

SELF-EMPLOYED HOME LOAN APPLICANTS



Preparation for Self-Employed Home Loan Applications

Self-employed home loan applications are notoriously more difficult to get approved than other types of applicants – but they don't have to be. In many instances, self-employed purchasers can afford the bond... it's just about knowing what documents are needed. Understanding what the banks require and why is the best starting point for applicants. Read the information below and then let our experienced bond originators assist you in the way forward - to get the best possible offer, at the bank that is right for you.

Are you classified as Self-employed?

Before anything, you have to ascertain that the bank deems you self-employed. It boils down to: Do you have a shareholding in the business where you work and, if so, what is the percentage of the shareholding in the business?

Banks have differing levels of shareholding in which they deem you to be self-employed - this varies from anywhere above 9% (Standard Bank) to 19% (FNB).

You are also considered self-employed if you are:

- a freelancer who works on an as-required or contract basis; or
- a sole proprietor.

However, freelancers and sole proprietors have slightly different (and less stringent) documentation required for approval.

You are NOT self-employed if you are:

- a commission earner who does not have shares in the company where you earn commission; or
- a director who draws a salary but does not have a shareholding in the business; or
- a non-shareholding employee of a self-employed spouse (married out of community of property).

N.B: If you are a non-shareholding employee of a self-employed spouse, but are married in community of property, the bank will likely request the full suite of documents for a self-employed applicant.

How is affordability assessed?

If a self-employed applicant is purchasing property in their personal capacity, banks will generally only consider the applicant's drawings from the business as income – this may come in the form of salary, commission, bonuses and/or dividends. They will not use revenue, turnover, or even retained profit of the business itself.

Therefore, it is important to get one of our bond originators to conduct an affordability assessment prior to application – as you may need to increase the drawings from the business to an amount suitable to qualify for the bond (so long as the business is able to sustain the increase).

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Key Documents Required

Additional documents for self-employed applicants will be latest 2 years of audited financial statements, updated management account for the interim period, 6 months of business bank statements, 6 months of personal bank statements and written confirmation of your income (from your accountant).

It is therefore essential to have your accounting affairs in order – a good accountant will always pay for themselves in the long run!

Requirements for the Financial Statements

Under the Companies Amendment Act 2008, South African-based companies are required to prepare annual financial statements within six months after the end of its financial year. In addition, the Regulations require that these statements be in line with the prescribed reporting standards (either IFRS, IFRS for SMEs or SA GAAP) as per the company's public interest score.

Generally, for bond applications, the financial statements should include the following:

- **Balance Sheet** (or statement of financial position) - the so-called "book value" of the company, calculated by subtracting all of the company's liabilities and shareholder equity from its total assets;
- **Income Statement** (or statement of financial performance) – showing total company income (or revenue/turnover), expenses, non-cash accounting (accrued income, depreciation) and profit or loss;
- **Cashflow Statement** (or financial health) – showing the exact amount of a company's cash inflows and outflows, the company's ability to generate cash and the company's short-term viability and liquidity; and
- **Notes to the financials** – additional notes the accountant feels necessary to include if any line items in the statements above are unclear.

When assessing financial statements, the banks are essentially checking the following:

- The director/member drawings line up with the applicant's salary deposits in their personal bank account;
- There is sufficient surplus (net profit) or retained earnings in the business to allow for monthly variability/inconsistencies – particularly if the applicant does not draw a regular salary; and
- Healthy cashflow and solvency - specifically how well-positioned the company is to pay its bills to vendors.

Will a Deposit Be Required?

Like all bond applications, a deposit will improve the chances of a loan being granted – and at a more favourable rate of interest. Banks prefer buyers who have the financial discipline to save a deposit and are prepared to invest some of their own money in their homes, because they have been shown to be a better risk.

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In saying that, self-employed applicants who can provide the relevant additional documentation and meet the qualifying criteria (as per full-time employed) are just as likely to secure mortgage bond finance up to 100% as any other type of applicant.

Main Reasons for Declines

The main reasons why self-employed applications are rejected or declined by banks include the following:

- Not supplying the banks with the documents required (typically - outdated financials or no management accounts when the financials are older than 6 months);
- Income declared by the applicant not being reflected on the income statement or bank statements - especially director's remuneration;
- Insufficient surplus in the business – particularly where applicant drawings are irregular;
- Insufficient drawings from the applicant (director/member) to be able to qualify for the bond;
- Inability to show a clear separation between personal and business expenses; and
- Unaudited financial statements and no ITA34 to verify income where financials are unaudited.

Banks also require the latest 2 years' financials, so if your business has been operating for less than two years, you're unlikely to secure mortgage bond finance. There are rare exceptions to this rule, where the applicant has compelling reasons for a motivation.

Self-Employed, Fixed Salary – a “Loophole”

From 1 September 2021, Nedbank started accepting applications for self-employed applicants who didn't have an existing relationship with Nedbank. In addition, self-employed applicants who drew a regular salary from the business could be assessed with the same requirements as a full-time employed applicant.

To qualify for this, applicants would need to be able to provide the following evidence:

- 3 months' payslips showing gross income, deductions (particularly PAYE) and net income; and
- 3 months' personal bank statements reflecting the net income deposit on a regular monthly basis.

This is a great streamlined option for those with established businesses drawing a regular salary. Although you may only be applying at one bank, our bond originators will motivate on your behalf to ensure you get the best interest rate, rather than the bank's standard rate.

It's essential you meet the requirements to raise a home loan before you start house hunting and certainly before you make an offer to purchase. It's not worth the disappointment and frustration for both buyers and sellers, when there are delays or declines in the bond approval process.

There are many things to consider when you are self-employed, but rest assured that your bond originator will help you better understand your options. Give yourself a choice between multiple offers and requirements by applying for a home loan with Phoenix Bonds.

Contact us now to get started!

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Documents Required for a Self-Employed Bond Application

Documents required for Self-Employed (10%+ shareholding)

- ID
- Latest 2 years' Audited Financial Statements – signed by auditor and directors
- Letter from accountant stating average gross income of applicant
- Letter from accountant stating personal expenses paid for by the business (if applicable)
- Latest 6 months' personal bank statements
- Latest 6 months' business bank statements
- Signed Phoenix Bonds home loan application form

Documents required for Sole Proprietors

- ID
- Latest 2 years' financials – signed by client
- Letter from accountant stating average gross income of applicant
- Letter from accountant stating personal expenses paid for by the business (if applicable)
- Latest 6 months' personal bank statements
- Latest 6 months' business bank statements
- Signed Phoenix Bonds home loan application form

Documents required for Freelancers

- ID
- Letter from accountant stating average gross income of applicant
- Latest 2 years' Income Statements and Balance Sheets (signed & dated)
- Latest 2 years' tax returns (SARS ITA34 Form)
- Latest 6 months' personal bank statements
- Latest 6 months' business bank statements
- Signed Phoenix Bonds home loan application form

Documents required for Full-time Employed* (the “loophole”)

* *Self-employed applicants who receive a regular salary from their business*

- ID
- Latest 3 months' payslips (gross, PAYE, net)
- Latest 3 months' personal bank statements
- Signed Phoenix Bonds home loan application form