

**Trussle**

# **Mortgage Saver Review**

May 2019 | Volume 03

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# Introduction

At Trussle, we're fighting for fairer mortgages. We're committed to improving the areas of the mortgage process that negatively impact borrowers the most.

This third volume of our Mortgage Saver Review examines the key issues currently faced by one of the largest under-served groups in the mortgage market: the self-employed.

I've experienced the hurdles that self-employed people face first-hand. I left my previous permanent job to follow my dream of working with early-stage tech companies, and I was itching to get on the housing ladder. Having previously worked within the mortgage division of a prominent investment bank, I was sure I knew what I was doing.

But I couldn't have been more wrong. Now that I was self-employed, banks were asking for double the deposit. And that's if they hadn't already shut the door in my face. I wasted hundreds of pounds between various brokers who eventually weren't willing to help.

Following my passion meant that I was treated completely differently by the lenders. Those in permanent employment usually have their income assessed on their latest three months' payslips. For the self-employed, it's usually two or more years' tax returns. Ultimately, I was shut out by the system and left confused, out of pocket, and without a mortgage.

And I'm certainly not the only one. What if you'd taken unpaid leave to look after a sick relative? Taken maternity leave? Suffered an injury that would affect your income? Life happens, but the banks aren't doing enough.

Every year, self-employed borrowers are subject to an inconsistent, complex, and time consuming mortgage journey. This is exasperated by unsuitable mortgage products, additional costs, and the need to make personal sacrifices when trying to get on the housing ladder.

Throughout this report we'll highlight the issues that self-employed mortgage applicants face, and propose solutions that the industry and the Government need to adopt to make home ownership accessible for everyone.

Trussle is designing new products specifically for groups like the self-employed. We're lobbying government and the regulator to adopt the Mortgage Switch Guarantee - a set of proposals to improve the way lenders communicate with customers when it's time to switch - and simplify the way that deals are displayed for fairer comparison.

I'm confident that having read this report, you'll want to help create a better future for borrowers, no matter what their circumstances, and join our fight for fairer mortgages.



A handwritten signature in black ink that reads "I. Malhi". The signature is stylized with a large, looped 'I' and a cursive 'Malhi'.

Ishaan Malhi  
**CEO and Founder of Trussle**



# Who are the under-served?

Section 2



Millions of people are currently being let down by an outdated mortgage industry.

The young, the old, the self-employed, and those on low income all face significant challenges finding and securing a mortgage that's suitable for their circumstances.

We're calling them the under-served. But who are they exactly?

## The self-employed

There are 4.85 million self-employed workers in the UK<sup>1</sup>. It's estimated this number will rise to 5.5 million by 2022<sup>2</sup>. In fact, the UK's self-employed community could soon outnumber the public-sector workforce<sup>3</sup>.

And there's plenty of evidence to suggest the self-employed are being overlooked by lenders.

Recent research by The Mortgage Lender found most 'self-employed would-be borrowers' feel discriminated against by lenders<sup>4</sup>.

Our own mortgage advisers often report hearing the same frustrations from self-employed customers who found their previous application experiences arduous, frustrating, and unfair.

Many self-employed borrowers feel lenders treat them with extra caution - demanding additional paperwork and tax information, for example.

It's equally evident that the mortgage market hasn't evolved to keep up with the growing preference for self-employed work - an area we'll explore further in the report.

## The young

Younger buyers are similarly being let down by the industry as they attempt to get onto the property ladder.

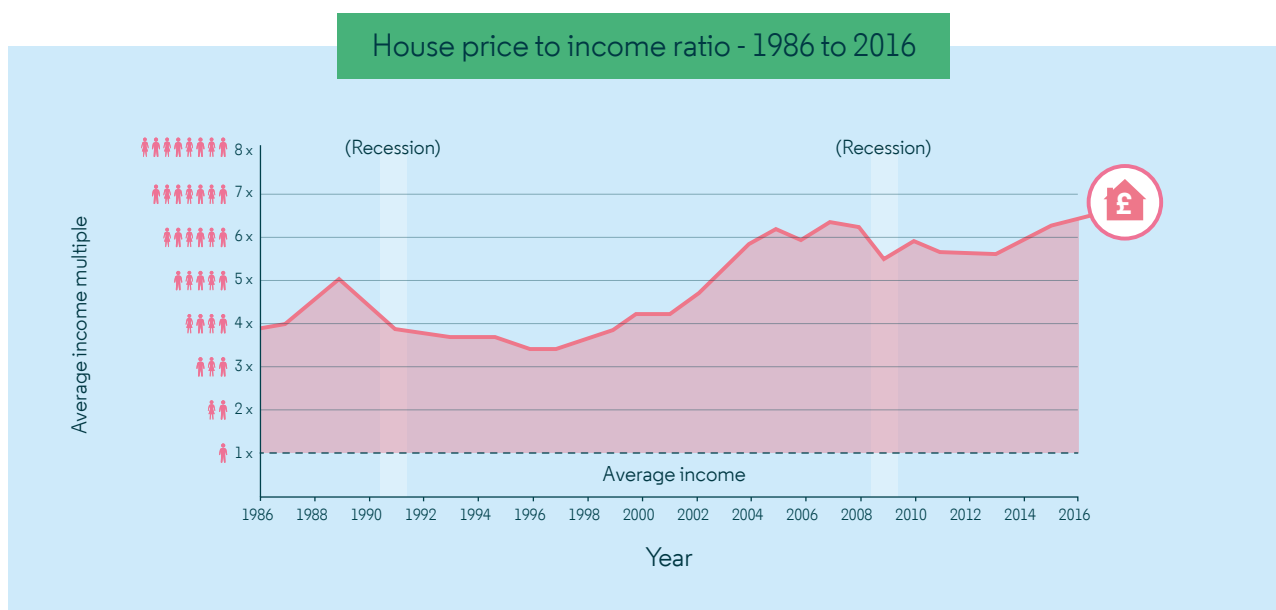
In addition to the well-publicised lack of affordable first homes<sup>5</sup>, the introduction of stricter mortgage lending rules in 2008, while not specific to young people, has made the dream of owning a home even more difficult.

These restrictions - which cap the amount people can borrow as a multiple of their earnings - coupled with expensive house prices, ultimately delay the age when most adults become homeowners.

Official figures show that more than half (53%) of the UK population now wait until the age of 34 before owning their own home, up from 26 years old in 1997<sup>6</sup>.

With house prices rising nearly seven times faster than people's income, today, just one in four young adults (aged between 25 and 34 years old) will own a home - compared to two in three people 20 years ago<sup>7</sup>.

And the products on offer are often not what they seem. Last year, Clydesdale Bank divided opinion over its three-year fixed rate deal with first-time buyers having to pay as little as a 5% deposit. While this offer sounds attractive, the catch is that borrowers would need an income of at least £40,000 and belong to a specific profession, such as an accountant, architect, chartered surveyor, dentist, doctor, pilot, solicitor, or vet<sup>8</sup>.



(ONS UK house price to income ratio, 1986 to 2016)

Government-backed schemes including the Help To Buy scheme and saving vehicles such as the Lifetime or Help to Buy ISA have gone some way to support young people who may previously have struggled to get onto the ladder.

But with the Help To Buy scheme due to end in 2023, it remains to be seen what additional Government support young people might have to rely on in future.

## The old

The UK has an ageing population. 16% were aged over 65 in 2006, rising to 18% in 2016. It's projected that 21% of people in the UK will be over 65 in 2026<sup>9</sup>.

As more of us live longer into retirement, the number of older people in housing that's no longer appropriate for their needs is fast becoming problematic. At different points in our lives, we may require different things from our housing. Often older people find themselves in housing that's inaccessible, and they might feel they need to move. This goes some way to explaining why nearly four in five mortgage advisers expect the demand for lending into retirement to grow<sup>10</sup>.

While there's clearly more to be done to support the needs of this growing group, there are some options already available. These include housing initiatives to help with relocation and equity release finance.

Recent proposals from industry think-tanks such as the Centre for the Study of Financial Innovation have set out recommendations to increase competition in the housing market. These include relaxing planning restrictions to adapt current homes to better suit the needs of older homeowners<sup>11</sup>.

As this older demographic continues to grow, we're starting to see some mortgage lenders offer more specialist products tailored to older homeowners, such as the retirement interest-only (RIO) mortgage<sup>12</sup>.



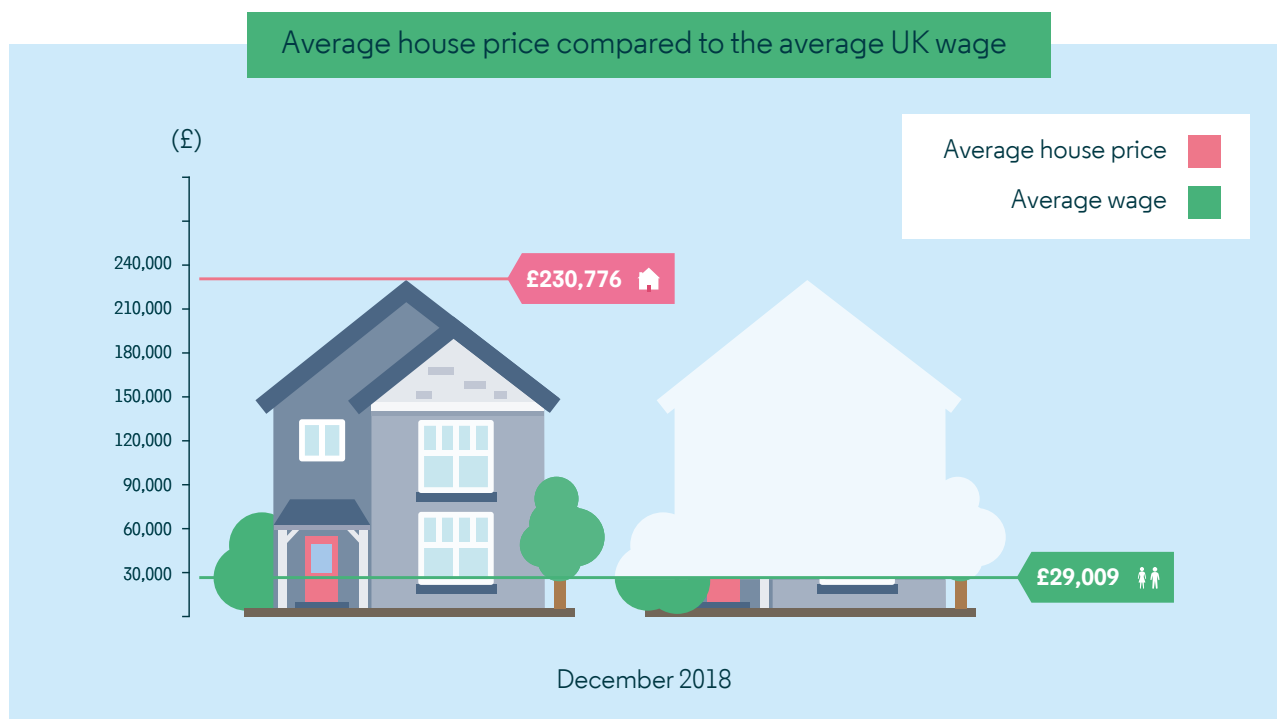
## Those on low incomes

With average house prices (£230,776<sup>13</sup>) now nearly eight times the average UK wage (£29,009<sup>14</sup>), it's clear to see how those on lower incomes often struggle to get any kind of foothold on the housing ladder.

Mortgage payments now account for 47% of disposable earnings on average - an 18% increase in the last decade for those in London and the South East<sup>15</sup>.

However, the same research finds that across the rest of the UK, mortgage affordability has remained stable for the past decade at approximately 30% of average disposable earnings.

The Government has tried to address the affordability issue by encouraging schemes like Shared Ownership, Right To Buy and Help To Buy, but we think more can be done.



(GOV.UK UK House Price Index and ONS Data 2018-2019)

## The focus of this report

**At Trussle, we see 42% more mortgage applications from self-employed people than any other under-served group<sup>16</sup>.**

UK-wide research amongst mortgage advisers found self-employed customers represent 23% of all 'specialist' cases - the biggest individual specialist group<sup>17</sup>.

Despite the volume of self-employed mortgage applications, approval rates are at just 76% - lower than younger first-time buyers (90%), those with bad credit (89%), the retired (86%), and those borrowing at a high loan-to-value ratio (85%).

The self-employed - a group of nearly five million people - are clearly under-served in the mortgage market.

As working patterns continue to become more diverse, complex, and flexible, there's no doubt we'll see increasing demand from self-employed mortgage borrowers over the coming years.

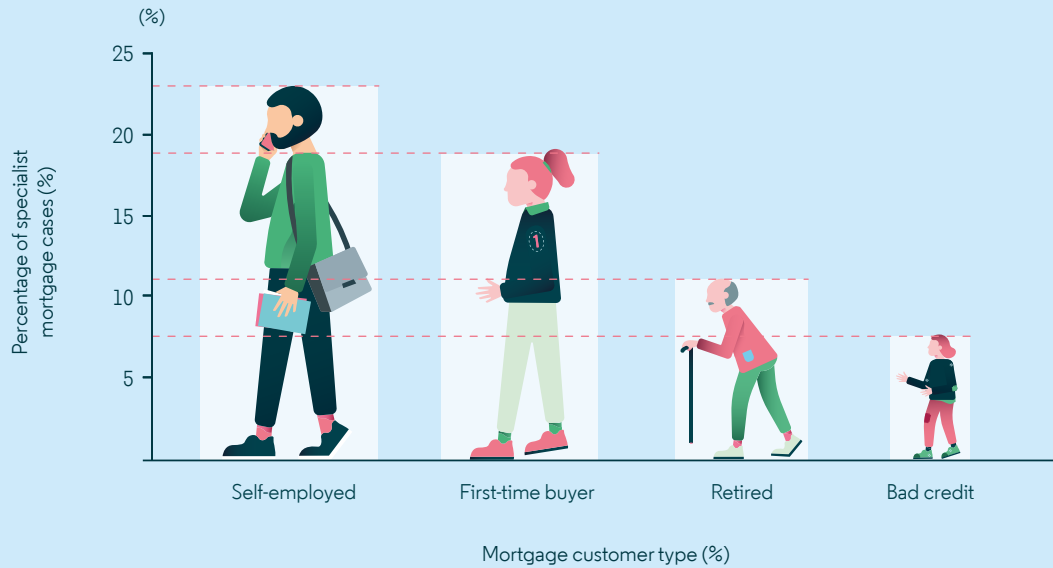
It's time the industry stepped in to provide suitable products and processes to meet the individual needs of this large but diverse group.

## Trussle is standing for homeowners

We're determined to make mortgages fairer and won't stop until home ownership is affordable and accessible for everyone.

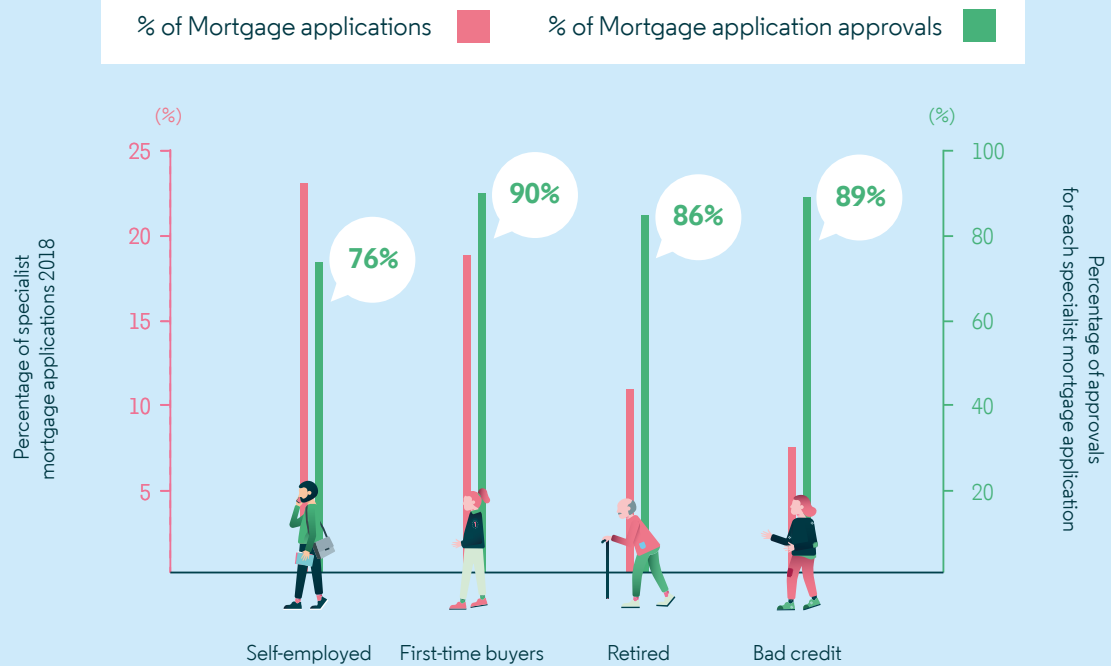
We're starting with the largest challenge: the self-employed.

### Percentage of specialist mortgage customers by category



(Paragon Banking Group Fact Index Q3 2018)

### Number of applicants versus approval rates



(Trussle's proprietary data 2016 - 25.02.19)



# The rise of self-employment

Section 3



The definition of self-employment is not consistent between the Government, tax authorities, and mortgage lenders.

**The Government, and therefore HMRC, define a self-employed person as anyone who:**

- Agrees a fixed price for their work with clients
- Decides on their own working schedule
- Can't be restricted to working for more than one client

**Whereas most mortgage lenders split the self-employed into:**

- **Sole traders:** Someone who is an exclusive owner of a business
- **Contractors:** Someone who provides specific services or labour and is responsible for their own business dealings
- **Partners:** Someone who continues to work as a self-employed individual but has business partners sharing responsibility and profits
- **Directors of limited companies:** A shareholder of the limited company, which has a legal identity of its own
- **Small business owners:** Someone who owns a business with a small workforce, sales volume, or organisational structure

## A diverse group

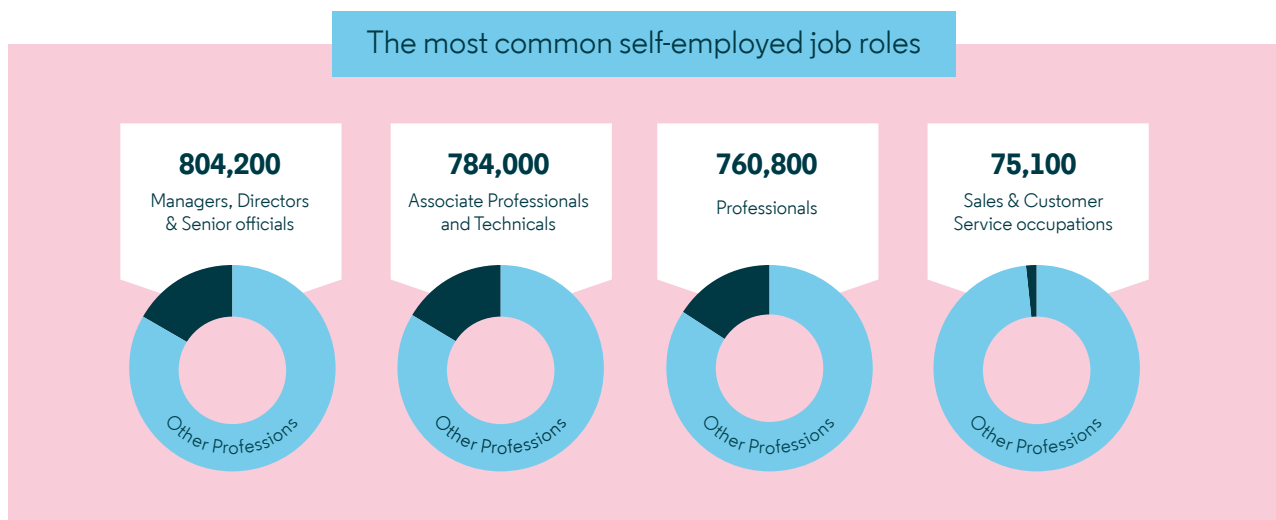
More than one in every seven workers in the UK is self-employed<sup>18</sup>.

Official statistics dismiss the age-old stereotype which suggests the typical self-employed person is a plumber or electrician<sup>19</sup>.

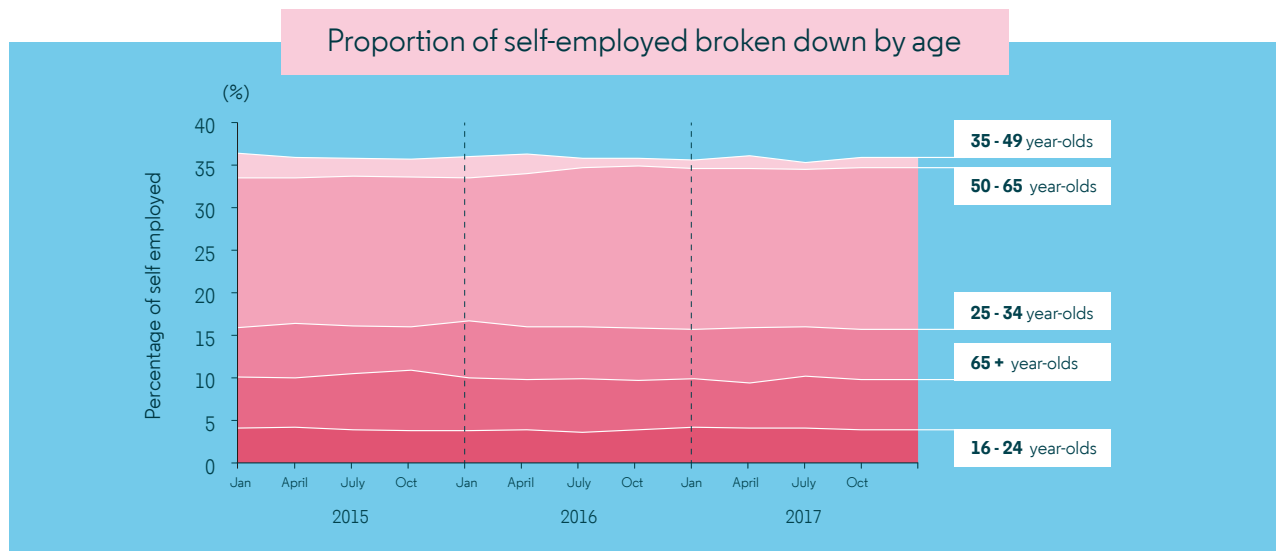
## An older group

The average self-employed person in the UK is 46 years old, according to research by IPSE, the Association of Independent Professionals and the Self Employed<sup>20</sup>.

This supports official figures that show 35-49 year olds make up the largest proportion of self-employed people at 36%, with 50-64 year olds just behind at 35%. Those under 35 make up just 20% of the group<sup>21</sup>.



(Nomis Annual Population Survey & ONS Trends in self-employment in the UK)



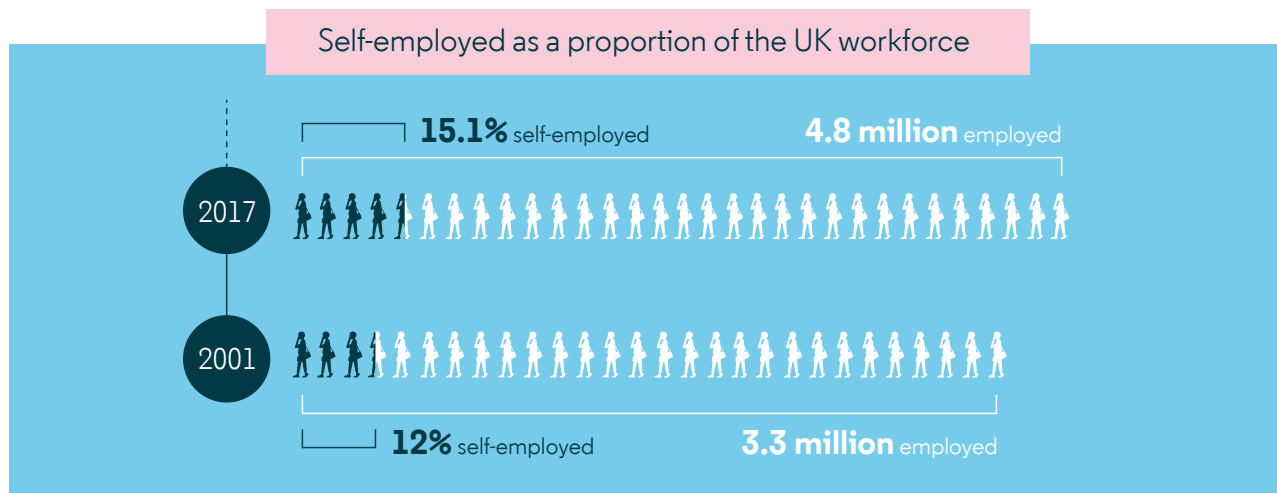
## A growing group

The number of people becoming self-employed is growing, and fast.

Since 2001, an additional 1.5 million people have become self-employed (part or full time), representing a 3% increase as a proportion of the UK workforce<sup>22</sup>.

The number of self-employed increased from 3.3 million people (12% of the labour force) in 2001 to 4.8 million (15.1% of the labour force) in 2017.

Self-employment as a proportion of the total workforce has risen unevenly across the UK's regions. London leads the way with 17% of the workforce comprising of self-employed people, contrasting with the North East which sees the self-employed make up just 10% of the workforce<sup>23</sup>.



(ONS, Trends in self-employment in the UK, February 2018)

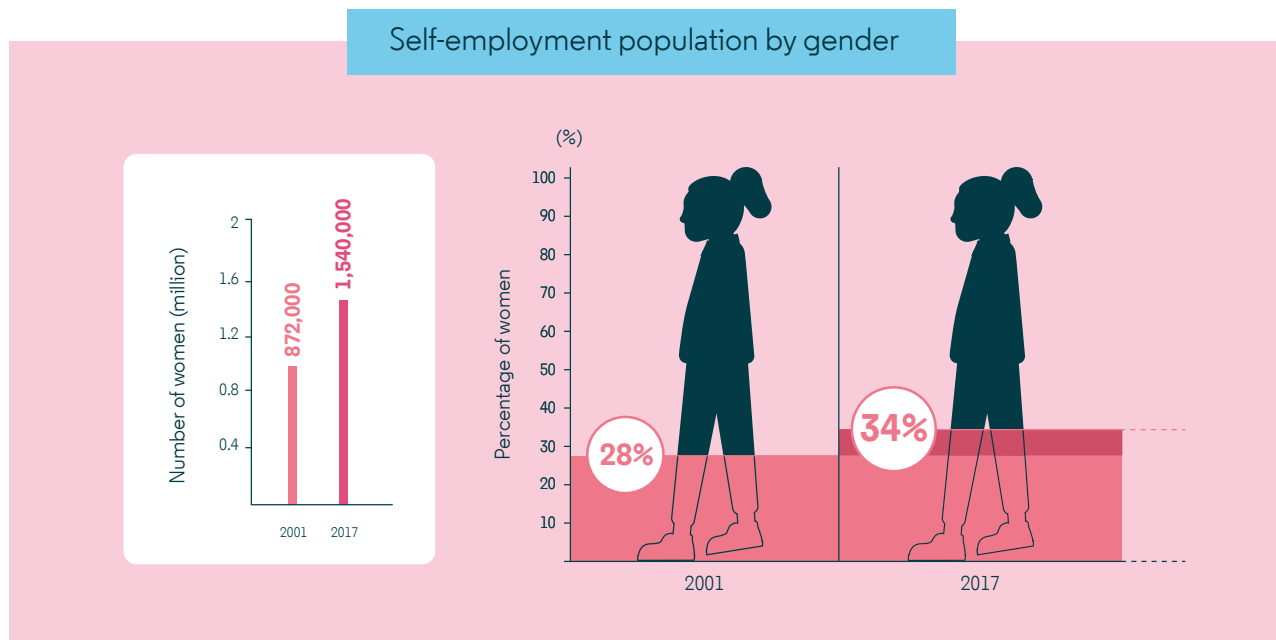


## Aided by the rise of self-employed women

While overall self-employment has been growing, the number of self-employed women has been growing even faster.

In 2001, there were 872,000 self-employed women making up 28% of the UK's self-employed population.

Latest figures show there are now 1.54 million self-employed women making up 34% of the total self-employed population<sup>24</sup>.



(ONS, Trends in self-employment in the UK, February 2018)



# What's fuelling this growth?

Aside from population growth, there are a number of factors that contribute to the continued growth of self-employment.

## The power of technology

The ability to manage projects with a smartphone, communicate with clients and customers on-the-go, and work from anywhere using cloud technology makes remote working far easier.

The Chartered Institute for Personnel and Development (CIPD) claims that the cost of setting up a business has been dramatically cut by 'technological advances'<sup>25</sup>.

## A preference for flexibility

There's a growing thirst for flexible-working which goes hand-in-hand with self-employment.

Research from PowWowNow claims three quarters of UK employees 'favour a job that gives them the option of flexible work schedules'<sup>26</sup>.

## Financial incentives

The UK's pro-business environment makes self-employment a financially attractive proposition.

On top of numerous measures to promote entrepreneurship, the Institute For Fiscal Studies claims the self-employed pay an average of £1,240 less tax per person per year than an employed person<sup>27</sup>.

Other research has found that self-employed people in the UK earn an average of £32,623<sup>28</sup> per year, over £3,500 more than the current employed average of £29,009.

While higher disposable income and the ability to save for a house deposit could be a driver behind the continued rapid expansion of self-employment, it doesn't make it any easier for them to get a mortgage.



# The disadvantages of being self-employed

## Section 4



## As the number of self-employed people continues to rise, the mortgage industry isn't doing enough to help them get onto or climb up the property ladder.

There's little to no standardisation between lenders when it comes to self-employed application criteria - often meaning they're left in the dark during the early stages of the application process.

### Our research shows that:

- Nearly three quarters (71%) of self-employed people believe it's harder to get a mortgage due to their employment status<sup>29</sup>
- One fifth (22%) have felt penalised for being self-employed<sup>30</sup>
- 11% felt victimised or overlooked<sup>31</sup>

In this section, we'll explore a range of challenges that make it harder for the self-employed to navigate the mortgage process; from the varying range of documents needed to the demanding affordability criteria.

## Inconsistent lender criteria

The way lenders define self-employed borrowers by their employment status varies, making it confusing and increasing the chance of mistakes.

For example, while contractors and freelancers may be viewed by the HMRC as self-employed for tax purposes, when applying for a mortgage most lenders don't assess them in the same way. Most lenders will assess the affordability of contractors according to their day rate. Whereas for self-employed borrowers, lenders usually take the average of the last two to three years of earnings into account.

Lenders also classify self-employment based on how much of the business someone owns. This varies between 10% - 33%, depending on the lender<sup>32</sup>.

This inconsistency between lenders makes it hard for the self-employed to even know which employment category they fall under.

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**There is no  
set application  
criteria for the  
self-employed**

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**13% of self-employed homeowners or would-be borrowers, found non-standardised lender criteria a challenge<sup>33</sup>.**

Lenders review the applicant's self-employment history during the mortgage approval process. Compared to those in permanent employment, this is assessed to a greater degree.

The biggest difference is that, in most cases, those in permanent employment may only need to provide a copy of their current permanent contract. But in most cases, self-employed borrowers usually need to prove at least two years of self-employment<sup>34</sup>.

48% of self-employed homeowners and would-be borrowers believe lenders should *"look at how applicants have conducted themselves in the past"*<sup>35</sup>, especially for newly self-employed individuals who may have no previous gaps in their employment history.



(According to UK Finance analysis of the top 21 intermediaries)

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**How the  
self-employed  
are categorised  
differs from  
lender-to-lender**

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## Affordability assessments that are incompatible with tax advice

The way the self-employed are assessed on whether they can afford a certain mortgage amount varies between lenders.

For those in permanent employment, or on a permanent contract, affordability is determined on their income - as well as financial commitments and outgoings.

**Determining affordability for the self-employed is a more convoluted process, with assessment in one of the following ways:**

- The average of the last two years' salary and dividend income (unless latest year is lower)
- The average of the last two years net profit and salary (unless latest year is lower)

This assessment criteria makes it difficult for lenders to determine affordability as some self-employed borrowers may opt to structure their income in a tax-beneficial way.

Additionally, it can sometimes be more difficult to secure a mortgage between October and January due to lenders requiring the applicant to provide tax documents from within the last 18 months.

Many people don't file their tax return forms until the deadline (January) and therefore their latest tax documents fall outside of this 18 month period.

*"Because I was self-employed and hadn't been trading for long enough, lenders wouldn't look at me."*

Siobhan Martin, self-employed applicant revealed.





## Additional documentation

The amount of documentation needed to verify a self-employed applicant's income is extensive, and can be a particularly challenging requirement to meet.

**In most cases, permanently employed mortgage applicants will need to provide the below as a minimum:**

- Latest three bank statements
- Latest one to three payslips (or copy of current contract)
- Proof of address
- Identification
- Proof of deposit or last mortgage statement (for those remortgaging)

**Whereas, most self-employed mortgage applicants will need to provide the following as a minimum:**

- Latest three bank statements
- Proof of address
- Identification
- Proof of deposit or last mortgage statement (for those remortgaging)
- Last two years SA302 and Tax Year Overview - from which most lenders take an average of the last two years' income, unless the latest year is lower
- Two years' worth of accounts

Some lenders will also ask for additional financial documents proving the last two years' income and an accompanying signed accountants certificate, which could cost the applicant more to arrange this.

Lenders occasionally request further documentation later in the application process, which can make the mortgage experience even more taxing for the self-employed.



*“We’ve been perfect homeowners for 12 years and last year we decided we wanted to move house. However, my husband had recently become a contractor which made everything much more difficult. Despite never having a period of no work and him now earning more than double what he did as a permanent employee, the banks saw my husband as too risky and we could only get a mortgage with one bank. We had to provide proof of our saving accounts and shares amongst other personal documents - something we never had to do as permanently employed people. It’s been a very stressful process.”*

Daniella Silver, homeowner whose husband is self-employed.

## Longer application times

Compared to someone in permanent employment<sup>36</sup>, the self-employed mortgage application process can take longer - with the task of locating historic documents often contributing to delays, especially as some documents need to be requested from an accountant or HMRC.

*“Having spent ages submitting my accounts as part of the mortgage application, the lender then hung onto it for over a month, only to be told later down the line that they failed to understand my freelance accounts.”*

Tom Jackson, self-employed homeowner.

20% of self-employed homeowners or would-be borrowers, found the time spent gathering information for their application a challenge<sup>37</sup>.

## Unnecessary costs

Of those borrowers who opt to pay for advice, typical broker fees can cost around £500 for processing a fully-employed application. However, 21% of self-employed borrowers say they've been left with no choice but to spend more<sup>38</sup>.

In fact, some have spent more than £2,500 due to the perceived complexity associated with their cases<sup>39</sup>.

*“After then spending months going to lenders, I was told they couldn't help because I was self-employed. I ended up paying a massive fee for a broker to help me secure a mortgage for my family home.”*

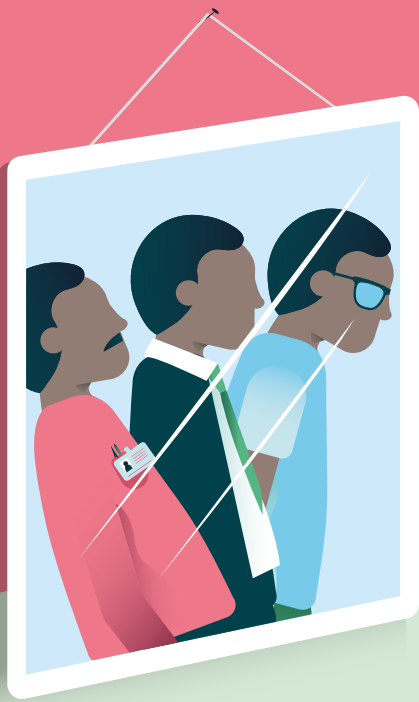
Tom Jackson, self-employed homeowner

## Additional complexity

The self-employed face a much more complex mortgage application process than their permanently employed counterparts.

Just 5% feel the financial assessments for self-employed borrowers are fair. This is compared to 44% who find the current process unfair<sup>40</sup>.

Unless the current process is simplified, the self-employed will continue to come up against a number of challenges when trying to provide adequate documentation or meet criteria efficiently.



# The impact on life choices

Section 5



**Three quarters (71%) of self-employed homeowners and would-be borrowers believe it's more difficult to secure a mortgage as a self-employed applicant<sup>41</sup>.**

Whether this is due to unfair financial assessments or the strict criteria required when applying for a mortgage, this is leading to major lifestyle sacrifices in pursuit of home ownership.

Additionally, one in three (31%) of those hoping to buy a home in the next three years say being self-employed has impacted their property ambitions<sup>42</sup>.

And there's evidence to back this up.

Mortgage 'submission to approval' rates for the self-employed (79%) are lower than employed people (85%)<sup>43</sup>.

## **Making personal sacrifices**

Nearly two in five self-employed applicants (38%) have made - or have at least considered making - personal and professional sacrifices in their pursuit of getting a mortgage<sup>44</sup>, indicating how overwhelming the process can become.

For the most part, these sacrifices mean people's ambitions and plans for the future have been put on hold until they've secured their mortgage.

For example, a third (33%) of borrowers have either delayed - or have considered delaying - their mortgage application purely due to their employment status<sup>45</sup>. 7% have delayed relocating, despite their home not suiting their needs, and 4% have even considered moving back in with friends and family.

In some cases, borrowers have felt so limited by their options, that they've looked even further afield to try and access the property ladder, with 6% considering moving abroad and 13% of those not in permanent employment considering abandoning property ownership altogether<sup>46</sup>.

For some, the lengths needed to get onto the property ladder as a self-employed borrower have resulted in 9% admitting they've reconsidered their self-employment status altogether<sup>47</sup>.

Others have been so put off the mortgage process that they don't want to go through it again.

*"I've remortgaged since buying my home but as it was such a massive hassle to get a mortgage in the first place due to my self-employed status, I stayed with the same lender to avoid putting myself through that again."*

Tom Jackson, self-employed homeowner.

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## Delaying motherhood

One of the more shocking sacrifices being made are by self-employed women who are actively delaying having children or expanding their family. Nearly one in five (18%) self-employed borrowers aged 25 - 34 admitted they put family plans on hold to focus on trying to get on the property ladder<sup>48</sup>.

One in seven of all self-employed people in the UK are mothers - 14% of the total self-employed population. And this is a growing group - the total number of mothers working as freelancers has almost doubled since 2008<sup>49</sup>.

Well over half (55%) of those self-employed homeowners and would-be borrowers who felt overlooked or penalised due to being pregnant, believe they were treated differently during the mortgage application process<sup>50</sup>.

20% believe they were unreasonably asked to prove when their maternity or paternity leave ends and a further 20% felt penalised as they were unable to determine exactly when they would be able to return to work in a permanent capacity<sup>51</sup>.

By comparison, permanently employed mortgage applicants who are due to go or are already on maternity leave simply have to verbally confirm to the lender that they'll return to work on the same terms.

With lenders generally sticking to their traditional affordability modelling, they overlook the individual circumstances of each applicant. This often results in self-employed applicants feeling unfairly judged or even shut out from getting a mortgage completely.

Self-employed applicants are being discriminated against everyday due to a broken mortgage system. Without a collaborative industry effort, there's a risk that a significant number of self-employed people may never step foot on the housing ladder.



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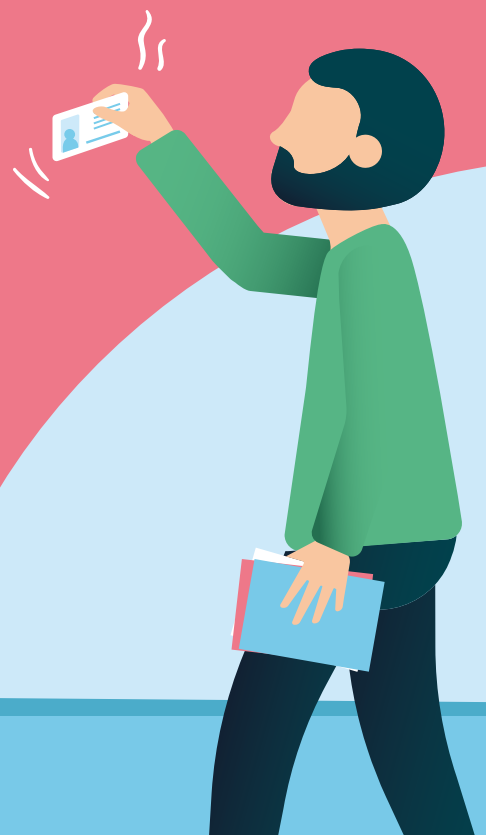
**55% of pregnant  
self-employed  
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# Lender and industry challenges

Section 6



To understand why the self-employed are underserved, we've examined how lenders review mortgage applications and what wider industry challenges are impacting borrowers.

## Keeping up with the pace of change

As more people become self-employed, the number of sub-sectors has developed at pace.

The freelance sector has spearheaded this divergence, growing 46% since 2008, and accounting for well over two fifths (46%) of all solo self-employed. 'Solo self-employed' are those who work entirely alone, without employees. Currently there are 4.4m 'solo self-employed' in the UK<sup>52</sup>.

As the self-employed group becomes more diverse, it's becoming harder for lenders to assess the broad range of their specific circumstances. With lenders' assessments failing to consider the different circumstances of the self-employed, there's room for error. For example, those who have recently moved from sole trading to a limited company might not be considered - unless they've been trading for at least a year under the limited company.

## Income assessment varies between lenders and HMRC

There are key differences in the way lenders and HMRC treat income.

### Different accounting periods

Crucially, there's often a discrepancy between the time periods lenders and HMRC use to analyse income.

Lenders typically use proof of income from 12 or 18 months ago instead of what self-employed people are currently earning. One such self-employed applicant delayed their mortgage application due to 'needing a minimum of 12 months worth of invoices to secure a mortgage<sup>53</sup>'.

However, this could be overcome if accountants were able to, with methodology approved by HMRC, supply draft accounts from any time period.

### Different accounting methods

There can be significant tax benefits if a self-employed person spends money through their business. But because this minimises profit on paper, it can be viewed negatively and potentially impact the way that lenders calculate affordability.

Additionally, most lenders assess SA302s which account for salary, dividends, and other forms of income. However, this doesn't reflect retained profit. Alongside these accounting methods, some tax documents are self-certified, leaving room for income fraud.

## Self-employed applicants can be seen as riskier

When assessing self-employed applications, lenders need to determine the likelihood of the borrower repaying the loan. This is called 'risk modelling' and affects lending decisions.

However, due to lenders relying on outdated systems, the fact that the self-employed may have 'varied' income can make assessing an application more challenging. Dips in income could be a result of seasonal work, short-term contracts, or maternity leave, but they're viewed negatively and risky by most lenders.

Because of this, there's a higher chance self-employed applicants will be penalised or overlooked due to being 'too risky'. One applicant told us they've delayed their mortgage application purely due to the industry's attitude towards their income fluctuation<sup>54</sup>.

As a result, some lenders who are worried about the likelihood of a self-employed borrower defaulting on the loan, are protecting themselves. This could be reflected through more expensive repayments, penalties, and other fees<sup>55</sup>.

There's a real danger that current credit risk models are failing to meet the needs of the self-employed.

It's critical that lenders establish modern ways of assessing risk that consider the self-employed and don't fail to meet their varying needs<sup>56</sup>.

## Affordability issues

The way self-employed people decide to pay themselves - be it a salary, through dividends, or retaining money in the company - is usually based on tax efficiencies. But these decisions can impact the way a lender will consider affordability.

As an example, those who've paid themselves 50% of their earnings as a wage, retaining the rest in their limited company, risk having their affordability determined solely on the amount they've paid themselves, while the retained profit isn't considered.

In other cases, business loans can affect affordability which could also limit the amount a self-employed person can borrow.

In addition, the sheer volume of documents needed to prove income, demonstrates that lenders require much more evidence to assess the affordability of self-employed applicants compared to those in permanent employment.



# Our recommendations

Section 7

## **It's likely the self-employed sector will continue to grow, and demand for flexible mortgage products will increase.**

It'll take a collaborative effort from the industry and Government to better support the self-employed. Ensuring the wider community of prospective and current homeowners have enough access to advice and guidance is also part of the solution to fixing the broken mortgage system.

### **Suggestions for the industry**

The industry must take responsibility to improve the archaic system that makes the mortgage process convoluted and confusing. A more tailored and flexible solution is needed to fairly serve self-employed mortgage applicants.

#### **Assess most recent earnings and projections**

To address the issues with inaccurate and unfair affordability assessments, lenders should assess the latest year of applicants' earnings, as well as consider building a credit risk model that accounts for future income projections.

This will give a fairer and more accurate indication of the borrower's current and future income, allowing them to borrow more.

This will be especially important for any applicants whose new business experiences a growth in earnings. It should also reduce the number of self-employed applicants being viewed as economically 'risky.'

### **Consider a wider range of income streams**

Lenders should consider income more holistically and take into account all of the various income streams that a self-employed mortgage applicant may have. Financial assessments should be streamlined to ensure all income sources are accounted for, making the process fair for everyone.

## **Integrate Open Banking**

Since the Open Banking regulation came into force in January 2018, some lenders have enabled borrowers to make smarter decisions about their money management.

As long as permission is granted, Open Banking, which uses open Application Programming Interfaces (APIs), allows for other financial service providers to use personal data and offer additional services. This could include viewing balances or account details from multiple providers or managing payments from multiple accounts in one easy to use platform.

Open Banking has the potential to be one of the most pivotal innovations to better serve the self-employed with multidimensional and unique financial circumstances. It has the power to help those who might have previously found it difficult to prove they can afford a mortgage.

“

**I've been an  
underwriter for 20  
years and it still  
hasn't got any easier  
for self-employed  
applications.**

”



## Suggestions for the Government

HMRC have proposed a new initiative from 2020, Making Tax Digital. This initiative will overhaul tax administration, making the process more straightforward and efficient for taxpayers. This has the potential to improve the accessibility of tax documents for the self-employed, which in turn will make their mortgage applications smoother.

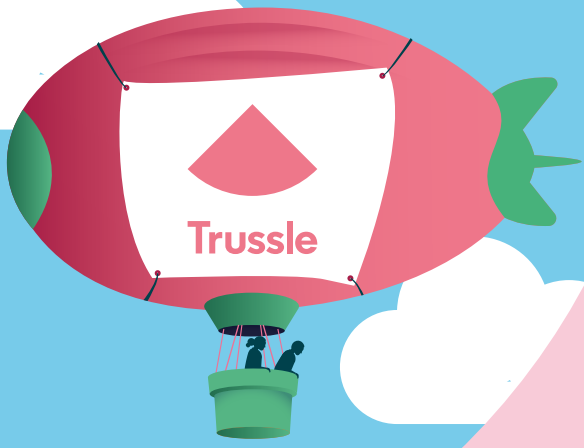
With this in place, we'd encourage the Government to consider the possibilities of introducing greater flexibility in tax reporting periods, with documents being issued by HMRC quarterly. This would enable mortgage lenders to assess self-employed mortgage applicants on their latest income and tax reports and ensure they're not being assessed on their past earnings.

Much like the financial freedom Open Banking will provide, lenders should be able to liaise directly with HMRC to request customer details, provided prior permission from the applicant has been granted.

## Suggestions for the wider mortgage industry

Improving communication between accountants, brokers, and lenders will ensure the specific circumstances of self-employed applicants are assessed fairly:

- Accountants should actively advise clients who've just become self-employed to speak to a mortgage adviser about their current or future mortgage options, while brokers should ensure self-employed customers have received specific business structure advice from an accountant
- Brokers and lenders should work together to make the criteria and documents required for self-employed applicants standardised across the board
- All industry parties should provide accessible guidance and advice for each stage of the self-employed mortgage process



# How Trussle is helping the under-served

Section 8



**The self-employed could soon outnumber the public-sector workforce. Yet, the mortgage industry hasn't kept pace with the needs of this growing group.**

As we've uncovered throughout this report, there are three key issues shutting the self-employed out from mortgages:

- Inconsistent criteria and categorisation of self-employed applicants
- A complex and lengthy mortgage application
- Unsuitable affordability calculations and credit risk modelling

Other issues include the self-employed making personal sacrifices to secure a mortgage and wasting time and money in the process.

**As part of our commitment to fighting for fairer mortgages, we're addressing these issues by:**

## Helping design fairer mortgage products

No one should miss out on owning a home due to their choice of employment. So we're using our data to help design new products for under-served groups, like the self-employed.

## Providing fairer mortgage advice

Using unbiased algorithms, True Cost, and a customer-first approach, we're determined to make mortgages accessible to everyone, regardless of their situation. And we want to ensure that borrowers are on the most suitable deal at all times.

## Building a fairer mortgage industry

We're working closely with lenders to identify ways to help them make faster, smarter, and more suitable decisions for borrowers, to prevent shutting anyone out who deserves a mortgage.

We're pushing for more transparency through the Mortgage Switch Guarantee, making mortgage switching easier for everyone.

## Building a fairer community

We're supporting the self-employed community through a series of workshops and we're working towards building an online mortgage hub to ensure there's enough advice and support for all of those who feel under-served.

Owning a home should mean security, roots, and a place to build a family. But so much of home ownership today is hard work.

**We're fighting for fairer mortgages and  
we urge you to join the fight.**

[fairermortgages.trussle.com](https://fairermortgages.trussle.com)

With your support, we can make a difference.

# Appendix

## Methodology

As part of this report, Trussle analysed lender data from Twenty7Tec.

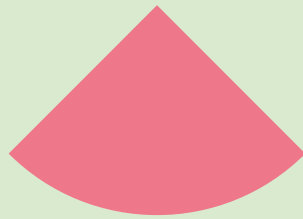
Consumer research for the Mortgage Saver Review May 2019 (pages 20-33) came from a survey of 2,002 male and female self-employed existing and aspiring homeowners on their experiences when securing a mortgage and the difficulties they faced when applying. This was carried out by research agency Atomik in March 2019.

## Appendix

1. Source: ONS UK labour market, January 2019 <https://bit.ly/2RZuTl1> [Section 4]
2. Source: The Mortgage Lender, Self-employed Mortgage Market Report, September 2018 <https://bit.ly/2YaYCNs>
3. Source: RSA, Boosting the living standards of the self-employed, March 2015 <https://bit.ly/2MklzYZ> 2015 and ONS, Public sector employment, UK: December 2018 <https://bit.ly/2Ha9J2s> [Second paragraph]
4. Source: The Mortgage Lender, Self-employed fear mortgage discrimination is rife, November 2018 <https://bit.ly/306hWgQ>
5. Source: Shelter, Building more affordable homes, October 2018 <https://bit.ly/2HdMohH>
6. Source: ONS, Milestones: journeying into adulthood, February 2019 <https://bit.ly/2DQM710>
7. Source: Institute for Fiscal Studies (IFS), The decline of homeownership among young adults, 2018 <https://bit.ly/2Jg4H8b> [Second paragraph]
8. Source: The Guardian, The 'monster' mortgage is back-is it a risk? July 2018 <https://bit.ly/2O7myxe>
9. Source: ONS Overview of the UK population, July 2017 <https://bit.ly/2uuMcka> [Figure 1]
10. Source: Paragon Banking Group, The Financial Advisor Confidence Tracking index, 2018 <https://bit.ly/308abXu>
11. Source: Centre for the Study of Financial Innovation (CSFI), March 2019 <https://bit.ly/2VNCStC>
12. Source: Mortgage Strategy, Beverley Building Society launches RIO, March 2019 <https://bit.ly/2Wzgst1>
13. Source: GOV, UK House Price Index for December 2018 <https://bit.ly/2Je3SMW>
14. Source: Findcourses.co.uk, What's the average salary in the UK? April 2019 <https://bit.ly/2DYHAL3>
15. Source: Mortgage Strategy, UK mortgage affordability flat but London bucks trend: Halifax, March 2019 <https://bit.ly/2Hc3TPn>
16. Source: Trussle's mortgage applicant data, March 2019 <https://bit.ly/2vL6oRV>
17. Source: Paragon Banking Group, The Financial Advisor Confidence Tracking index, 2018 <https://bit.ly/308abXu>
18. Source: ONS UK labour market, January 2019 <https://bit.ly/2RZuTl1> [Section 4] 4.85m = 14.9% of the workforce
19. Source: Nomis Official Labour Market Statistics, Annual Population Survey <https://bit.ly/2Hajcb8>

20. Source: The Association of Independent Professionals and the Self Employed (IPSE), Exploring the rise of self-employment in the modern economy, 2017 <https://bit.ly/2YakNU6> [Page 5]
21. Source: ONS, Proportion of self employed broken down by age, June 2018 <https://bit.ly/2VNE1i>
22. Source: ONS, Trends in self-employment in the UK, February 2018 <https://bit.ly/2G0JUUM> and ONS, Labour Market Overview UK: April 2019 <https://bit.ly/1qYK1E5> [Introduction]
23. Source: The Association of Independent Professionals and the Self Employed (IPSE), Exploring the rise of self-employment in the modern economy, 2017 <https://bit.ly/2YakNU6> [Page 7]
24. Source: ONS, Trends in self-employment in the UK, February 2018 <https://bit.ly/2G0JUUM> [Figure 7]
25. Source: Chartered Institute of Personnel and Development (CIPD), Megatrends: More selfies? Self-employment in the UK, January 2018 <https://bit.ly/2DEu1C8>
26. Source: The Independent, Three-quarters of UK employees favour flexible work, new study shows, February 2018 <https://ind.pn/2rNKrQE>
27. Source: Institute for Fiscal Studies (IFS), Differences in the way the tax system treats the self-employed, owner-managers and employees are costly, inefficient and unfair, February 2017 <https://bit.ly/2f1oSw>
28. Source: Small Business, Self-employed earn more and work less than salaried workers, January 2017 <https://bit.ly/2vMhJ4f>
29. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q5: To what extent, if at all, do you consider it to be more difficult to secure a mortgage as a self-employed person? Calculation: 31% responded 'Much more difficult' and 40% responded 'A little bit more difficult' = 71%
30. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q8: Thinking of a current/future/past mortgage application, which, if any, of the following statements are true? 22% responded 'I have felt penalised for being self-employed'
31. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q8: Thinking of a current/future/past mortgage application, which, if any, of the following statements are true? 11% responded 'I have felt victimised or overlooked due to my self-employed status'
32. According to UK Finance analysis of the top 21 intermediaries (based on Mortgage Advice Bureau lender panel 2019 - 12.02.19), disclaimer that brokers are grouped together: <https://www.ukfinance.org.uk/data-and-research/data/mortgages/largest-mortgage-lenders>
33. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q4: What, if anything, did you, or do you expect to find challenging about securing a mortgage? 13% responded 'Understanding whether I'd be categorised as self-employed or other due to non-standardised criteria from lenders'
34. According to analysis of UK Finance top 21 intermediaries (based on Mortgage Advice Bureau lender panel 2019 - 12.02.19), disclaimer that brokers are grouped together: <https://www.ukfinance.org.uk/data-and-research/data/mortgages/largest-mortgage-lenders>
35. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q11a: What do you think a fair financial assessment looks like for self-employed applicants? 48% responded 'Assessing work history, income or savings over employment status'
36. According to analysis of UK Finance top 21 intermediaries (based on Mortgage Advice Bureau lender panel 2019 - 12.02.19), disclaimer that brokers are grouped together: <https://www.ukfinance.org.uk/data-and-research/data/mortgages/largest-mortgage-lenders>
37. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q4: What, if anything, did you, or do you expect to find challenging about securing a mortgage? 20% responded 'The time spent gathering information for the application'
38. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q15: Considering the average broker fee is £500, how much did you pay? Please give your best estimate using the slider below. Calculation: 13% responded '£501-£1,000' and 8% responded '£1,001-£2,500' = 21%
39. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q15: Considering the average broker fee is £500, how much did you pay? Please give your best estimate using the slider below. 1% responded 'More than £2,500'
40. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q11b: To what extent do you feel that financial assessments are fair for self-employed people? 5% responded 'Very Fair' and 33% responded 'Not very fair' and 10% responded 'Not at all fair' = 44%
41. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q5: To what extent, if at all, do you consider it to be more difficult to secure a mortgage as a self-employed person? Calculation: 31% responded 'Much more difficult' and 41% responded 'A little bit more difficult' = 71%

42. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q9:  
As a self-employed person, has your employment status impacted your property ambitions? 31% responded 'Yes'
43. According to analysis of UK Finance top 21 intermediaries (based on Mortgage Advice Bureau lender panel 2019 - 12.02.19), disclaimer that brokers are grouped together: <https://www.ukfinance.org.uk/data-and-research/data/mortgages/largest-mortgage-lenders>
44. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q8:  
Thinking of a current/future/past mortgage application, which, if any, of the following statements are true? 37% responded to one or more of the following options:  
  
"I have put off plans to have a family or extend my family" (4%), "I have taken on extra work to prove my income on paper" (8%), "I have reconsidered my self-employment status altogether" (9%), "I have put off re-mortgaging" (9%),  
"I have put off moving home, despite my current home no longer being adequate to my changing lifestyle/needs" (7%) = 37%
45. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q7a:  
Have you ever/would you delay applying for a mortgage because of your self-employment status? Calculation: 24% responded 'Yes' and 9% responded 'I have considered delaying the process, but am persevering' = 33%
46. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q10:  
How has your self-employment impacted upon your property ambitions? 13% responded 'I've had to consider abandoning home ownership ambitions altogether'
47. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q8:  
Thinking of a current/future/past mortgage application, which, if any, of the following statements are true? 9% responded 'I have reconsidered my self-employment status altogether'
48. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q8:  
Thinking of a current/future/past mortgage application, which, if any, of the following statements are true? 198 respondents to this question were aged 25-34 years old. Of this, 35 said 'I have put off plans to have a family or extend my family' Calculation: 35 divided by 198 X 100= 17.67%
49. Source: The Association of Independent Professionals and the Self Employed (IPSE),  
Massive rise in number of self-employed mothers, March 2018 <https://bit.ly/2WEdDqZ>
50. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q14:  
In the previous question, you said you felt overlooked or penalised because of a pregnancy. How did this impact your application? 55% responded 'I felt like I was/we were being treated differently because of the pregnancy'
51. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Q14:  
In the previous question, you said you felt overlooked or penalised because of a pregnancy. How did this impact your application? 20% responded 'I was unreasonably asked to prove when I'd end my maternity/paternity leave' and 20% responded 'I was unable to determine exactly when I planned to return to work my self-employed role in a full-time capacity'
52. Source: The Association of Independent Professionals and the Self Employed (IPSE),  
Exploring the rise of self-employment in the modern economy March 2018 <https://bit.ly/2G2Yvyf>
53. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Verbatim response to Q7b:  
'You need a minimum of 12 months' worth of invoices to secure a mortgage. 24 months for better deals.'
54. Source: Atomik survey of 2,002 self-employed homeowners and those looking to buy, March 2019, Verbatim response to Q7b:  
'Because my income fluctuates so much, even with a deposit, it would be difficult to secure.'
55. Source: Secured Loan Expert, What You Need to Know about Loans for Self-Employed People <https://bit.ly/2Lw3co8>
56. Source: McKinsey & Company, New credit-risk models for the unbanked, April 2013 <https://mck.co/2OSch75>



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