Getting Lenders to Like You!

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Lenders have so much choice about who they lend to these days you need to make yourself as 'attractive' as possible to give yourself the best chance of being accepted. Added to which if you can be accepted by the lenders who have tougher criteria or credit scoring models then you've got a better chance of getting better rates and terms too.

I'll sometimes say to a client 'if only you'd spoken to me first' where a little planning and forethought could have resulted in a competently different outcome for them. This often revolves around ensuring that the client is 'prepared' for the lenders requirements. So this article is going to focus on what you can do to ensure you're ready for applications and getting the lenders to like you.

Mortgages

I speak to clients how find they have let out their house that's on a residential mortgage and are living in one of their buy to lets or even both! If you're applying for buy to let mortgages lenders will want to see that you have the correct mortgages in place and that you aren't going to be using their mortgages in the wrong way. For residential mortgage applications it's doubly important as lenders will want to see that you don't have multiple residential mortgages that they need to account for in their affordability potentially massively reducing the amount you can borrow.

You need to ensure that if a property is let out it is:-

- Unencumbered (no mortgage debt)
- Or has a buy to let mortgage
- Or has a residential mortgage with permission to let in writing from the lender

You should also ensure that you can produce a proper tenancy agreement and bank statements clearly showing the rental income being deposited direct from the tenant or from the managing agent and the bank statement should also show the mortgage payments too (if applicable).

If you have a property such as a holiday let, second home, etc with a residential mortgage on it but no consistent rental income coming in then lenders will usually deduct this mortgage from your affordability calculations.

Case Study

Applicants had moved into their buy to let property and had rented out their former home without seeking permission from either lender. They hadn't realised any issues in doing so like many believing its ok as long as the mortgage is paid. They contacted me to arrange a buy to let mortgage for their new purchase. Before we could begin however we had to remortgage their residential mortgage onto a buy to let, release equity from this property to reduce their now residential mortgage as their incomes were insufficient to remain on their current residential borrowings. Once that was done we proceeded with their new purchase with a proper buy to let mortgage. The entire exercise reduced their residential borrowing, improved their cashflow due to better rates and terms, provided them with a second buy to let property, ensured they were now properly insured and legitimised their overall lending profile.

Unsecured Borrowing

Lenders are far more fearful of unsecured borrowing levels than they are secured; this includes credit cards, overdrafts, and loans including car loans and PCP or lease arrangements. Keep these to an absolute minimum certainly try to keep credit card and personal loan debts to well below your annual income.

Many lenders will simply decline you if they see 'pay day' loans on your credit file even if they are settled.

Missed Payments

Even one missed card or mobile phone payment can mean lenders declining you. You must take responsibility for your finances and stay on top of them. You can complain to the broker all you like about how unfair it all is and give the best story on the planet about why you missed the payment but most lenders simply don't want to know. A missed payment is a missed payment!

Small missed payments over a year old are less likely to have an effect than a mortgage payment; a single missed mortgage payment at ANY time on your file can mean a decline for many lenders.

Payment arrangements, CCJs and defaults will mean a decline for most lenders. There are exceptions subject to the size of the debt and the date it was settled but any active arrangement will lead to a decline.

If you have missed payments, defaults, etc then talk to your mortgage broker about them in advance. Applying to lenders knowing you would be declined is just a waste of time and money and only damages your credit file further.

Case Study

An applicant approached me who had been bankrupt ten years earlier. We approached numerous lenders how refused to lend for buy to let purposes.

However one lender was willing to consider the case with a good explanation and various documents including the court discharge documentation. The items took several months to obtain but resulted in the applicant obtaining a suitable standard rate product.

Searches

Beware the search! When you apply for credit lenders will perform a search of your credit file. These will typically sit on your credit file for 6 months then ‘drop off’, some will stay for longer and some will sit there indefinitely as the agency forgot to remove them!

Beware of comparison websites; when you enter your details just once many companies may check your file – a recent credit file I saw had 27 searches from insurance companies in 2 weeks unbeknownst to the applicant! Similarly insures and utility companies will often perform credit check searches too.

Searches do <u>not</u> tell a lender if you passed or failed however multiple searches in a short period may indicate to a lender the following:-

- Fraudulent activity (deliberate or otherwise)
- Declines by other companies meaning they won’t be keen to lend either
- That you’re trying to rack up a lot of credit/debt in a short period of time
- Financial problems

All of these mean lenders aren’t keen to lend and sadly I have seen people declined just because of a high number of searches on their credit files even if the rest of their credit profile is excellent.

Accounts and Tax Returns

Lenders will typically want to see at least 2 years, if not 3 years, of tax returns or accounts. It’s no good offsetting everything for tax then finding your income is insufficient to meet lenders criteria as unfortunately this is something that you can’t put right quickly and needs to be thought through several years in advance.

I have many a debate with clients who tell me their accountant is paid to reduce their tax bills but then they can’t get a mortgage as a result.

Full time landlords are a particular problem where proving income is concerned as by the time they’ve offset their carried forward losses and wear and tear allowance etc they will often show zero taxable income and it doesn’t matter how great your profit are most lenders will decline if the taxable income is zero even the ‘no minimum income’ lenders.

I’m afraid you have to decide what’s more important; saving tax or getting a mortgage!

Case Study

I was approached by a client wanting to buy his own home; he had only been self employed for just over one year and his first year accounts were insufficient for his borrowing requirement. I explained to him about the need for showing plenty of income and the sort of figure he would need to show in his accounts going forward. In the meantime he found his ideal property.

His mom was going to be gifting him the deposit anyway so I arranged a regulated buy to let mortgage in his mom's name and he moved in as her tenant. He now knew exactly what figure he needed to buy the property back from his mom and what inseam he would need to earn and prove via his accounts to do this in a year or two.

SA302s

These are a summary of your self assessment tax return and are issued by HMRC. You will need to produce 2/3 years worth of these for mortgage applications that require proof of income.

It is worth getting into the habit of requesting these from HMRC each year. They are only issued on request and not automatically and take a couple of weeks to arrive so tackle this one before you need the mortgage.

Credit Files

A quarter of all credit file reports are inaccurate; check yours thoroughly well in advance of any applications. Your mortgage broker should be happy to go over yours with you and highlight any areas of concern or things you can remedy before an application. I do this regularly for clients in order to prepare them for applications and give them the best shot at being accepted first time around.

There are three main credit referencing agencies and I'd suggest obtaining your credit report from them all and monitoring at least one of them regularly. Not all lenders report to all three agencies and some lenders use just one agency to check applicants credit.

- http://www.equifax.co.uk
- http://www.experian.co.uk
- http://www.callcredit.co.uk

There are also the two fraud prevention agencies:-

- http://www.cifas.org.uk
- http://www.nhunter.co.uk

You can request your fraud report from National Hunter if you find yourself declined for no apparent reason and nothing is obviously wrong with your credit file. If the report is returned blank this is a good thing! It does not appear in the same format as the reports you may be used to seeing from the credit reference agencies.

Here are some more tips on your credit file:-

Check your address history and dates are correct; be careful of moving too often as multiple addresses cause lenders concern.

Don't miss off any addresses even if you only lived there for a short time; if lenders find credit at undeclared addresses they will assume you are trying to hide something.

Beware of not changing banks, credit cards etc to your new address – a lot of times people will leave accounts at parents addresses etc when they move out but this can cause problems down the line when trying to evidence your own address and also reassuring lenders you aren't keeping anything from them.

- Keep your borrowing on unsecured debt to 75% or less of the available credit.
- Reduce your credit limits if you're not using them.
- Cancel unused cards and overdraft facilities – these still affect your credit file and score.
- Delete old accounts – they don't always get removed after 6 years.
- Ask for incorrectly listed or old connected parties to be removed.
- If you have a genuine reason for a default/missed payment ask for a note to be added to your file – this will usually automatically result in a refer for applications but at least gives the lender a chance to see your side of the story
- Remember to request any changes with all three agencies.
- Beware of using credit cards to pay monthly bills; while this can be a good way of building up your credit score you need to time this perfectly as some lenders will use the outstanding balance against your affordability even if you pay it off every month!
- Don't pay too much attention to credit scores; while they can give you an indication of any issues with your report they don't bear any relation to the scores the lenders use themselves. I have seen people with 999 declined and score in the 300s and pass!

Case Study

Applicant had been declined for a mortgage via another broker due to not declaring some addresses; he had a very complicated address history due to family changes and unfortunately it looked to the lender as if he had not declared some of these deliberately as he hadn't realised the importance of including every single address. I reviewed the client's credit file and got him to contact each credit reference agency with his accurate address history. We deleted or changed addresses for some of his accounts and generally tidied up his credit file. We started the case again with the same lender declaring every single address and all the relevant dates. This time it all matched his credit profile accurately and the lender was happy to lend and he recently completed.

Lisa Orme is an experienced property developer, investor and mortgage broker and specialises in property and financial services for new and established property investors.

*If you'd like to discuss your property investment strategy or indeed any mortgage or financial requirements you can contact Lisa at **lisa@keys-mortgages.com** or call **02476455445**.*