Alternative sources of income you really should be asking your clients about.

Besides a client's straightforward earnings, many different sources, can be considered as income for mortgage purposes. Not all mortgage lenders accept all sources, so selecting a lender that takes a manual underwriting approach may also be beneficial in complex cases.

Borrowers won't necessarily know that these income types can make their application more appealing to lenders. So, it's always worth asking questions about additional sources of income and not relying on the client to be forthcoming.

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Maybe there's earned income for the first few years, and then retirement income as the applicant retires.

Multiple sources of income

You might not know that some lenders will use multiple sources of income.

As well as types of income for different ages and life stages (child benefit, state pension etc) at the point of application, there are multiple sources of income at different stages of the mortgage. Maybe there's earned income for the first few years, and then retirement income as the applicant retires and depends on different income streams.

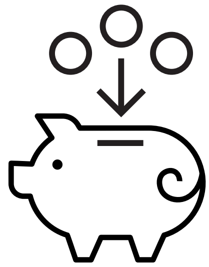
There are many different types of income, which can be split into five types:

- Earned
- Self-employed
- Pensions/investments
- Property
- Benefits and family income.

Side hustles

You can't open a news app these days without reading about someone who earns thousands a year from a creative 'side hustle'. Whether your client is making and selling goods on Etsy, or offering a dog-walking service, it's worth asking about this additional income.

Top tip



Ask the client to think about everything that comes into their bank account.

Earned income

As well as basic salaries, applicants may receive earnings for additional duty hours and additional responsibilities, bonuses, commission, overtime, tronc payments (tips etc). Also, location-based income where an employee is given a London or large-town weighting or housing allowance.

Self-employed

Self employment income usually comes in one of the following structures – sole trader, limited company (Ltd Co.), Partnership (LLP). It may be an applicant has multiple businesses under multiple set ups, accounting for different streams of income. Lenders can consider multiple streams of self employed income but usually there will be a requirement for at least one year's trading/accounts/tax calculations.

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Did you know?

The longer an applicant has received a source of income, the stronger it will be for the purposes of an application, and a larger percentage of it may be considered.

Pensions/investments

Many lenders consider pension income to be low risk so this is often considered. This can include annuities, private, state and SIPP pension income as well as drawdowns.

Property

Income from rental properties - whether mortgaged or mortgage-free - lenders will look to use surplus rental income (usually the profit declared on the applicant's tax return).

Benefits and family income

Child benefit, child tax credits, foster care allowance, child maintenance (agreed independently or through the courts). DLA, attendance allowance, industrial injuries disablement benefit, PIP. There may be a limit as to how much income is made up from benefits, as a percentage.

How much is counted?

It's worth noting that even when an income source can be taken into consideration, it's not always the full amount. It might be 50%, 75% or 100% of the total and lenders will usually need evidence of the income over the long term.

Charlotte Grimshaw.

Head of Mortgages,
Suffolk Building Society

Many lenders will look to use what available income an applicant has to support affordability. Multiple elements can be added together to maximise income for affordability.

This is not intended as an exhaustive list but gives a flavour of the types of income that could be used to help your clients meet a lender's affordability criteria. This is particularly worth doing if the borrower is on the cusp of what a lender might find acceptable.

In recent years lenders have been more flexible in the sources of incomes being accepted. In many instances, if a track record can be proven and is sustainable, a lender who manually underwrites would look at all income available when assessing affordability, looking at each application on a case-by-case basis.