

How the pandemic, economic outlook has impacted self-employed bond applicants

According to Kay Geldenhuys, head of sales fulfilment at Ooba, the impact of the Covid-19 pandemic on small and medium businesses in South Africa is clearly evidenced by the decline in the number of bond applications made by self-employed applicants since March last year. She says that in the 24 months prior to the pandemic, an average of 12% of their applicants were from this sector, with the figure dropping to 8% in June, just three months later.



Source: Supplied

“Self-employed applicants are currently averaging 10% of our volumes, with the increase largely due to the fact that some lenders are applying less strict paperwork criteria in assessing self-employed applicants who can demonstrate that they draw the same regular monthly income from their businesses.

“In these cases, the lender will not require financial statements to assess the strength of the business but will rely on a letter from the business owner’s accountant confirming the monthly drawings which will be matched to income displaying in the business owner’s personal banking account.

“Self-employed applicants in the medical, accounting, law fields are generally typical self-employed applicants who draw a regular monthly income and can therefore apply for home loan finance with less paperwork than before.

“Banks are, however, being very cautious with self-employed applicants who operate in those industries worst impacted by the pandemic lockdown, such as the hospitality industry, tourism and exports.



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Strict lending criteria to remain

“Given that there is no indication when the risk of lockdown will recede, together with the poor economic outlook and rising interest rates, we do not expect banks to relax their self-employed lending criteria.”

“Buying property is the single largest investment most people ever make and the majority will need finance in order to do so, but the already-laborious bond application process and its myriad criteria is even more painstaking for the self-employed,” says Cobus Odendaal, CEO of Lew Geffen Sotheby’s International Realty in Johannesburg and Randburg.

“Banks are usually more cautious about granting loans to these home buyers and they usually require larger deposits as well as more documentation than salaried buyers who only need their salary advice and copies of their last three months bank statements.”

He advises that it's prudent for self-employed buyers to ensure that their financial affairs are in order well before making an offer on a property as it will not only improve their chances of approval, it will also avert costly delays.

Costly delays

“Once an offer to purchase has been made, time really becomes of the essence and mistakes are easily made in haste. Some errors are quickly remedied but others can't be fixed overnight and this is when costly delays can occur.”

According to Geldenhuys, the most common errors are:

- Not having all the necessary paperwork in order and up to date (latest financial statements, IT34, etc);
- Not having their tax affairs in order;
- Being unable to show a clear separation between personal and business expenses;
- Not managing their income and expenses carefully in the months leading up to buying a home to demonstrate to the bank that they have sufficient disposable income to afford the bond repayment;
- Failing to include management accounts and cashflow forecasts when the latest financial statements are older than six months;
- Not checking their credit worthiness by requesting their free annual credit report from a credit bureau such as TransUnion.

She offers further pertinent advice for self-employed applicants: “The bank’s affordability assessment on self-employed applications includes assessing that the applicant’s business is generating a stable income and that it has shown growth over the years.

“The bank will therefore want to see the applicant’s monthly taxable drawings, and the servicing of all personal expenses with the net income. They must be able to see that the business’ net profit, post expenses, is directly in line with the business owner’s declared earnings.

“Self-employed applicants must therefore ensure that they are able to provide the bank with their latest financial statements and up-to-date management accounts, in addition to current bank statements. It’s prudent for potential applicants to institute the practice whereby they keep their personal expenses separate from their business expenses.”



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Main areas of concern

Odendaal says main areas of concern are often FICA compliance, life insurance and home owner’s insurance and that it’s not uncommon for clients to arrive with no or outdated FICA documents or incomplete details, especially when lease agreements are used to show proof of address.

“Incorrect, incomplete or unsigned documents like lease agreements are instantly rejected by the banks and clients then have to go back to have the agreements corrected which, of course, causes delays.”

Odendaal believes that errors and omissions are often an oversight due to the fact that people generally have an innate aversion to official paperwork and filling in documents.

“It’s imperative to carefully read all the details in the correspondence from the banks and lawyers carefully. Implementation is largely the onus of the applicant and they should therefore always strive get their documentative ducks in a very neat row sooner rather than later.

“The additional criteria for self-employed buyers are understandably daunting, however, with the guidance of knowledgeable and experienced property finance specialists and estate agents, it’s possible to seamlessly navigate the potential administrative minefield that acquiring your dream home entails,” concludes Odendaal.

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