



MARKET MOMENT

SELF EMPLOYED MORTGAGES

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INTRODUCTION



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The self-employed and the mortgage market have always been interesting “bed fellows”, with some Lenders very cautious in their risk appetite around this area, and others making it central to their lending policy. When looking at the self-employed space, there are some interesting characteristics to be considered when it comes to trying to understand it.

Self-employment in the UK has grown steadily, from a low of just 3.2 million in December 2000, to a peak of over 5 million at the start of 2020. After the COVID-19 pandemic, however, self-employment has fallen to levels not seen since the middle of 2015 and has struggled to recover to its pre-pandemic peak. As of June 2024, there were around 4.27 million self-employed workers in the United Kingdom according to the ONS.

UK Self-employment jobs SA : Total (thousands)



Source: [Office for National Statistics](#)



Some other key facts about the self-employed market in the UK are as follows:

- Between 1992 and 2023, there has consistently been more self-employed men than women, with recent figures showing that over 2.74 million men, and 1.62 million women were self-employed.
- As of 2022, the age group with the highest percentage of individuals self-employed was those aged between 45 and 54 years old, reaching just over 1.3 million individuals.
- Also in 2022, around 757,000 self-employed workers in the UK were based in the London region, with a further 644,000 based in South East England.
- The solo self-employed workforce contributes an estimated £278bn a year to the UK economy.
- Research shows that the solo self-employed sector (people who own a business independently and do not employ any other people) contributes an impressive, estimated figure of £278bn to the UK economy per year.
- Moreover, highly skilled freelancers are estimated to provide approximately £126bn of the £278bn that solo self-employed workers generate – accounting for 45% of the overall contribution.

Along with the impressive economic contribution, the report revealed that the number of working mothers in self-employment has increased by 55% since 2008, now accounting for 13% of all solo self-employed people (549,000 individuals). Exactly half (50%) of self-employed working mothers are now working in the top three highest skilled occupations.

According to IPSE, the self-employment sector has slowly started to recover after periods of uncertainty, restrictions and reforms. However, they state that freelancers have been contending with the continuing impact of the off-payroll working (IR35) reforms which came into effect in April 2021 whilst also challenged by the cost-of-living crisis that engulfed the UK over the past few years¹.

The demographics of the self-employed reveal the major occupations of the solo self-employed workforce, with “the UK’s self-employed predominantly working in construction and building trades (360,000), as road transport drivers (284,000), in artistic, literary and media occupations (274,000), or in agricultural and related trades (189,000)²”.

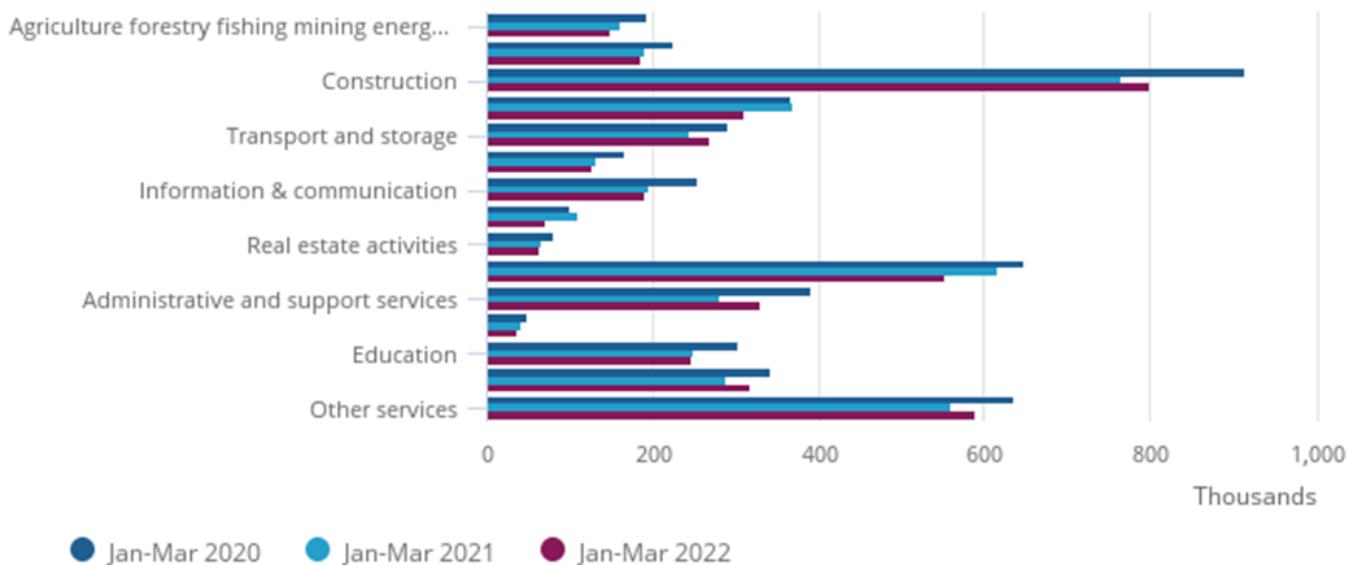
The rise of the gig economy, with platforms like Uber, Deliveroo, and Fiverr, has also contributed significantly to the increase in self-employment.

[1] IPSE, <https://www.ipse.co.uk/campaigns/the-self-employed-landscape/self-employed-landscape-2022>

[2] IPSE, <https://www.ipse.co.uk/campaigns/the-self-employed-landscape/self-employed-landscape-2022>

Figure 5: Construction remains the largest self-employment industry despite having the greatest fall in numbers

Number of people aged 16 years and over in self-employment by industry sector (thousands), UK, January to March 2020, January to March 2021 and January to March 2022



Source: Office for National Statistics – Labour Force Survey

The UK self-employed mortgage market is a substantial segment of the broader mortgage industry, though precise figures can vary depending on the source. With approximately 4.3 million people in the UK being self-employed, making up approximately 15% of the UK workforce, this highlights the potential demand for self-employed mortgages.

The new Government in their plan to “Make Work Pay” are looking to strengthen rights and protections to help self-employed workers, including the right to a written contract, which could benefit freelancers, along with action to tackle late payments, and by extending health and safety and blacklisting protections to self-employed workers. According to various reports, self-employed individuals account for about 16–20% of all mortgage applications in the UK. If the overall UK mortgage market was valued at approximately £1.6 trillion in 2023, and assume self-employed individuals represent around 16–20% of the market, this would suggest that the self-employed mortgage market is worth between £250 billion to £320 billion.

What is good news is the market for self-employed mortgages is expected to grow due to the increasing number of people working as freelancers, contractors and in the gig economy. There is also a growing number of mortgage products specifically tailored for self-employed borrowers. These products consider the unique income patterns of self-employed individuals and often involve more flexible underwriting criteria.



LET'S TAKE A MINUTE!

WHAT ARE THE CHALLENGES THAT ARE OUT THERE FOR SELF-EMPLOYED BORROWERS?

- **Income Verification:** You will know the self-employed must often provide more extensive documentation, such as tax returns, business accounts, and profit and loss statements, typically for the last 2-3 years.
- **Income Variability:** A typical characteristic of the self-employed is fluctuating income, which can make it harder to demonstrate consistent earnings to Lenders.
- **Stricter Lending Criteria:** Some Lenders can apply more stringent criteria for self-employed applicants. They might assess the stability and longevity of the business, the borrower's credit history, and the liquidity of the business, and to satisfy the criteria applicants need to send Tax Returns (SA302 forms or certified or audited accounts for the last two or more years), depending on the Lender's requirements.
- **Bank statements:** Both Personal and business usually covering the last 3-6 months, to verify income and expenditure, along with profit and loss statements.

I recently caught up with Paul Adams Sales Director at Pepper Money to discuss how they can support self-employed customers. This is a space that they are actively involved in and can help those who may struggle to secure a mortgage via typical high street Lenders. Their hands-on approach to underwriting and assessing income, as well as their extensive experience of lending to the self-employed, can help you to secure a good deal for your customers. Let's explore this in a bit more detail...



Self-employed mortgages can be easy, if you choose the right Lender

Mortgages for the self-employed has been a hot topic in the mortgage market for a number of years. This is with good reason. According to the recent Specialist Lending Study by Pepper Money, 80% of self-employed people say that self-employment makes it more difficult for them to get a mortgage.

Data from Mortgage Broker Tools supports this perception. For borrowers who are employed, on average, 75% of them can find a mortgage for the loan amount they want. For self-employed borrowers, this drops to 69%. At the same time, borrowers who are employed are, on average, offered an 18% larger loan size than a borrower who is self-employed.

However, the number of options is increasing, with specialist Lenders in particular offering propositions that can help self-employed customers secure the loan size they want to achieve.

A significant hurdle for self-employed customers is that many Lenders will use an average earnings figure from the last three years of the business in order to assess affordability. However, 44% of self-employed respondents to our Specialist Lending Study say that their income has increased in the last year compared to the previous two years, with 26% saying their income has increased by 10%.

Fortunately, Lenders that specialise in lending to self-employed customers have criteria and processes that are designed to meet the particular circumstances of self-employment.

For example, at Pepper Money, our hands-on approach to underwriting means that we don't have to rely on an average of the last 3 years' accounts. In fact, we can lend on the most recent year's figures, which can make an important difference in helping the self-employed achieve the loan size they deserve.

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Paul Adams,
Sales Director



On top of this, we've recently introduced criteria that enables us to use net profit retained in the business for affordability, which often provides a truer picture of financial position than the salary and dividends that company directors choose to pay themselves.


Taking this approach means that lending to the self-employed is a growing part of Pepper Money's business. In the first quarter of 2024, mortgages to the self-employed accounted for 30% of all of our lending, representing a 44% increase on the same period the previous year.

The complexities of self-employed income can certainly put hurdles in the way of a mortgage application for some mainstream Lenders, but that doesn't have to be the case. If you work with a specialist Lender who takes a hands-on approach to assessing income and has experience in lending to the self-employed, you can overcome those hurdles. Working with the right Lender means that securing the mortgage your self-employed customers deserve can be just as easy as those who receive a regular salary from an employer.

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