

SIMPLIFYING MORTGAGES FOR THE SELF-EMPLOYED

HELEN CAWTHRA • HEAD OF NATIONAL ACCOUNTS



The UK's self-employed community is a vital and dynamic part of the UK economy. From sole traders and contractors to company directors and freelancers, more than four million people across the country work for themselves¹. Their contribution spans established sectors such as construction and professional services², as well as newer, fast-growing industries like digital content creation and influencing³.

In recent years, however, the economic backdrop has presented challenges. Ongoing cost-of-living pressures and higher interest rates have affected borrowers across the board. For those who are self-employed, these pressures are often felt more acutely. Income may fluctuate month to month, operating costs have risen, and forward planning can be more complex in uncertain conditions.

Against this backdrop, it is important to understand how the mortgage journey differs for self-employed borrowers, and how the right support can make it simpler and more transparent.



A different income story

For employees paid on a pay as you earn basis (PAYE), assessing income is typically straightforward. Lenders will usually rely on recent payslips and a P60 to confirm salary and, where relevant, bonuses or commission. Income is generally regular, predictable, and evidenced in a consistent format.

For self-employed applicants, the picture is often more complex. Income can vary significantly from one year to the next, influenced by things like market conditions, seasonal factors, how much the borrower has worked recently, and investments made in their business. Lenders may require a combination of documents, such as a SA302 form, a tax year overview from HMRC over the previous two or three years, or two to three years of accounts detailing the income of the applicant, ideally prepared by an accountant.

There are also different ways that income is interpreted depending on the applicant's business structure. Sole traders are typically assessed on their net profit, while limited company directors are often considered based on a combination of salary and dividends, subject to individual lender criteria. Where income has grown steadily, some lenders may consider the most recent year's figures, while others will average income over two or three years to account for fluctuations.



The current climate

The current economic environment has only heightened this complexity. Across the board, higher interest rates have increased monthly mortgage costs, while household budgets are under pressure from elevated living expenses. For self-employed borrowers, whose income may already fluctuate, demonstrating affordability can require additional explanation and documentation.

The challenges for self-employed borrowers are not limited to first-time purchases. When remortgaging or moving home, similar considerations apply. A borrower who qualified comfortably

1 <https://www.statista.com/statistics/318234/united-kingdom-self-employed/#:~:text=Demographics%20of%20the%20self-employed&text=As%20of%202024%2C%20the%20most,self-employment%20in%20the%20UK>
2 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employeesandselfemployedbyindustryemp14>
3 [https://www.charle.co.uk/articles/influencer-marketing-statistics/#:~:text=The%20UK%20has%20over%2098%2C000,100%2C000\)%2C%20and%20larger%20accounts](https://www.charle.co.uk/articles/influencer-marketing-statistics/#:~:text=The%20UK%20has%20over%2098%2C000,100%2C000)%2C%20and%20larger%20accounts)

several years ago may now face different criteria, particularly if their income structure has changed. In addition, changes in lender affordability models and higher interest rates can mean that even where earnings have remained stable, the assessment process may be different compared to the time of the original application.

At the same time, there are positive developments. Many self-employed individuals have adapted quickly to changing market conditions through diversifying their income streams, with the number of “side hustles” reportedly increasing by 20% year-on-year in 2024⁴. Digital professionals and influencers, for example, may earn income from multiple sources including brand partnerships, advertising revenue, and personalised merchandise and branded products⁵. These models can be resilient and scalable, but they require lenders and brokers to interpret income structures that are relatively new.



The value of a specialist approach

Given these complexities, specialist knowledge plays an essential role in simplifying the process. Specialist lenders can provide lending criteria designed to accommodate individual circumstances, using human underwriters to assess applications rather than relying on automated credit scoring.

Not all lenders assess self-employed income in the same way, and criteria can vary significantly. Understanding which lenders are comfortable with specific professions, income patterns, or levels of trading history can make a material difference to outcomes.

Self-employed borrowers may assume that their variable income puts them at a disadvantage, or that mortgage options are limited. In reality, there are a wide range of products designed to support different income profiles, including solutions tailored for contractors, company directors and those with shorter trading histories. By taking a holistic view of the applicant’s financial position and business trajectory, lenders and brokers can work together to structure cases effectively.



An Important and Growing Market

Self-employed professionals represent a diverse, ambitious and economically significant segment of the UK population. Their businesses drive innovation, create employment, and contribute to growth across sectors old and new. As the world of work continues to evolve, this segment is likely to expand further.

While the mortgage journey for self-employed borrowers is rarely identical to that of a PAYE applicant, it does not need to be more difficult. With the right preparation, clear documentation, and access to lenders who understand the nuances of self-employed income, there are effective solutions available.

In this process, the role of the broker is central, being well placed to set expectations, explain documentation requirements, and match clients with lenders whose criteria align with their circumstances. By guiding self-employed borrowers through each stage of the journey, brokers help ensure that the mortgage solution chosen is appropriate, sustainable, and aligned to long-term goals.

For lenders committed to serving this important market, continuing to educate, innovate, and collaborate with brokers will be key to keeping mortgages accessible and straightforward for the self-employed community going forward.

⁴ <https://www.ipse.co.uk/campaigns/the-self-employed-landscape/self-employed-landscape-2024>

⁵ https://www.shopify.com/uk/blog/how-do-influencers-make-money?utm_source=chatgpt

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