chocolate money
the sweetest loans

Buying a home when you’re self-employed

Self-employed borrowers often come up against the challenge of not being able to present payslips and tax returns to back up their loan applications. But this need not stop you buying your dream home.

Many lenders offer low-doc loans for self-employed borrowers who can’t hand over payslips and employment records. This means that, rather than the usual documentation, you prove your ability to service a loan using bank statements, declarations from your accountant and financial records.

Of course, as with any mortgage application, you must still prove that your income outstrips your spending and you can service the loan. Getting this right is more than presenting a lender with a few quick sums on the back of a napkin; it takes real preparation and expert advice from a Credit Advisor or broker.

Here are some quick tips to help your application:

- Reduce debt: pay down credit cards and personal loans, and be sure to lower the credit limits as they are paid down, as lenders assess the total credit available to you as a potential debt level, not just the amount you owe.
- Speak to a finance broker about how the structure of your business and your taxable income will enable your ability to borrow what you want.
- Do your taxes when you should, and always pay your tax assessments on time.
- Saving a deposit is obviously important and showing your ability to live within your means and save is as well. This is key to serviceability – you want to show at least a six-month history of high income and low expenses.
- Go to Chocolate Money rather than a bank. Finance brokers have access to specialist lenders that assess applications on a case-by-case basis and tailor their products to self-employed borrowers and contractors, while some banks do not.

Low-doc loans do differ from standard loans in a few ways, apart from the application process. Lenders offset the extra risk they are taking by lending to a self-employed borrower or contractor by charging slightly higher interest rates and placing some extra rules on loan-to-value ratios (LVR) and insurance requirements. Generally, you can expect an interest rate for a low-doc loan to be one to two percentage points higher than for a full-documentation loan.

Most lenders will also insist on an LVR of no more than 80 per cent – meaning that under no circumstances will they lend more than 80 per cent of the property value, as assessed by the lender.

Disclaimer: This article is general in nature and not specific advice as your information has not been considered. Call Chocolate on 1300 137 539.
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