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Contractors stuck in mortgage famine since credit crunch

- **Increasing problem as workforce shifts to self-employment**
 - **Banks fail to recognise earning power of contractors**

Contractors still face unfair treatment from banks on mortgage applications over five years after the credit crunch, says NoPalaver Group, a leading provider of accounting services.

NoPalaver says that despite a recovery in the mortgage market since the financial crisis, banks are failing to recognise the improved earnings capacity of contractors.

According to NoPalaver, this is a growing problem as the number of self-employed people has increased by 10% since the start of the financial crisis. Contractors now make up 14% of the UK's workforce*.

NoPalaver says that artificial impediments to contractors accessing mortgages is preventing them from becoming homeowners or moving from the house they already own.

NoPalaver explains that mortgage lenders are hesitant to lend to contractors because:

- Lenders see contractor earnings as volatile: Contractors earn their money through dividends or may have lump sums at the beginning or end of contracts. While they may earn more than employees, mortgage providers prefer to use regular payslips as proof of income rather than invoices. NoPalaver adds that invoiced values were previously used to apply for self-certified mortgages, but these mortgages were effectively banned in 2010.
- Lenders fail to understand the contractor business model: For example, the high demand for a skilled contractor often keeps them moving from one job to another wherever their skills are needed. However, this turnover of jobs is not seen as a positive by lenders, but as a sign of job instability.
- Mortgage lenders struggle to verify contractors' identity: Constantly moving around the country means that contractors are often not resident in one place long enough to register on the electoral roll. This is a typical tool that mortgage providers use to check applicants' identities, which can cause particular problems for contractors trying to buy their first home.

Graham Jenner, Director at NoPalaver, says: “Mortgage approval rates for employees have recovered since the financial crisis, but contractor approval rates are lagging behind. Contractors are effectively penalised by mortgage providers for running their own business.”

NoPalaver adds that because mortgage providers favour regular earnings, an employee with much lower but regular earnings has a better chance of successfully applying for a similar sized mortgage than a contractor.

Graham Jenner comments: “Mortgage providers can’t see beyond the lack of regular pay. Contractors don’t fit in easily with the forms and processes they use to make a mortgage approval decision, so contractors end up losing out.”

NoPalaver says that contractors are often surprised at the gap between the size of mortgages they apply for and the size of mortgages that lenders are prepared to offer them.

Graham Jenner says: “Many contractors feel that they are high earners with a very successful career. It is very difficult for them to understand why banks refuse to give mortgages commensurate to their earning capacity.”

Advice for contractors

NoPalaver says contractors do need to be ready to provide banks with extra information which may help them in getting a favourable decision, such as asking their accountant to certify their earnings as part of their mortgage applications.

Graham Jenner says: “An earnings certification is one of the few tools contractors have to convince mortgage providers of their income. However, this does add extra time and cost to the application process for a contractor.”

NoPalaver suggests that contractors should provide banks with a figure for the equivalent gross salary that they would have to earn as an employee to generate their current net income.

Graham Jenner explains: “Contractors’ tax payments are much lower than permanent employees’. To bring home the same net income as a contractor, an employee would have to earn a far higher gross salary. Finding a simple way to show a contractors’ earnings power compared to an employee’s could help dispel some of the mortgage provider’s concerns.”

*Office for National Statistics. The rise covers a four year period from Jan 2008 –Dec 2012.

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About NoPalaver

The NoPalaver Group provides umbrella services to contractors and personal service companies. The NoPalaver Group includes:

- NoPalaver Accountants, which provides specialist accountancy support to contractors working through limited companies

- NoPalaver Umbrella, which helps contractors in all sectors run their personal service company
- NoPalaver CIS, which helps sub-contractors in the construction industry maintain self-employment status, and simplifies payroll issues for agencies and contractors. NoPalaver CIS looks after sub-contractors' invoicing, payment, and CIS tax issues.
- NoPalaver Contractors, which enables contractors in other industries to maintain self-employment status through a personalised weekly payment administration service

Press contacts:

Graham Jenner
NoPalaver
Director
Tel: 01908 630230

Kerry Hearn
NoPalaver
Office Manager
Tel: 01908 630230

Louis Auty or Nick Mattison
Mattison Public Relations
Tel: 0207 645 3636 / 07841 902 458