

How to apply for a bond when you're self-employed



By [Kathy East](#)

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Banks are particularly cautious when assessing self-employed applications, due to the fact that their income fluctuates and cannot be guaranteed, and these individuals are understandably considered a higher risk than salaried persons. Since the recession started in 2008 when the banks suffered huge losses, together with the implementation of the National Credit Act, they have become more particular in assessing self-employed applications.



In the current economic climate in South Africa, there are many self-employed individuals, and the banks appreciate the risk taken by individuals to generate income out of their own businesses, which is healthy for our economy. With more and more entrepreneurs starting their own businesses, the banks are understanding of this new home loans environment and appreciate that small businesses drive our economy, so they strive to assist in every way they can. The criterion to qualify is quite feasible for such individuals to achieve, and therefore be able to qualify for a loan.

According to Ewald Kellerman, Head of Sales at FNB Home Loans, "The bank considers three factors in general when a customer applies for a new home loan. These are affordability, credit history and the value of the property. As a responsible lender we need to ensure that the potential homeowner can afford the monthly repayment commitment both in good and bad months. The history of an applicant's conduct of banking accounts and accounts with other credit providers, as well as the security value of the property is taken into consideration when determining the final loan amount."

Guidelines for establishing your personal credit-worthiness for a home loan

In order for the banks to establish what your actual monthly income is as opposed to the gross turnover that your company generates, there are a few essential points and guidelines which they will examine to establish your personal credit-worthiness for a home loan:

Most importantly, two separate bank accounts are required - a trading business account and a personal cheque account. For the business account, (Pty) Ltds are generally more accepted than a sole proprietor.

A regular monthly fixed salary earned from your business must be shown as received into your personal cheque account, preferably on the same day of every month. Don't be tempted to pay yourself a smaller salary as this will impede your home loan application as your income will not be considered sufficient to cover the proposed monthly bond repayments and therefore it will impact negatively on your application.

Original bank statements are required - statements of your business and personal accounts of at least six months up to a year history period might be required.

Businesses that generate cash from clients' purchases must regularly deposit this income into the company bank account, and together with EFT transfers from clients they will be considered as part of the income of this business and play a huge role in affordability.

Expenses such as membership fees or insurance etc. paid for by the business, will be considered as a personal expenses (which you ideally want to keep low) unless the supplier has them registered in the name of the business.

If you have the financial resources to pay at least 20% or more of the purchase price as a deposit and also have cash available for the transfer duty and attorney fees, it will substantially increase your chances of obtaining a mortgage bond on a property.

Riaan van Deventer, Director of Engel & Völkers Southern Africa, advises, "One needs to always ensure that your credit rating is clear of any judgements or ITC records as this will definitely influence the decision of the banks in granting you a home loan. This would apply to both you as the individual and the company itself. Ensure that you pay all your accounts on time and have sufficient funds in your bank accounts to honour debit orders - essential for any healthy credit record. Don't jump between different banks and apply for loans from several banks, this is bad for your credit rating as well. Work with a professional mortgage originator that will advise you on the quality of your application and manage the process from application to approval."

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