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Self-employed borrowers thrown a bone as delta strain bites

Duncan Hughes *Reporter*



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Big lenders including Commonwealth Bank and ANZ are easing some of the traditional hurdles for self-employed people to purchase property as another wave of COVID-19 outbreaks slows sales, hits profits and weakens prospects.

Some lenders are relaxing income verification conditions for business-owning borrowers wanting to make the most of record-low rates, before they inevitably rise, and compete against [strong buyer](#) demand.



The banking industry has changed its tune on self-employed borrowers and is enabling more to qualify for home loans. **Peter Rae**

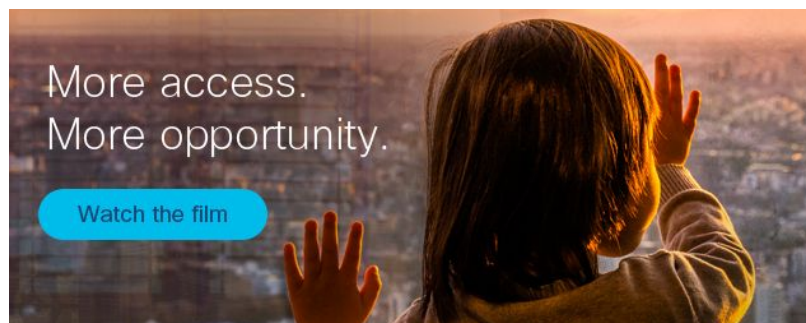
But the pandemic’s devastating impact on revenues for many small businesses and increased use of government subsidies like JobKeeper are making it more difficult to meet lenders’ borrowing criteria.

“If the lockdown continues and [government subsidies](#) are not adequate then many businesses are going to struggle,” said Anita Marshall, a mortgage broker and managing director of Advanced Finance Solutions.

“You don’t want to create big mortgage debt for the owners of businesses that have relied on subsidies to keep going and are going to hit difficult times again if current lockdowns continue.”

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Self-employed people make up more than 18 per cent of the nation's 11 million-strong workforce, holding jobs ranging from building and construction through to stockbroking and hairdressing.

Specific overtures to assist self-employed customers during the pandemic reflects a change in tune by the banking and finance industry.

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"Traditionally the lending culture has been against the self-employed," says Ken Phillips, chief executive of Self-Employed Australia, a lobby group for independent contractors and sole traders.

"There has been a perception that unless you are an employee, you do not have a secure job. That means self employed usually have had to produce more evidence of employment over a longer period, typically two years."

About 80 per cent of workers in the financial services, house building, farming and photography industries are self-employed, according to IBISWorld, a research company.

Analysis by Judo Bank, an online lender to small and medium-sized enterprises, estimates many of the nation's SMEs could be felled by the coronavirus crisis.

But others, particularly in digital technologies, building and medicine, have thrived – and their owners are keen to splash cash in the booming property market.

Tree-change trouble

Shane Williams, director of Totally Workwear in Port Stephens, 160 kilometres north of Sydney, says "business has been crazy", with a spike in demand for safety gear, as well as specific corporate wear, such as uniforms.

"People are not spending money on holidays so there's more for renovations and business," says Williams, a father of three who runs the company with his wife, Melody.

But Williams faced the dilemma confronting many small businesses when he recently applied for a mortgage to fund a tree-change move away from the coast.

Strong business returns during the past 12 months could have been offset by weaker income during the previous year, which might have impacted his capacity to borrow.

Major lenders, including CBA and ANZ, have reduced the period of business records and profits required to qualify for a loan from two years to between six and 12 months respectively, according to analysis by Canstar, which monitors fees and rates.

"It has been a game-changer for small business owners," says Advanced Finance's Marshall.

For example, CBA wants evidence, such as salary credits to a bank account, that the same wage has been paid to the self-employee for at least six months.

Alternatively, a self-employee can provide a pay slip showing more than six months' income accompanied by an accountant's letter confirming the income and declaration it can be sustained.

Other lenders such as ANZ require about 12 months of financial statements.

Rates for self-employees and PAYE (pay-as-you-earn) staffers are usually the same and they are both offered the same products, ranging from fixed and variable to construction loans and lines of credit, which allow borrowing using equity in a property or deposit, says Marshall.

“What is different is the way income is verified,” she says.

Barry Thatcher, of Thatcher Finance, which specialises in residential and commercial mortgages, says: “It’s a moving feast for borrowers and self-employed need to be really well prepared before going to the banks to avoid poor outcomes.”

Thatcher adds: “Lenders rates and conditions are all different.”

Chris Foster-Ramsay, principal of Foster Ramsay Finance, says the better the financials, the easier it is to negotiate big discounts off the headline rates from lenders competing hard for business.

“They’ll knock-off up to 180 basis points for the right applicant,” says Foster-Ramsay, a mortgage broker.

‘Too good accountant’

Others, such as Macquarie Bank, reduce rates as the size of deposits rise. For example, a borrower with a 20 per cent deposit can tap into a rate of 2.49 per cent, falling to 2.34 per cent for a 40 per cent deposit.

Many lenders tightened lending conditions during the first signs of the pandemic in early 2020 amid concerns that self-employed borrowers were more likely to default because of slowing economic activity.



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Some increased deposit sizes, tightened scrutiny of business activity statements and lowered the percentage of less stable income, such as commissions and bonuses, considered as income for a loan application.

Others lowered bonus, commission and overtime income assessed from 80 per cent to 50 per cent for those not employed in essential services.

For many borrowers, that meant they had to find bigger deposits, pay higher interest rates and had fewer products to choose from.

Most lenders continue to require ‘full verification’, which usually means two years of financial statements, including tax returns, bank records and financial statements, a profit and loss report and Business Activity Statement, which indicates their tax obligations, including GST.

Some prospective borrowers are allowed to self declare their income, which requires signing a certification that enough income is earned to afford loan repayments. It might require an accountant’s verification or bank statements to confirm.

Sarah Megginson, senior home loan specialist for financial comparison website Finder, says: “Another consideration for self-employed borrowers is that one of the biggest problems they face when applying for a home loan is that their accountant is often too good.”

Megginson adds: “Your accountant works very hard to reduce your taxable income by writing down a lot of your business expenditure. While this might help reduce how much you pay in tax, it also has a negative effect on reducing how much you’re able to borrow at the same time”.

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