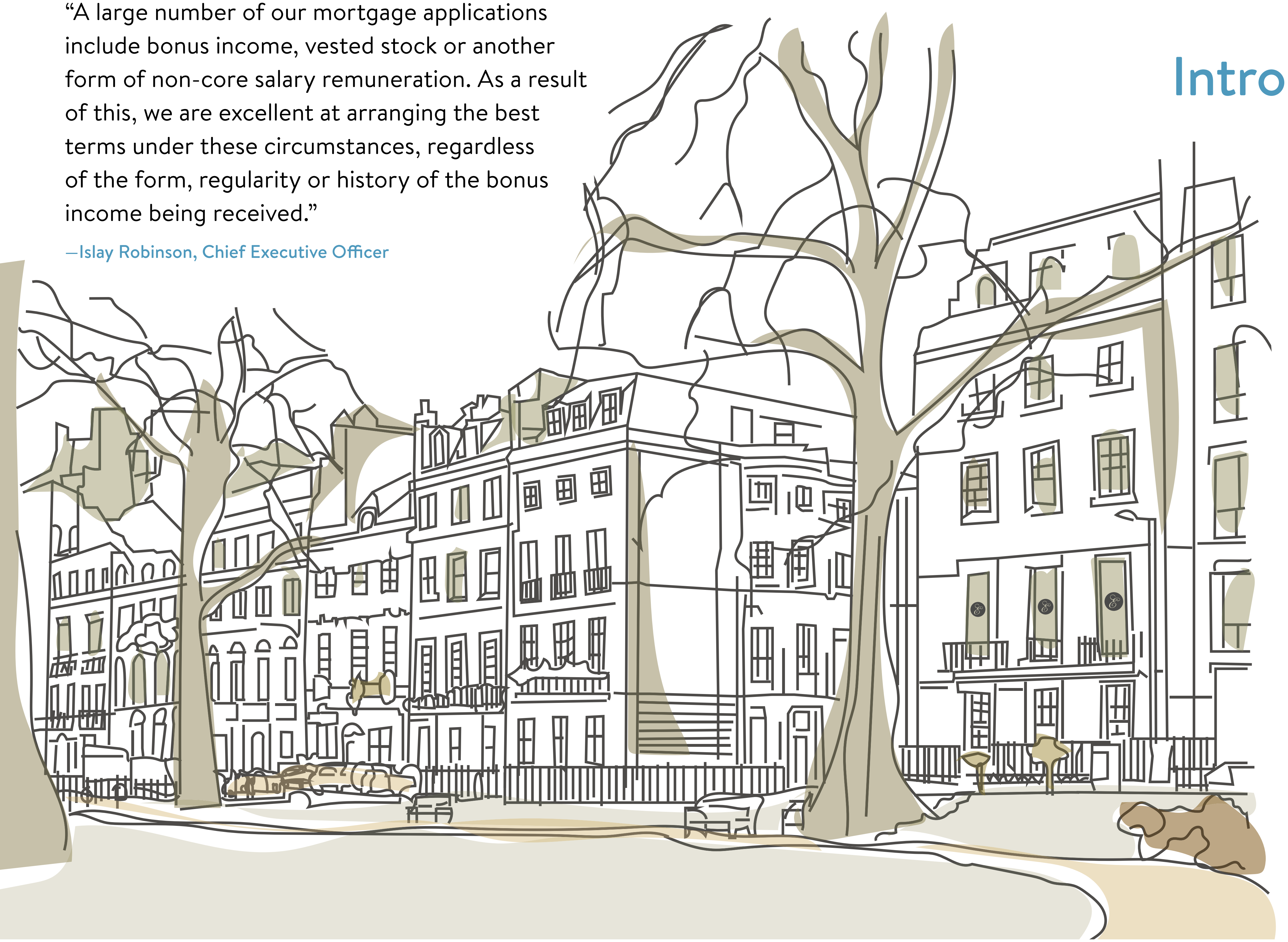
ENNESS

SECURING A MORTGAGE USING BONUS INCOME

A guide in what to consider when you are looking for a mortgage and your income is subsidised by bonuses

"A large number of our mortgage applications include bonus income, vested stock or another form of non-core salary remuneration. As a result of this, we are excellent at arranging the best terms under these circumstances, regardless of the form, regularity or history of the bonus income being received."

—Islay Robinson, Chief Executive Officer



Introduction

Until recently, it was very rare for a lender to accept more than 50% of your annual bonus as proof of affordability when securing a mortgage. The apprehension comes from not knowing how frequently the bonus will be received and the possible fluctuating value of it. History of financial crises further adds to the wariness of some lenders to lend based on bonus income.

Recently, however, this position is starting to soften. With the economic outlook looking settled and new regulation star ting to take root, the bulk of banks are becoming more willing, and we are now seeing creative and progressive lending criteria emerge. We work with a number of business-hungry mortgage lenders – both existing and new entrants – who are chomping at the bit to attract new clients. This increased competition means they are lowering their rates, increasing their lending parameters and taking a much more flexible approach to assessing a client's affordability.

This guide is written for professionals who wish to leverage their bonus to purchase or refinance property. It is, undeniably, a complex and changing branch of the market but one we are particularly good at navigating.

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Overview

Bonus season is a very busy time for Enness. Property is widely thought of as the wisest investment and, as such, many bankers choose to leverage their bonus to finance it.

Our role as intermediaries is continuing to evolve, especially in the high net worth and specialist spaces. We've had to adapt our service in line with changes to affordability criteria implemented in recent years, enabling us to find solutions to most complex of situations. Our negotiation skills are paramount to securing you the best possible mortgage.

Bonuses are a variable income stream, fluctuating in line with the market conditions

One might argue all income is one and the same. However, the volatile nature of bonuses means lenders often hesitate to include them in their affordability calculations. This is especially true of high street banks, who prefer borrowers to fulfil a checklist of fairly rigid criteria. Bonus income is thus in a totally different category to almost all other income streams.

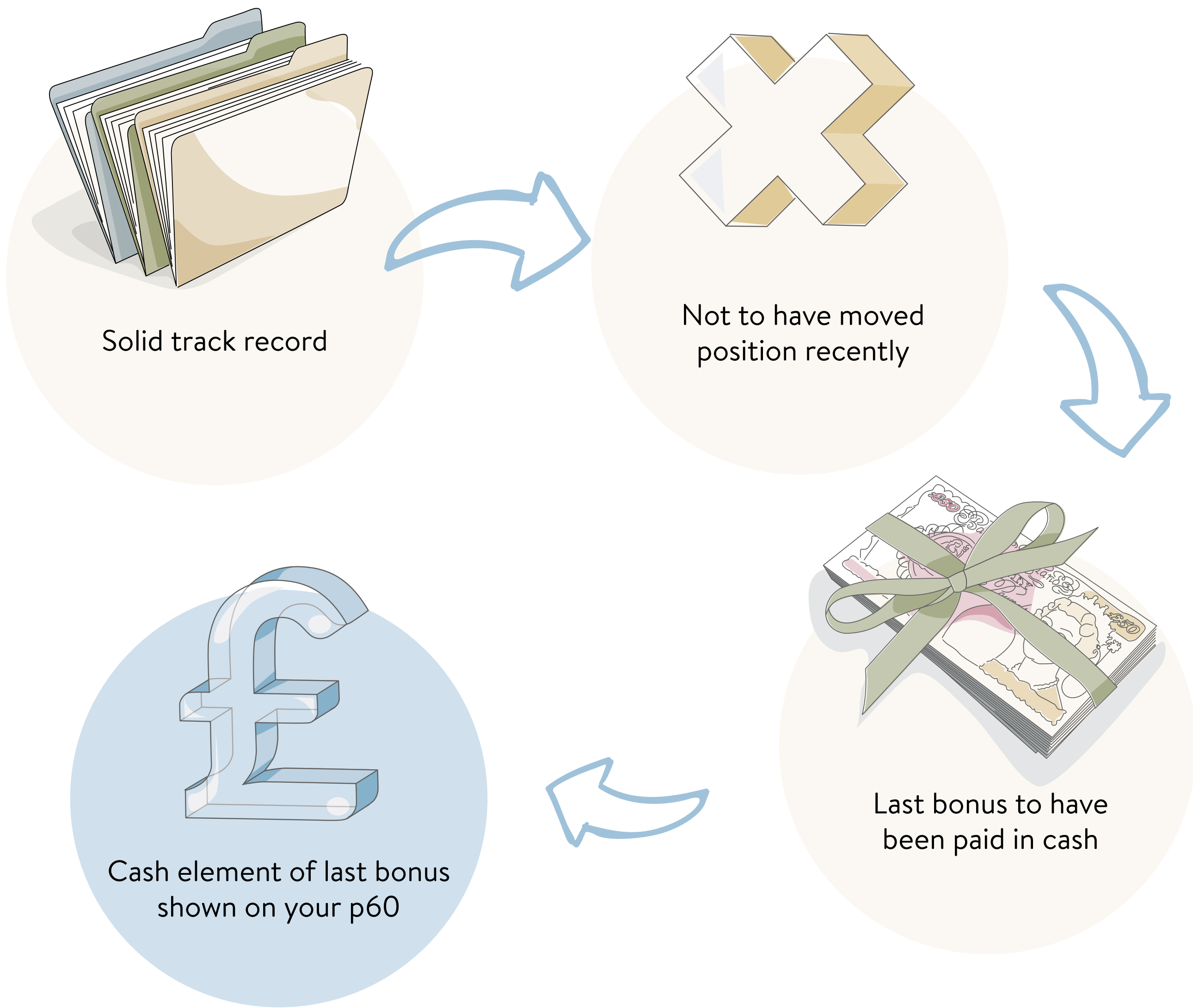
That said, each lender interprets bonuses differently – and there is plenty of scope for imagination. Often, a private bank is the best option for a borrower, dependent on bonus income to pass affordability checks – and this is why it is so important to come to Enness for the introduction.

As a General Rule...

How much of your bonus goes into the lender's affordability calculation depends on a number of factors:

1. Whether your bonus is discretionary or guaranteed
2. Whether your bonus is discretionary or guaranteed
3. How many years you have been receiving bonuses
4. Whether your bonuses have been increasing, decreasing or staying the same
5. Whether your bonuses are yearly or half yearly
6. Whether you had any zero bonus years
7. The ratio of cash to shares & whether they are immediate, vested or deferred
8. Whether you have changed employer
9. Your desired loan-to-value, basic salary & total household income
10. Any background assets

To have 100% of annual bonus income taken into account, you will need:



That said, taking 100% of your annual bonus into account without these prerequisites is not impossible, par ticularly when we are working on your behalf.

We will take the time to fully get to grips with your situation and come up with the best route for you to take. It may, ultimately, involve a slightly higher interest rate or lender fee, sacrificing some of the loan to repayment, committing to annual bullet repayments, or putting cash or assets with the bank. You'll find you have a plethora of options – and we have a plethora of ideas.

Lenders in this space

Bonuses are highly subjective. However, as you may have gathered, high street lenders tend to shy away from large loans based on bonus income. Their underwriting procedures are increasingly geared towards tick-box criteria, and borrowers who don't conform often find themselves excluded – despite being perfectly capable of servicing a mortgage.

This means a private bank is often the best option for borrowers whose bonus makes up a significant proportion of their income. The problem is getting access to these more flexible lenders – and that is why it is so important to engage a well-connected broker like Enness. We have long-standing relationships with the top private banks in the country, and a huge amount of experience in structuring and presenting loans of this kind.

The presentation of your bonus to an underwriter, and the part it plays in your overall income, is paramount when submitting an application. It's crucial to find the right bank for you and to ensure a holistic picture of your situation presented to the person who makes the decision, rather than the computer. We are firm believers in making direct approaches to the decision makers, and in this way get the best results for our clients.

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CASE STUDY

Complex £2m Interest Only Loan using Bonus Income for a Banker

—Chris Lloyd, Associate Director

THE SCENARIO:

I recently secured a complex loan for a client who was looking to buy a property in Hampstead worth £4 million. Despite its high value the property was unmodernised, so was bought for £3 million due to the complete revamp that was necessary. This already caused problems for valuers as it meant the property was undervalued without a finished product to go by.

As the Managing Director of a large firm, my client had a basic salary of approximately £400,000. He also received bonuses, both in cash and some in vested stock, which was released over a 3 year period. He wanted a large section of the loan to be on an interest only basis with £300,000 on capital and repayment and the rest on interest only.

The nature of this request and my client's income was a stretch for any high street bank, so proving affordability was a struggle with every lender. My client didn't have any repayment method in place for the interest only part of the loan, so we needed someone who would be willing to take a view on the future worth of the property. This was a particularly unusual case for a loan of this size, which would normally require investments and stock shares or other properties in place to repay the mortgage.

Overall, this case was a big stretch affordability wise and probably my biggest challenge yet. Securing a large interest only amount purely on the sale of a property is almost unheard of. Most lenders would not take a view as my client would still be paying rent whilst the property was renovated. He was also paying around £60,000 in school fees, so these very large outgoings all had the potential to affect affordability.

Luckily, I was able to find a specialist, private bank, who was willing to take a view in this way. This was an excellent example of the more holistic approach private lenders take, especially due to the state of the property.

OUR SOLUTION:

Taking all my client's bonus income into account – including the vested stock – I managed to secure a £2.1 million loan at 70% loan to value (LTV) on a mixed term, at a competitive 2 year fixed rate of 2.58%. I was also able to extend the repayment part of the mortgage so it was longer than the interest only part – allowing an additional 5 years to help with repayments.

CASE STUDY

Interest only mortgage using 100% bonus income

—Farryl Rabinowitz, Associate Director

THE SCENARIO:

A high net worth client, with whom Enness had previously worked, recently got in contact to remortgage their family home. The client was a professional with a young family, who owns a Grade II listed, six-bedroom property in Hertfordshire. Their home is worth £2million plus, and was purchased with an original loan of over £1million.

The client is a senior executive, whose partner manages their estate full time. Since the client last dealt with Enness, their income has somewhat improved, and so they wanted to see whether they could better their current mortgage terms.

Despite this increase in income, the couple needed to use 100% of the father's bonus income to support affordability. This proved an issue as banks will only typically accept a maximum of 50% bonus income for this type of loan, as it is a less reliable source of income compared to salary for example. Similarly, another complexity presented itself due to the client needing the entire amount on an interest only mortgage basis, using the sale of the property as a means of repayment. Common lender policy in this area is to allow a maximum of 50% of the property value on an interest only basis, using the sale of the mortgage property is the main vehicle of repayment. Clearly in this case, this wouldn't be sufficient.

The property is a beautiful Grade II listed house and as you would expect with a property of that age, it was timber framed. This creates anxiety and barriers with conventional lenders who prefer a standard bricks and mortar construction.

Further, the client also has a separate two bed cottage on their estate under the same title which is a completely non-negotiable issue for many lenders.

Despite these difficulties, I managed to place my client with a challenger bank who I had recently completed a series of sizeable deals with. I was able to use my strong relationship and influence with the bank to take my client's case all the way to the Head of Credit and gained sanction outside of credit policy regarding construction, the second property on the title and the interest only barrier.

As a result, I secured the client's loan at a competitive 5 year fixed rate, of just 2.04% with full amount on interest only sale of property. This was an excellent and efficient result for my thrilled returning client, which was essentially achieved by my strong relationship with the lender in question.

Conclusion

Investing in UK property remains an intelligent choice – with London seen to be a safe haven. The UK economy hinges upon its property market, encouraging and sustaining a favourable lending climate. That said, it is complex and confusing to navigate, and best attempted with expert guidance.

We hope this guide has given you an insight into the world of bonus income and your ability to use it to secure a mortgage. Going forward, we are here to help at every stage of the process. Our experts are ready to speak when you are, and will guide you through the twists and turns of the market.

Are you thinking about investing in a mortgage?

CONTACT US

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Are you thinking about investing in a mortgage?

Pick up the phone and give us a call for a free consultation.

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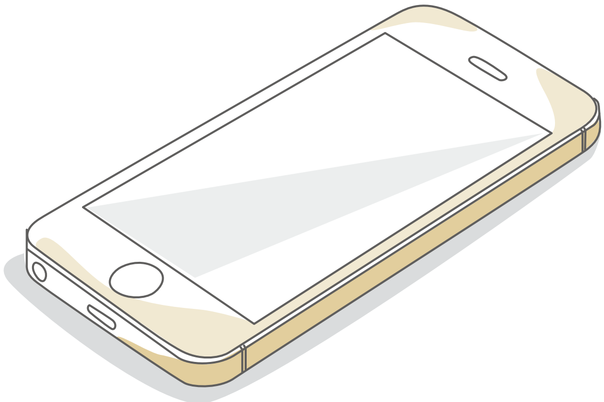

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