

The Self-employed's Guide To Home Loan Approval



Being your boss has its perks, but it can also present challenges when it comes to getting approved for a mortgage. This comprehensive guide provides you with essential tips and insights to increase your chances of home loan approval. From financial records to all other necessary documents, we've got you covered.

So, who are self-employed individuals? In Australia, you are considered self-employed if you

- Have a registered ABN
- Manage your own tax and superannuation

How Do Lenders Evaluate Self-employed Loans?

With over 2 million self-employed individuals in Australia, the lending landscape has vastly changed from what it was before.

- Lenders do not perceive you as a high-risk borrower
- You still require supplementary income verification documents
- You can access the same interest rates and loan products as traditional Pay-As-You-Go (PAYG) applicants.

To determine the eligibility of self-employed borrowers, lenders look at three elements:

1. The duration of your ABN registration
2. The type and characteristics of the business
3. The intricacy of the trading structure



Why Do We Specialise In Helping Self-employed Borrowers?

The answer lies in the unique expertise we bring to the table.

When it comes to [self-employed and low-doc loans](#), the intricacies go beyond what's required for standard PAYG borrowers. Self-employed home loans demand a higher level of understanding and finesse. Self-employed borrowers need to provide extensive income documentation, including individual and business tax returns, company financials and individual Notices of Assessment (NoA).

We are experts in handling these complex applications. We understand that as a self-employed borrower, your situation is distinct, and we possess the knowledge and experience to navigate this landscape.

One distinct advantage we, as brokers, hold over traditional banks is our deep understanding of various business structures. Many bank staff members lack the firsthand experience of working for themselves or running a business. We, on the other hand, have walked in the shoes of self-employed individuals, allowing us to provide tailored solutions and comprehensive guidance informed by our experience.

Our mortgage brokers can provide tailored solutions for any self-employed individual. Start your application today to experience a personalised approach that aligns with your situation. Call us on [0800 000 000](#) or complete our free [online enquiry form](#) today.



What Roadblocks Do You Face?

As a self-employed borrower, you might face challenges when applying for a home loan that lead to getting declined for the following reasons:

Income Documentation:

Self-employed individuals typically have variable incomes, making it difficult to establish a consistent source of income for assessment. To determine their creditworthiness, lenders often require extensive documentation, including tax returns, financial statements and business records, which can be cumbersome and time-consuming to provide.

Risk of Default:

Self-employed property investors may experience fluctuations in their investments or the property market, which can increase the risk of defaulting on their home loans. Economic downturns or underperforming investments can affect their ability to meet mortgage payments.

Loan Amounts:

High-net-worth self-employed property investors often seek larger loan amounts to fund their real-estate ventures. While this can be profitable for the lending institution, it also exposes them to higher potential losses in the event of a default, making them more cautious about approving substantial loans.

Complex Underwriting:

Underwriting for self-employed individuals can be more complex and time-consuming than for traditional borrowers. Lenders need to assess the stability and profitability of the borrower's business thoroughly, which may require additional due diligence and documentation, contributing to a potentially higher risk of a loan application getting declined.

Throughout this guide, we will explore these roadblocks and how we can work together to mitigate them and improve your chances of mortgage approval.

What Type Of Self-employed Clients Do We Help?

- [Sole Trader](#)
- [Partner](#)
- Company
- [Company as Trustee for a Trust](#)
- [Contractors](#)
- [Freelancers](#)

Directors and shareholders of their [own businesses](#) can be considered self-employed. Contractors are considered self-employed if they pay their own superannuation and PAYG obligations.

How Long Do I Need To Be Self-Employed To Get Approved?

To qualify with most lenders, you need to be self-employed for at least two years. If you've been self-employed for more than two years, it shows the lender that:

- You have two or more full financial years of tax returns
- You have consistent income

At Home Loan Experts, we know lenders who can help you, even if you've been self-employed for less than two years:

- If you've been in the same line of work or industry and are self-employed for less than a year, we can help.
- If you were self-employed for less than a year, options are limited, but if you can provide a strong case and documentation, it increases your chances of approval.

We have lenders on our panel who can help if your ABN has been registered for at least one day to six months. We're here to help you right away. Call us on **1300 889 743** or [enquiry online](#).

How Much Can I Borrow?

You might be able to borrow up to:

- 95% of the property value if you have up to two years of tax returns
- 80% to 90% of the property value if it's a low-doc application
- 80% of the property value if you're self-employed for less than a year

Document Checklist For Self-employed Borrowers

This checklist is for self-employed borrowers who have the financials and documentation to prove their income:

- Personal [tax returns](#) from the two most recent financial years
- Most recent ATO NoA OR an accountant's letter that confirms tax returns are final and lodged with the ATO
- Business tax return from the most recent financial year
- Business financial statements that an accountant prepares. These include the last two consecutive years of Profit and Loss Statements, Balance Sheets and depreciation schedules from the most recent financial year.
- The business has traded profitably in two of the most recent financial years
- Active ABN for a minimum of 18 to 24 months.
- Businesses that earn over \$75,000 each year must register for GST. After registration, you must lodge a regular Business Activity Statement (BAS) to report how much GST your business has collected and is claiming.

If you're a sole trader:

- Individual tax return
- NoA from ATO
- Profit and loss statement and balance sheet of previous year
- GST registration (trading entity)

If you're a contractor:

- Provide as many invoices as you can
- A copy of your contract
- A letter from your employer
- For the bank account where you receive your pay, provide the most recent bank statement and a transaction history of the last six months.

If you're self-employed under a company, partner or trust structure:

- Individual tax return
- Company, partner or trust tax return
- NoA for both individual and business
- Profit and loss statement and balance sheet of previous year.

Low-Doc Loans For Self-employed Borrowers

If you don't quite have all the documents that a lender requires, low-doc options are available.

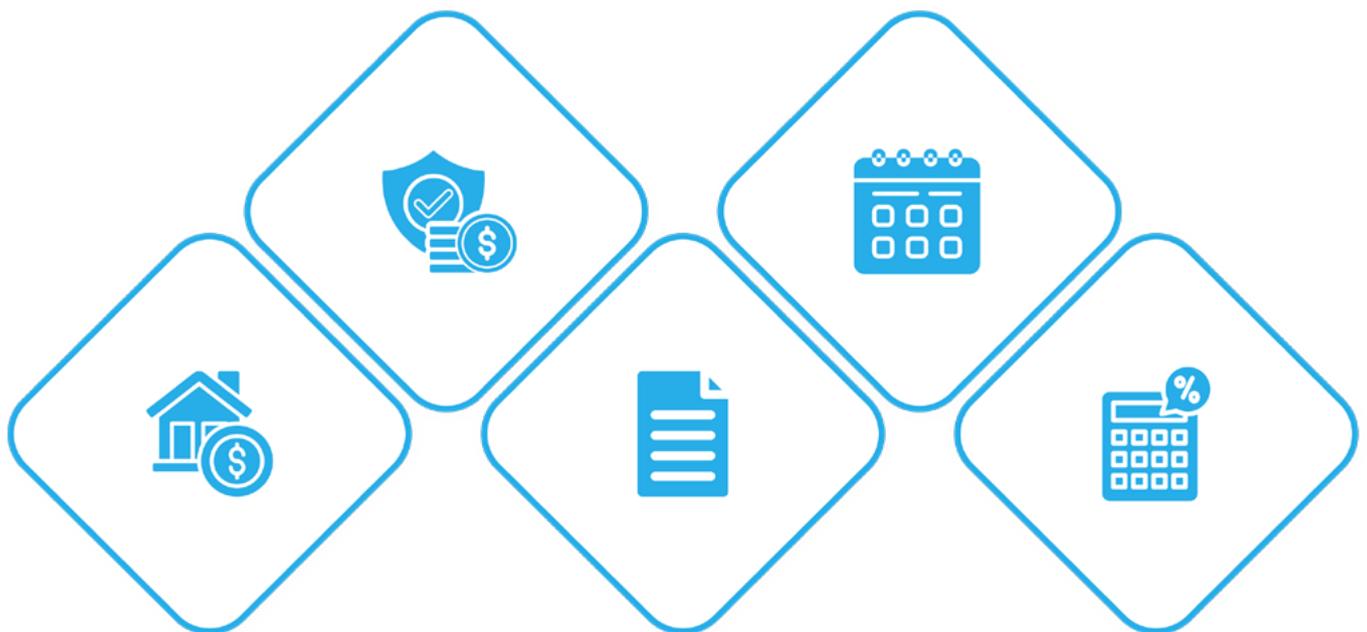
Low-documentation loans, often referred to as [low-doc loans](#), are designed to accommodate self-employed borrowers who may struggle to provide comprehensive income documentation required for a home loan. This can happen due to various factors, like delayed tax return filings or discrepancies between recent tax returns and actual income.

Low-doc loans for self-employed borrowers are suited for:

- Freelancers or contractors who have fluctuating incomes and cannot prove their income through traditional means.
- Small-business owners who might have to reinvest a portion of their income into their business and, therefore, have lower taxable income.
- New business owners who have recently started their business and don't have a financial history.

What Documents Do I Need to provide?

- Your ABN registration
- At least 12 months of BAS
- At least six months of bank statements from your business and personal accounts
- An accountant's letter that confirms your income.



How Is My Income Calculated?

A lender or mortgage broker will use one of three ways to calculate your income:

- The lowest income figures from the last two years OR
- The most recent year's income as shown on the tax return OR
- The average of the two years or take 120% of the lowest year's income

Our experts will work out a higher income for assessment by:

- Finding a lender that will assess the loan based on the most recent one-year tax return, NOA and financial documents.
- If the income variation between the two years is less than or equal to 20%, we will take the average of the two-year figures for servicing.

The Error Of Double Dipping

Double-dipping is when the lender takes income or an expense into account twice, which causes errors when calculating your income and borrowing capacity.

Some examples of double-dipping are:

- Dividend of self-employed is accepted as personal income and added back to the company's profit.
- Not adding back interest on loans and assessing it as a borrower's commitment.
- Rental income is accounted in gross profit and assessed as the borrower's income.

Increase Your Borrowing Power With Add Backs

An add back refers to the process of including certain expenses or deductions in your income for the purpose of determining your true financial picture

As a self-employed borrower, take advantage of tax deductions and write-offs to lower your taxable income. Lenders assess your income for repayment ability, and including certain deductions provides a more accurate financial representation. Some add backs that lenders consider are:

- Depreciation
- Additional superannuation
- Net Profit Before Tax
- One-off expenses
- Rental property expenses
- Company car expenses
- Asset write-offs

Here's where we come in. At Home Loan Experts, we can navigate these nuances, steer clear of double-dipping pitfalls and implement add backs to [maximise your borrowing power](#).

Eight Tips To Increase Your Chances Of Approval

1

Keep detailed financial records

Make sure you've maintained well-organised and updated financial records to demonstrate consistent income to lenders. Documents to keep include invoices, activity statements and bank statements that provide evidence of regular income.

Ensure you have a registered ABN and are registered for GST (where applicable), as this establishes the legitimacy of your business.

2

Get Your Paperwork In Order

You need to provide a different set of documents than salaried employees. Lenders usually require at least two years of business financials.

Other documents include tax returns, profit and loss statements, bank statements and other documents that prove your income claims.

3

Manage Personal Credit Responsibly

Paying credit-card bills and making repayments on other loans is necessary for maintaining a healthy credit score. A good credit score can help you secure competitive interest rates on your home loan.

Lowering your existing debts can reduce your [Debt-To-Income ratio](#), increasing your chances of approval.

4

Monitor Cash Flow

Track your business's cash flow on a monthly basis. This will help you identify trends, predict cash flow issues, and make informed business decisions.

Save money for taxes and GST regularly so you're prepared when tax time comes around. Having the funds set aside for these obligations demonstrates financial responsibility to lenders.

Eight Tips To Increase Your Chances Of Approval

5

Optimise Inventory Management

If your business involves inventory, carefully manage your stock levels. Tying up too much capital in unsold inventory can strain your cash flow.

Regularly review your inventory practices to ensure you're ordering only what's necessary. Efficient inventory management can free up funds that can be used to meet personal financial obligations and strengthen your mortgage application.

6

Consult With An Accountant

Speak with your accountant about your plans to purchase a home in the next couple of years. They can help you optimise your financial situation and possibly maximise your income, which can benefit your home loan application.

Your accountant can also assist in ensuring that your financial records are in order and properly structured for a mortgage application.

7

Consider A Guarantor

If your variable income as a freelancer raises concerns for the lender, consider finding a guarantor with a stable financial background. This individual can vouch for your ability to meet the loan criteria.

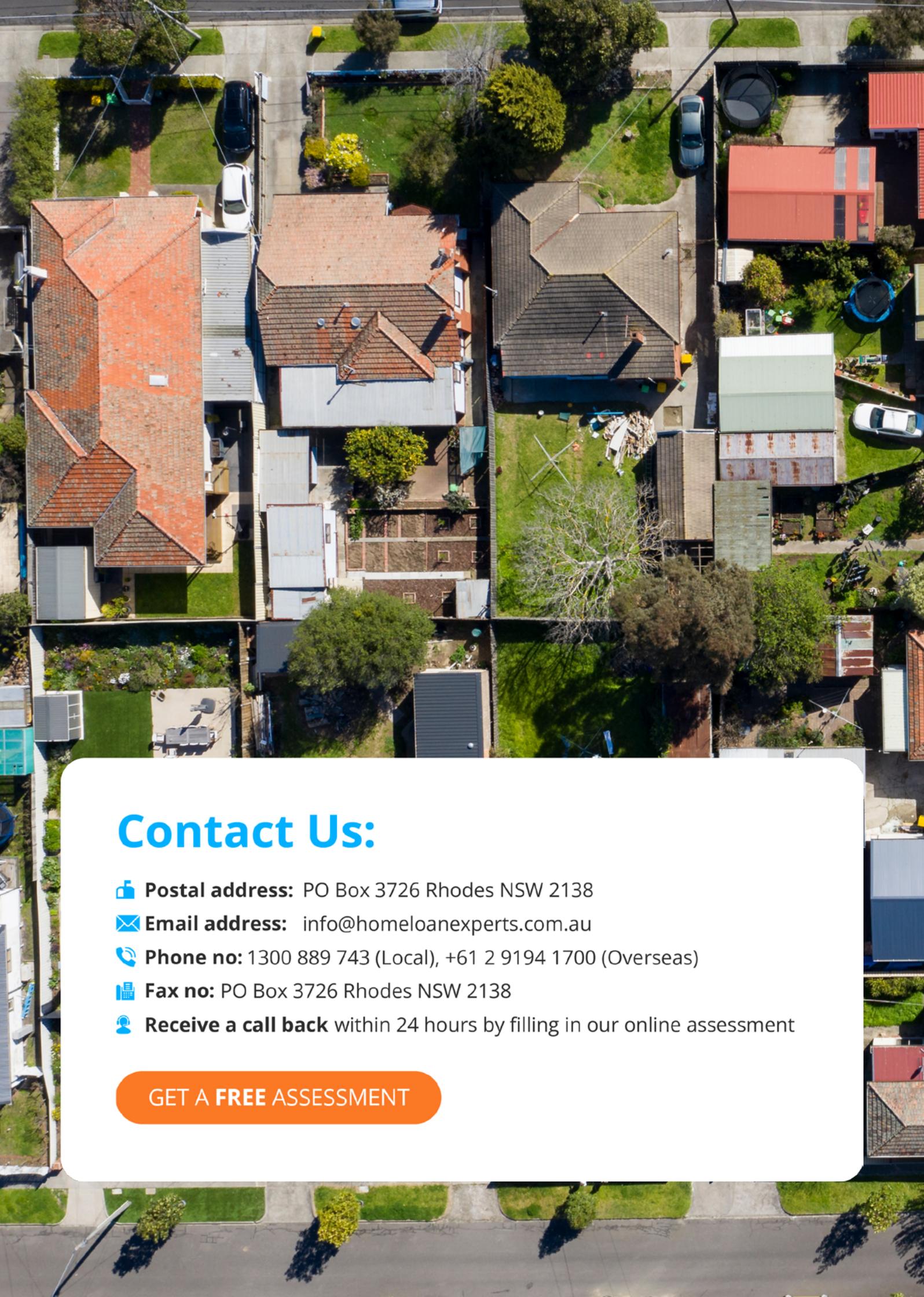
The guarantor should ideally have a strong financial profile and be prepared to assume responsibility if you cannot meet your mortgage obligations.

8

Separate Personal And Business Finances

Maintaining separate bank accounts and financial records for personal and business transactions is essential. This clear separation makes it easier to track and report your business income and expenses accurately.

It also helps prevent the comingling of funds, which can complicate your financial records and affect your mortgage application.



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 **Receive a call back** within 24 hours by filling in our online assessment

[GET A FREE ASSESSMENT](#)