lendinvest Mortgages

For intermediaries only

Different Incomes; Different Solutions

What brokers need to know about the changing world of work and mortgages.

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The Key Stats

1.14m

number of **workers** with second jobs in the UK[1]

4.37m

number of **self-employed workers** in the UK[2]

8.36m

number of **part-time workers** in the UK[3]

What do the stats tell us?

The nature of work has been changing for a long time. The 'gig economy', 'side hustles', increased self-employment and a more expensive living environment has pushed everyone to approach work differently.

While not dead, to a large extent the 'traditional' working path of picking a career and sticking at it through to retirement is largely gone.

Indeed, the stats comparing employees who change roles, industries and careers more often suggest they can earn more than those who stay.

What does this mean for the mortgage market?

A younger workforce, happier and more likely to pursue different types of work, operating in an increasingly expensive backdrop and where they are likely renting and unlikely to have sufficient funds for a large deposit.

While it dipped during Covid, the numbers working part time have maintained a steady uplift over the last 30 years to record levels in March 2020, which has now returned above the 8.5 million mark.

Lenders need to understand these trends and respond with solutions that can help these groups realise the dream of homeownership, despite not falling into what many would call 'traditional' lending groups.

[1]Source [2]Source [3]Source

A lender analysis

No more ‘complex’: there’s just income

By **Paula Mercer**, Head of Sales at LendInvest Mortgages

The world of work has changed; but have mortgage lenders changed with it?

Self-Employment, Second Jobs, Part-Time Work, Zero Hours Contracts.

All of these ways of earning a living have forever been classified as ‘complex’ in the mortgage world, but as we can see from trends over the last few years, it’s far from rare, and as the housing market becomes more and more difficult to access, lenders need to start being more accommodating.

Indeed, these trends will only continue. Surveys conducted at the height of 2023’s cost of living crisis showed millions of people were considering second jobs, and with the internet meaning access to these types of jobs are always improving, it’s a consideration more and more lenders have to make.

Why ‘complex’?

It’s probably easier to explain what isn’t complex. Mortgage lenders and brokers like the type of deals that they are familiar with and won’t cause them any hassle.

What does this like? Stereotypically the profile would be:

- Two, or sometimes one, incomes obtained from full-time employment
- Which they can evidence they’ve had for a long period of time, but as a minimum three months.

The stuff outside of this is where the ‘complexity’ lives. Probably - bluntly - because it involves more work to evidence income for brokers and lenders, and there is an assumption of greater risk in employment that differs from the norm.

However, not to labour the point too much, but the traditional ‘norm’ isn’t the norm anymore.

After the turbulence of the last few years where we’ve seen more and more industries cut jobs, you can argue that even the ‘traditional working role’ necessary to get a mortgage isn’t more stable than the types of work we’ve been discussing.

Lender’s need to step in to make this easy for brokers and their customers, by challenging assumptions and offering the products that can deliver on it.

Finding solutions

This starts with understanding customers, and the challenges they may face, and how you can overcome that with product and criteria.

Starting with people with second jobs, what’s the barrier to a mortgage for this group?

Typically, lenders will only consider their primary source of income, as that is the most ‘stable’, and that impacts the amount they can borrow and their affordability calculations, despite the fact we and they can see the extra money in the account.

Similar applies for those on zero hour contracts or in part-time employment. The goal here isn’t to find a way to say no, but to find a way to say yes and offer opportunities within an acceptable and sustainable window.

Looking a bit in-depth at the salary and how it fluctuates can give lenders the tool to properly estimate LTI ratios in a way that’s beneficial to them and the borrowers.

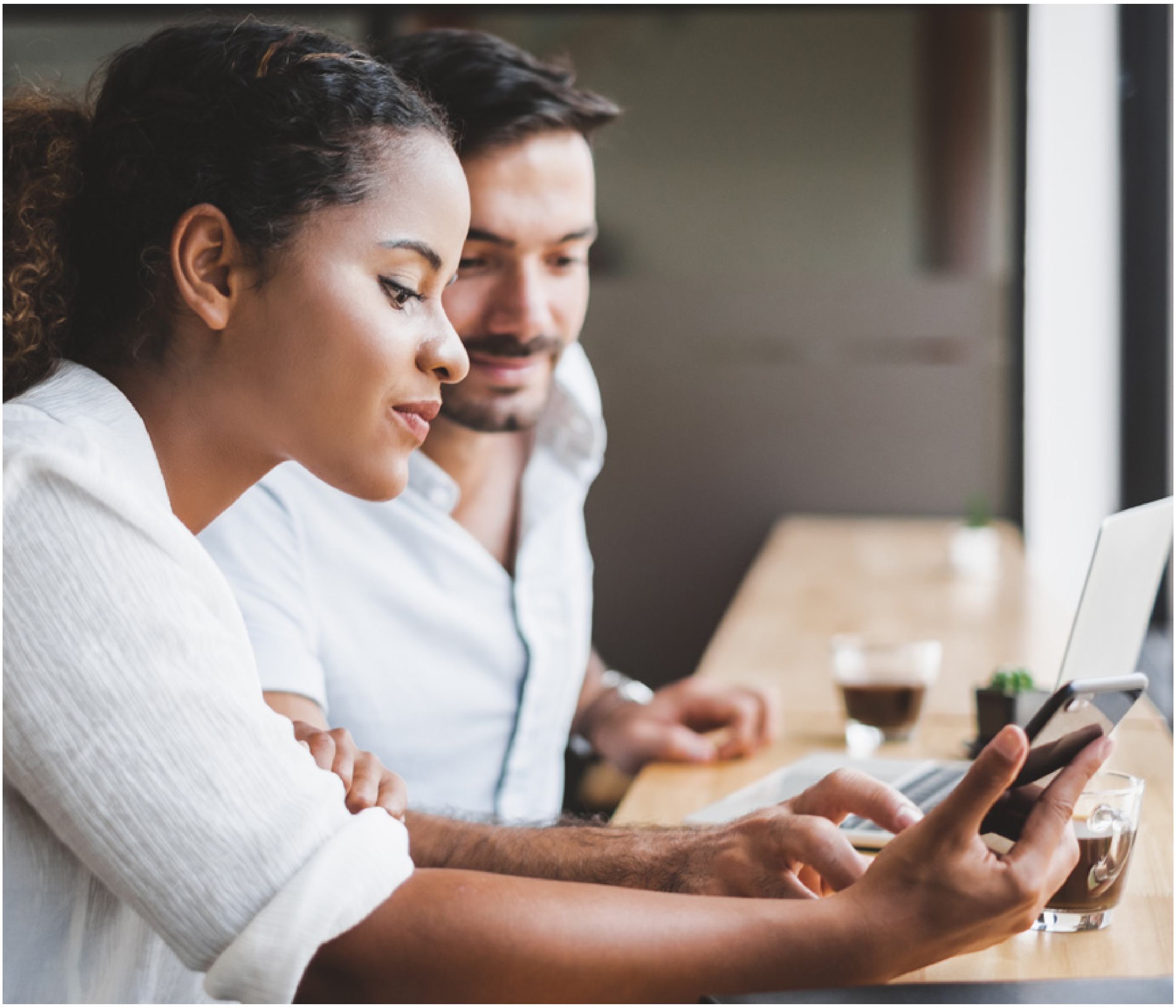
Finally, the self employed have been a growing proportion of the UK workforce for decades now, but many of those will express the difficulty they face in trying to get a mortgage, despite the evidence of its sustainability by virtue of millions doing it.

Obviously for the newly self employed, lenders need to be cautious, but a year of self employment is a positive middle ground to start offering the borrower mortgage opportunities, as will an open approach to viewing their income history.

Dropping the ‘complex’ tag

Solutions are there for those with the will to find them. As more and more enter a different world of work to what lenders consider traditional, it is up to us to move to support them, rather than pull up the drawbridge hiding behind old-fashioned views of perceived risk.

When it is absolutely the right outcome for the borrower, it can be the right outcome for the lender as well.



Removing the complexity Case Study 1

New house purchase for couple with multiple income sources and a self-employed applicant

Location
Norwich

Loan amount
£223k

LTV
79.71%

A traditionally 'complex' case which was offered within 15 days.

What made it appear complex? Sources of income and deposit.

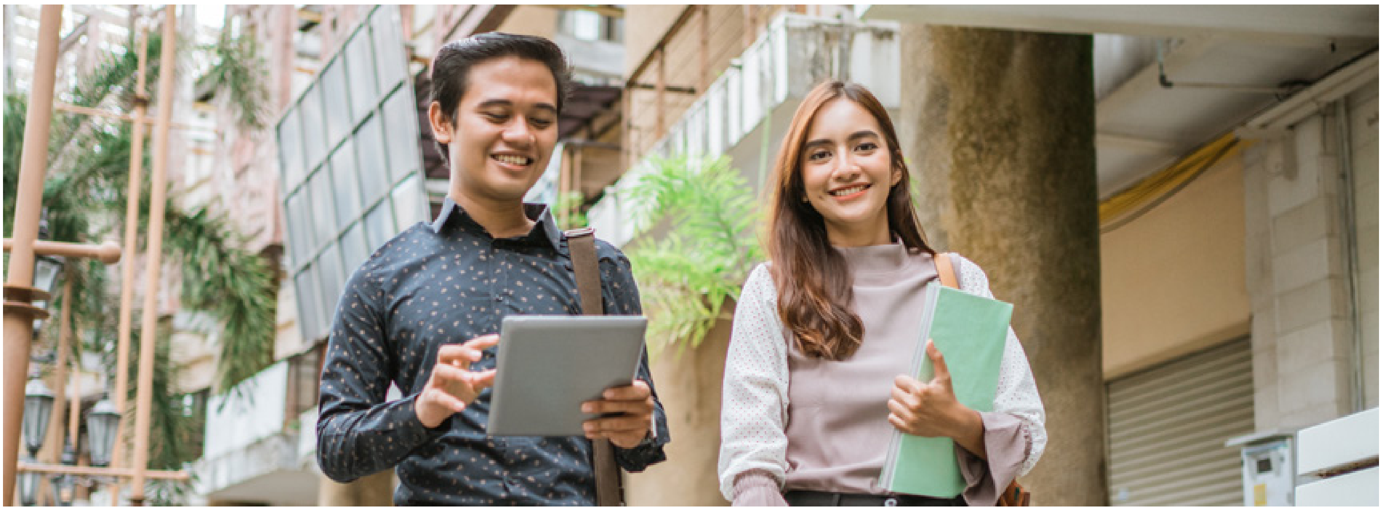
- The deposit was going to come from a capital raise on their existing Buy-to-Let property, and the intention for their current home was - after they moved - to rent it out
- The income came from Applicant 1's sole trading in addition to rental income
- Applicant 2 was on maternity leave and would not return for another 6 months, so her income had to be based on what her expected return to work salary would be.

Despite these moving parts, the underwriter was satisfied they could calculate the appropriate LTI and affordability for their needs.

Each area of income was able to be factored in, including understanding Applicant 1's upward trend from their accounts supported by their business statements.

By working with Applicant 2's employer (NHS), we were able to get assurances on their return to work salary and proceed with the mortgage, with a sustainable level of income for the mortgage amount assured through our common sense approach to supporting homeowners into their next home.

The property was valued within 4 days of instruction to allow us to progress the case quickly.



Removing the complexity
Case Study 2

First home for couple getting income from three sources

Location
Scotland

Loan amount
£173k

LTV
75.43%

The applicants were looking to purchase their first home, a very rural property in the west of Fife in Scotland.

Built in 1882, they had saved up a 25% deposit we were easily able to evidence through Open Banking.

This was another example of a case where other lenders may consider their income to be complex, as it was derived from two businesses and a partnership.

The income from the partnership comes from a rental cottage they own.

One limited company was for organising the lets of third-party holiday properties, and finally the other business was a limited company cleaning rental properties.

The underwriter worked with the broker to ensure that it was clear at all stages what we would need in order to evidence income from these sources and reviewed them within one day of submission.

Open banking and Jumio (applicant self-verification) were used as standard to reduce the need for the broker to provide documents and to speed up the app to offer.

Removing the complexity
Case Study 3

Large loan for owners of multiple shops

Location
Bedhampton

Loan amount
£551k

LTV
74.59%

A large loan for another applicant with a 'complex' income stream.

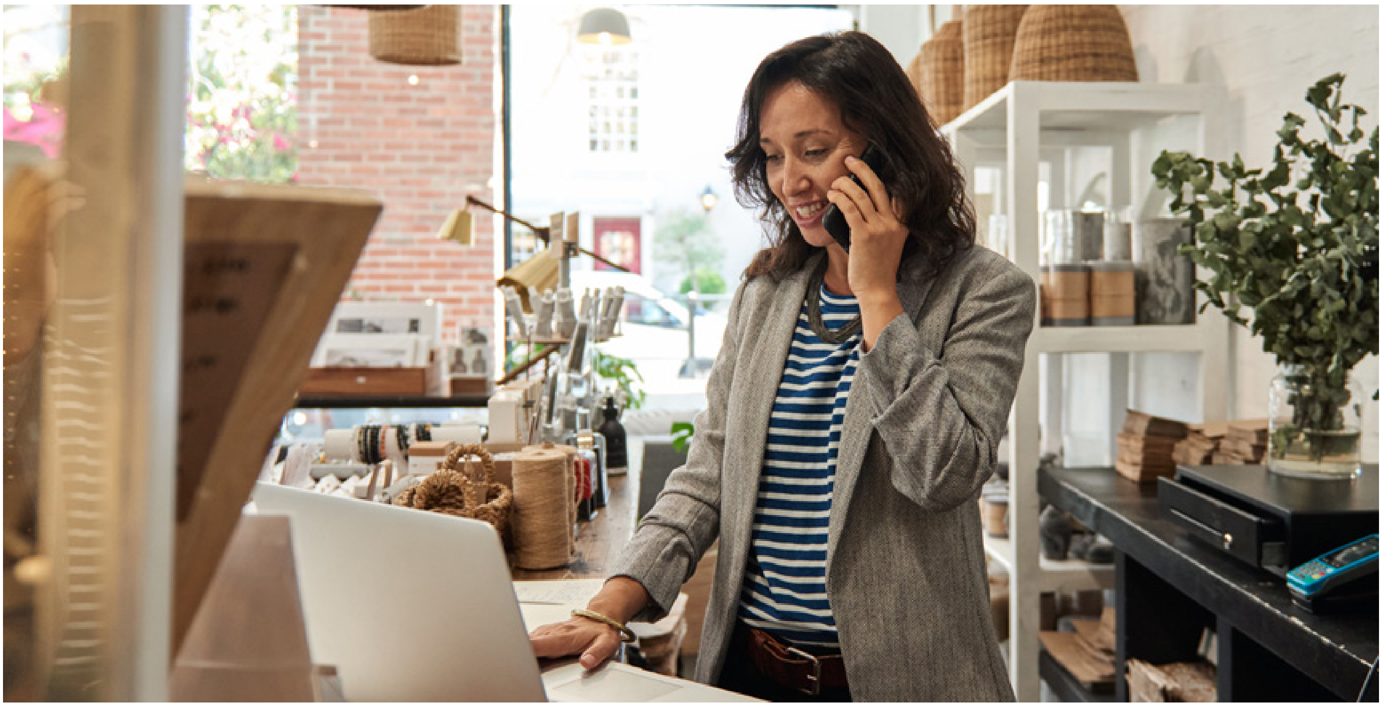
An owner of several small shops, we used individual company accounts to verify the various income streams from 6 shops total.

To add to the challenge of verifying this income:

- They all operated independently
- All had non-overlapping accountancy periods
- Had been trading for different periods
- Several accountancy periods had recently changed.

Despite the intricacies, we were able to help them remortgage with the intention of using an advance for debt consolidation some refurbishments and improvements.

Given all of this, it was incredibly impressive to offer in just 16 days.



Offering

Our residential mortgage range is specifically designed for the homeowner borrower who may not be able to get a mortgage elsewhere.

When looking at the different world of work, here are the things we've introduced to support more homeowners.

Up to 100%

of mixed income in affordability calculations

Up to 6.49x

stretched LTIs

1-years

accounts for self employed, considered alongside business bank statements showing turnover

0-hours

contract - Minimum of year in role required and evidence of last six months of payslips required

Gifted deposits

Debt consolidation

Concessionary purchases

Mortgages made simple.

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