Limited Company Directors

Lenders typically assess limited company directors based on salary and dividends drawn over a two-year period to determine affordability. However, some lenders also consider the company's net profits plus salary or director's remuneration, which can be beneficial if you've retained profits in the business rather than withdrawing large dividends. Providing the full company accounts alongside personal tax documents is therefore essential to give a more accurate overview of earnings.

Fixed-Term or Day Rate Contractors

Contractors can benefit from lenders who assess affordability based on a multiple of their day rate rather than traditional salary or dividends. Some lenders may use different multipliers or require a minimum contract length. Key documents typically include current and previous contracts, recent invoices, and bank statements to demonstrate income consistency. In some cases, lenders may also consider an applicant's industry experience and history of contract renewals

04.

Income Verification Requirements

Here's what lenders typically require:

Sole Traders

SA302s and tax year overviews for the last two years.

Limited Company Directors

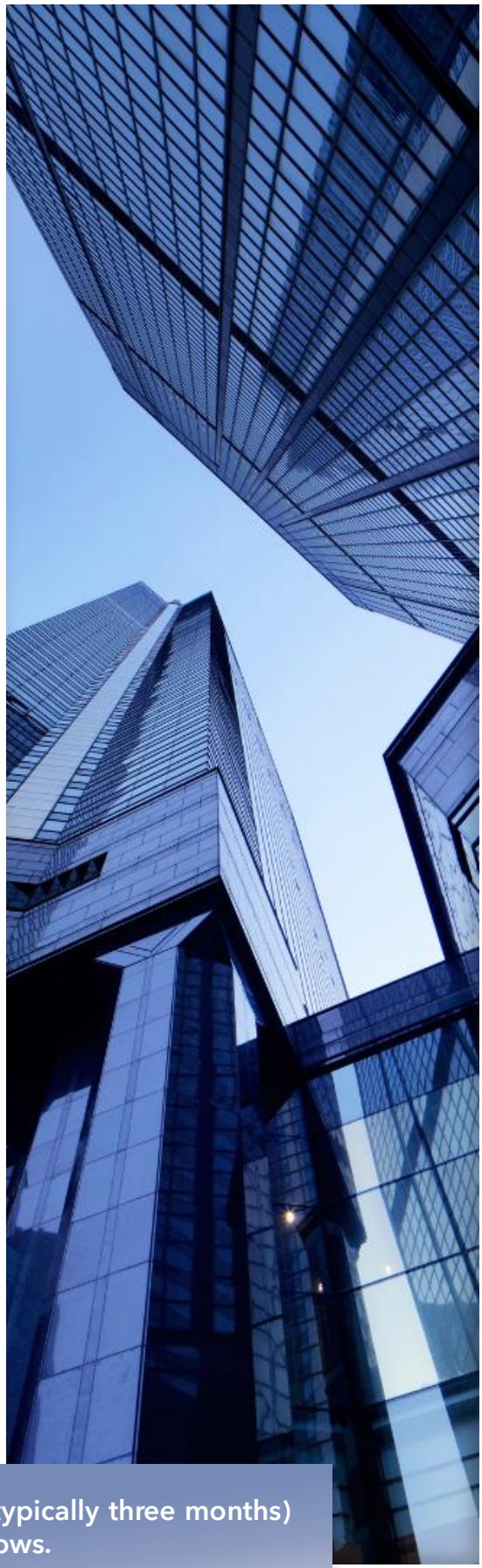
Full company accounts (two years), tax calculations and tax overviews.

LLP Partners

Partnership accounts and proof of profit share. If have recently joined an LLP then a letter from a finance or senior partner confirming income.

Contractors

Copies of contracts (past and current), invoices, and evidence of consistent work. Lenders are normally looking for a minimum of 12 months contracting history.



Personal and business bank statements (typically three months) may also be requested to verify income flows.

05. Affordability Assessment for Contractors

For fixed term contractors as noted above, affordability is based on your day rate.

Here's an example of how lenders typically calculate it:

Multiply the day rate by **5** *(days in a working week)*.

Multiply the weekly figure by **46** *(working weeks in a year)*.

£400/day

x 5

x 46

= £96,000 annual income.

To confirm, the multiple of weeks used varies from lender to lender with a normal range of between 46 to 52 weeks taken into consideration. As such it is always worth ensuring you have a discussion with a broker such as City Mortgage Solutions to confirm the exact calculation a lender is going to use.

Importantly, ensuring you have a strong contract history with minimal gaps between contracts will always help strengthen your application.

06.

Tips for Improving Your Mortgage Prospects

Improving your mortgage prospects as a self-employed applicant requires careful financial planning. Here are some key tips to consider:

Ensure your business accounts and tax filings are accurate and up-to-date.
Lenders favour applicants with a clear financial history.

Build your deposit.
A larger deposit can unlock better rates and improve approval chances.

Check your credit score
Review your credit report for inaccuracies and work on improving your score if needed.

Minimising outstanding debts or other credit commitments is important as these will normally have to be factored into affordability assessment. Also, be aware that if you are taking on new credit commitments during the mortgage process that these will be picked up during the assessment and will potentially affect borrowing.

Having a discussion with a broker such as City Mortgage Solutions who are familiar with self-employed applicants as early as possible in the mortgage buying process will help to ensure that all avenues available based on your self-employment type.

Additionally, self-employed applicants should be mindful of common mistakes that could impact their mortgage application:

UNDERREPORTING INCOME FOR TAX PURPOSES

Keeping taxable income low to reduce tax liability may backfire when applying for a mortgage, as lenders assess affordability based on declared earnings.

HIGH BUSINESS EXPENSES REDUCING PROFITS

While writing off expenses is tax-efficient, excessive deductions can reduce net profits, which lenders use to assess borrowing capacity.

INCONSISTENT OR DECLINING INCOME

Lenders prefer stable or increasing income trends. A drop in earnings year-on-year can make it harder to secure a mortgage.

NOT CHECKING CREDIT REPORTS IN ADVANCE

Errors on credit files can cause unexpected delays. Checking and correcting issues early can improve approval chances.

MIXING PERSONAL & BUSINESS FINANCES

Clear separation of personal and business accounts makes it easier to verify income and strengthens your mortgage application

TAKING ON NEW DEBT BEFORE APPLYING

New loans, credit cards, or finance agreements can impact affordability calculations and reduce borrowing potential.

NOT KEEPING UP-TO-DATE ACCOUNTS

Delayed tax filings, missing SA302's, or outdated company accounts can slow down the mortgage process or lead to declined applications.

RELYING ON A SINGLE LENDER

Some lenders are more flexible with self-employed applicants than others. Working with a broker ensures access to the right lender for your situation.

LARGE UNEXPLAINED DEPOSITS OR IRREGULAR TRANSACTIONS

Lenders scrutinise financial activity, so ensure all transactions can be accounted for.

APPLYING TOO SOON AFTER BECOMING SELF-EMPLOYED

Many lenders require at least two years of trading history. Some may consider one year, but options may be limited.

07. Costs Involved

Once the mortgage process has been established and you are aware of what is out on the market, the next important area to focus on is how much it is going to cost.

As covered already, the monthly payments will vary depending on a number of factors such as length of mortgage term, the type of rate you proceed with and if proceeding on an interest only or capital repayment basis. However, what are the other initial costs that need to be considered:

DEPOSIT

The initial payment toward the property's purchase price is usually between 5% and 25% of its value. A larger deposit can often help you secure better mortgage terms and lower interest rates. However, as mentioned in this guide, some lenders offer products for first-time buyers that require little to no deposit. These schemes are dependent on individual circumstances and are subject to status, meaning eligibility will vary based on factors such as credit history, income, and affordability assessments. Additionally, mortgages with low or no deposit often come with higher interest rates and stricter lending criteria, so it’s important to carefully consider the long-term affordability.

STAMP DUTY

A tax paid when purchasing property above a certain price threshold. First-time buyers may benefit from exemptions or reduced rates depending on the property's value.

SURVEYOR FEE

The cost of hiring a surveyor to assess the property's condition, ensuring there are no major issues. There are three main types of surveys available, which vary in detail and price and as follows.

Basic Survey: The most affordable option and something all lenders will require as part of the mortgage process. Many lenders now offer these for free but if not, the cost is around £250-£400. It provides a general overview of the property’s condition and suitable for newer or well-maintained homes.

Homebuyer’s Report: Priced between £400-£800, this survey offers more detail than a basic survey utilising a traffic light system to identify visible defects and provide maintenance advice. Ideal for standard properties in a decent condition.

Full Structural Survey (Building Survey): The most thorough and expensive survey, costing £600-£1,500+. It delivers an in-depth analysis and is recommended for older, unusual, or significantly altered properties.

LENDER ARRANGEMENT FEE

A fee charged by the mortgage lender for setting up the loan. It can be paid upfront or added to the mortgage balance.

LEGAL/CONVEYANCING FEES

Charges from a solicitor or conveyancer for handling the legal aspects of buying a property, including title searches, contracts, and transferring ownership.

BROKER FEES

A fee paid to a mortgage broker for finding and arranging the best mortgage deal tailored to your needs. Most lenders also pay commission to a broker for the introduction.

REMOVALS

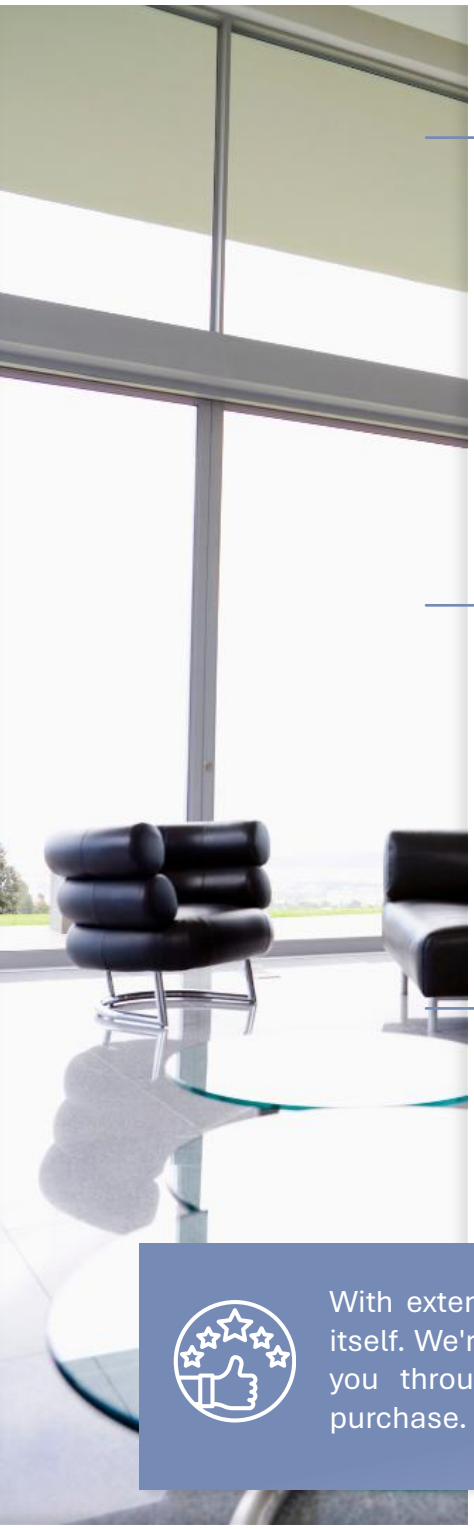
Costs associated with hiring a removals company to transport your belongings from your old home to the new one.

HOME IMPROVEMENTS

Expenses for any renovations or updates you plan to make to the property after purchase, which could range from minor cosmetic changes to major structural work.

The above costs will vary dramatically and so it is worth booking an initial call with a broker such as City Mortgage Solutions to breakdown what you individually need to budget for your first home purchase.

08. Why Choose City Mortgage Solutions?



YOUR TIME

At City Mortgage Solutions, we understand that time is precious, and we strive to simplify the home-buying process. Our dedicated team handles the complexities of researching lenders and staying updated on criteria and rates, saving you valuable hours. We act as your trusted intermediary, managing all documentation, arranging surveys, and handling follow-up communications between application and offer. Beyond mortgages, many clients rely on us for advice on property-related issues, legal matters, and navigating tricky situations with sellers.

EXPERIENCE

Our extensive expertise sets us apart. With over 60 years of collective experience in property finance, we've encountered and resolved a wide range of challenges. As a whole-of-market brokerage, we offer truly independent advice, not tied to any specific lender. Our extensive panel includes over 170 lenders, from household names to specialised lenders catering for more unusual client circumstances.

PERSONALISED APPROACH

Our approach is highly personalised. Whether you're purchasing soon or in the future, we tailor our advice to your unique circumstances. For first-time buyers, we provide guidance on deposits and improving credit ratings, ensuring you're well-prepared for your purchase.

With extensive five-star Google reviews, our track record speaks for itself. We're committed to building lasting client relationships, guiding you through your property journey, starting from your very first purchase.

09. Mortgage Glossary

Here's a glossary of common mortgage terminology:

Agreement in Principle (AIP) / Decision in Principle (DIP) / Mortgage in Principle (MIP)
A document from a lender indicating how much they're willing to lend based on your financial situation, subject to final checks.

Annual Percentage Rate (APR)
The total cost of borrowing, including interest and fees, expressed as a yearly percentage.

Base Rate (BofE base)
The interest rate set by the Bank of England, which influences mortgage rates.

Buy-to-Let (BTL) Mortgage
A mortgage specifically for buying property intended for rental purposes rather than living in.

Early Repayment Charge (ERC)
A fee charged if you pay off your mortgage or overpay beyond a set limit during the initial deal period.

Equity
The difference between the property's current value and the remaining mortgage balance. It represents the portion of the property you own outright.

Fixed-Rate Mortgage
A mortgage where the interest rate is set for a specific period, protecting you from interest rate fluctuations.

Loan-to-Value (LTV)
The ratio of the mortgage amount to the property's value, expressed as a percentage. For example, an 80% LTV means you're borrowing 80% of the property's value.

Stamp Duty Land Tax (SDLT)
A tax paid when purchasing property above a certain value in the UK. First-time buyers may benefit from reduced rates.

Standard Variable Rate (SVR)
The lender's default mortgage rate, which can change at their discretion, typically after your initial deal ends.

Tracker Mortgage
A mortgage with an interest rate that follows the Bank of England's base rate, plus a set percentage.

Underwriting
The process where the lender assesses your financial situation, property, and overall risk before approving the mortgage.

Valuation Survey
A basic survey carried out by the lender to ensure the property is worth the amount being lent.

Vendor
A person or company selling a property or often referred to as a seller. The vendor is the person that owns the property and is transferring ownership to the buyer upon completion of the sale.

10. Self-Employed Mortgage Check List

Here is a list of the usual documents that are needed for a mortgage application:

PROOF OF ID/ADDRESS:

- Photocopy of valid passport
- Photocopy of photo driver's license
- Proof of residency OR other visa documents if applicable
- Proof of address (utility bill, council tax bill or bank / credit card statement dated in last 3 months and showing full address)

IF EMPLOYED:

- Latest three months payslips
- Latest P60
- Proof of additional income (bonuses, commissions and overtimes)
- Copy of employment contract (if no P60 available or started employment in last 12 months)
- Salary Increase Letter (if started new role or had a pay rise in last 6 months)
- Latest three months full personal bank statements for where salary is credited
- Latest month personal bank statement for where rent or bills paid from if different from the above.
- Proof of Deposit (bank statements covering last three-month period showing funds. If any part of the deposit is gifted, then would need a gift letter but this would be taken care of at time of application

IF SELF-EMPLOYED:

- Tax Calculations and Tax Overviews for last two years (Accountant can provide or if complete your own self-assessment then this will be available on the HMRC website)
- Latest set of finalised accounts (covering last two years)
- Latest three months business bank statements
- Latest three months personal bank statements for where salary or dividends are credited
- Latest month personal bank statement for where rent or bills paid from if different from the above

OTHER REQUIREMENTS:

- Recent credit report. Please use link to download a free credit report (www.checkmyfile.com)
- Details of Existing Debt (current balances and monthly payments for any credit cards, hire purchase/car lease agreement, loans or any buy now pay later agreements.
- Details of any other monthly commitments (childcare, school fees or maintenance payments)