

Aldermore

Broker guidelines for contractor cases

24 June 2024

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Contractor definitions

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Where a customer's income comes from a contract and they are not employed on a permanent basis they are classed as a contractor. This will include individuals who are self-employed and pay their own tax, those who are employed via an umbrella company who deduct their tax and people who are essentially employed but on a fixed/ short term contract e.g. 12 months. Aldermore policy is designed to recognise hybrid employment types that sit between permanent employment and self-employment for professional individuals.

Contractors can be treated as self-employed or employed for income verification purposes:

Self-employed

Within the broker portal application, contractors / brokers should choose 'Self Employed' as their Employment Status if:

1. They want their affordability to be calculated based on the declared income from their business.
2. They are a limited company director with at least one employee other than themselves.
3. They have more than 2 contracts at the same time.

Income will need to be confirmed via standard documentation for self-employed customers, such as annual tax calculations and tax year overview and / or annual accounts. These customers can choose to be assessed based on salary and dividends or salary and net profit.



Contractor definitions (continued)

Employed

Affordability for eligible contractors can be assessed as if they are employed using gross annual salary.

There are 3 different types of contractors that can be assessed as if they were employed:

1. Customers with fixed term contracts.
2. Contractors employed via an umbrella company.
3. Day rate contractors.

1 Customers with fixed term contracts

- Customers that are directly employed by an organisation, with salary via PAYE, where tax and NI is deducted at source
- Their contract is fixed for a specified length of time, where engagement is not expected to be permanent, potentially for 6 or 12 months, typically to provide maternity / sickness cover, or to support completion of a project.
- They may also have an hourly / daily / weekly rate, but should still be classed as Fixed Term Contract if they are directly employed.
- Typically, this could be a teacher providing cover for a permanent employee or an IT professional helping to implement a new system.

2 Contractors employed via an umbrella company

- Contractors will often work under an umbrella company to make sure they fall inside IR35 regulations. The umbrella company employs the contractor, giving them legal employee status, paying their wages through PAYE, which ensures there are no unexpected tax complications for the contractor.
- Whilst the umbrella company is the contractor's employer, the work carried out will be for a separate end client. Umbrella companies are often used by recruitment agencies to pay temporary workers.
- The umbrella company invoices the end client and the end client pays the money direct to the umbrella company. The umbrella company will then deduct PAYE and National Insurance contributions before paying the contractor's wage, via remittance slip.
- They may also have an hourly / daily / weekly rate, but should still be classed as 'Contractor via umbrella company' if this is their employment type.

Contractor definitions (continued)

3 Day rate contractors

- Applies to self-employed contractors that are 'one-man band' limited company directors with 100% ownership and no other employees.
- These will have typically set up a personal service company to provide tax efficiencies whilst still working as an individual contractor.
- This segment could include professional contractors, e.g. IT consultants, project managers, alongside engineers, business managers, locum doctors and pharmacists, media production clients.
- Whilst our ability to assess self-employed customers based on salary and net profit could be attractive to these customers, limited company contractors often don't have 1 year's accounts (if they are relatively new or they have worked through different types of contracts within the tax year), ruling them out of being assessed as self-employed.
- Typically, these customers will work via an hourly / daily / weekly rate.
- Day rate contractors that are sole traders (who also don't employ anyone else and are only working on up to 2 contracts at the same time up to a reasonable amount of hours) can also be considered as 'employed' for affordability purposes.
- Limited company directors must be the only shareholder, except where partner / spouse is the other shareholder and they are jointly applying for the mortgage.

4 Construction Industry Scheme Contractors (CIS)

We assess CIS income via our self-employed policy.

5 Zero hours contracts

Applications from customers employed on a zero hours contract will not be considered. We may consider for certain professions, which would need to be discussed with one of our Business Development Managers.

General contractor criteria

Summary table

Contractor Type	Affordability Assessed on Employed Basis	x 46 week calculation	Max LTV Limit	Required Contractor History	Minimum Contract Remaining	Gaps in Recent Contractor History	First Time Contractors Allowed?	Number of Contracts Allowed	Minimum Contract Length
Customers on Fixed Term Contract direct with End Client	Yes	Yes	95%	Require either 12 months history as a contractor or 24 months in the same line of work. Multiple contract types acceptable (across employed and self-employed spectrums), as long as in same line of work.	Current contract needs to have 2 months remaining or a renewal agreed. Our underwriters may consider less than 2 months remaining, on a case-by-case basis, if there has been a longer-term history of renewal.	A gap of up to 6 weeks in the last 12 months is ok. One-off gaps longer than 6 weeks, but unlikely to be repeated, are also ok with a reasonable explanation, eg. illness, hospitalisation, maternity, subject to underwriter consideration. ¹ 24 month history is required if the gap is more than 6 weeks. If gaps across both previous years more than 6 weeks, then average annual gap should be used to calculate annual income. ²	24 months experience in same line of work if this is first contract. Our underwriters may consider if employment history is between 12-24 months on a case-by-case basis. Evidence that customer has started contract will be required. If income has increased significantly, our underwriter may need further clarification. ⁴	Contractors are able to work up to 2 contracts at the same time, subject to total hours worked in a week being reasonable. ³	Preferred min contract length of 6 months. Our underwriters may consider shorter contracts on a case-by-case basis, if they are typical within that industry
Contractors working via Umbrella Company	Yes	Yes	95%						
Self-employed Day Rate Contractors – Limited Company Directors	Yes	Yes	90%						
Self-employed Day Rate Contractors – Sole Traders	Yes	Yes	90%						
CIS Contractors	No	No	95%	Affordability for CIS contractors is assessed on self-employed basis, using net profit from End of Year tax documents. Contract information is not relevant.					
Zero Hours Contractors	We do not accept customers with zero-hours contracts. We may consider for certain professions, which you would need to discuss with one of our team.								

Note: These are our minimum requirements. We do recognise that contractor cases can be complex and our underwriters may consider outside individual criteria on a case-by-case basis, but only where the case is strong elsewhere. Please discuss with your BDM in the first instance.

General contractor criteria (continued)

Notes:

1. Where there's been a gap in the last 12 months contractor history of more than 6 weeks, and you are able to provide a reasonable explanation, e.g. maternity / paternity / illness / bereavement, please provide details in the notes section of the Broker portal with any appropriate supporting evidence.
2. If there has been a gap of more than 6 weeks in last 12 months, then we require 24 months history. If gaps across both previous years are more than 6 weeks (not due to likely one-off scenarios), then average annual gap should be used to calculate annual income, i.e.. 10 week gap in last 12 months and 14 week gap in previous 12 months, then average 12 week gap means calculation should be day rate x 5 x 40 weeks.
3. If gross annual salary is based on 2 contracts then customer must provide a similar history of working multiple contracts.
4. If customer is a first time contractor and contractor income is significantly higher than previous PAYE income, an underwriter may need further clarification as to why the applicant(s) have chosen to switch to contract work (if previously PAYE) and if it is sustainable. Please provide explanation in notes section of portal.

Where the applicant has switched from a contractor status to a permanent employee with the same client company/employer, the income can also be verified and assessed on an employed basis. Tax position must be paid up to date. Supporting information to be provided in the notes section within the portal.



Income calculation for contractors

Income for contractors that are not directly employed by an end client should be based on 46 weeks x identified weekly pay to calculate the annual gross salary for affordability purposes.

Contractor Type	Calculation Summary
Customers on Fixed Term Contract direct with End Client	<ul style="list-style-type: none"> Assuming that tax and NIC is deducted at source, gross income should be based on average weekly amount over the latest month before tax and NIC, multiplied by 52 weeks, or monthly amount multiplied by 12 months, to populate annual salary within application portal. If tax and NIC is not paid at source, customers should be treated as if self-employed day rate contractor.
Contractors working via Umbrella Company	<ul style="list-style-type: none"> Gross income will be considered only based on income received by the contractor from the umbrella company, once 'umbrella expenses' have been removed. It should be based on average weekly amount over the latest month before tax and NIC multiplied by 46 weeks, to populate annual salary within application portal. Holiday pay received by the customer and any pension salary sacrifice can be included within the gross income calculation.
Self-employed Day Rate Contractors	<ul style="list-style-type: none"> Gross annual salary (to be inputted into the broker application portal) should be calculated as the gross daily rate shown on the latest contract x 5 days per week x 46 weeks per year <ul style="list-style-type: none"> Or hourly rate x 8 hours per day x 5 days per week x 46 weeks per year Unless the contract states the actual hours/days worked are lower, or supplied annual income is lower, in which case use these figures. If the contract expresses pay as a daily rate, then assume 5 working days. If the contract expresses pay as an hourly-rate, then assume a maximum of 40 working hours per week, unless the contract or the applicant specifies a lower number of hours. Where a daily rate isn't clear, the annual figure can be calculated by using average monthly gross income from the last 3 months. For example, if income in January, February and March is used, corresponding payslips / invoices must be provided for January, February and March. This average amount should then be calculated based on a 46 week year e.g. multiply the average monthly pay x 12, divide by 52 weeks and multiply by 46. If no income is received in a month or the customer is unable to provide evidence of income for the 3 months, then the previous month's evidence can be used, as long as this is part of the allowed 6 week gap within past 12 months of contractor history.

Supporting example for umbrella company income calculation

In the example, the Reconciliation Statement shows the customer has worked 37.5 hours that week x £56 hourly rate, generating £2,100.00 income for the week from the end client.

- The umbrella company lists it's costs, including Employer's NIC, Employer pension contribution and company margin. We would not include these in the income calculation, as these are not received by the customer. Holiday provision can be included as income.
- This pay slip shows weekly gross pay of £1,805.54 before tax and NIC are removed. However, you can also add back in the customer's Workplace Pension contribution, in this case, £42.35, which makes a total gross weekly income figure of £1,847.89
- This should be added to the previous 3 week's income to make total for the month. If latest payslips include YTD including last 3 months, as this one does, 4 weeks are enough.
- To generate annual salary for underwriting purposes, the monthly amount can be divided by 4, then multiplied by 46. Or a 3 monthly / 12 weekly figure can be annualized (x4) then divided by 52 and multiplied by 46.
- This should be populated into 'Gross annual salary' field in the broker application portal.

Tax Period: 1 - Week Ending: XX.XX.XX							
Comments							
Employee Ref.	Employee Name	Process Date	National Insurance Number				
12345	A N Other	XX.XX.XXXX	AB123456C				
Payments		Units	Rate	Amount	Deductions		Amount
Basic Pay	37.50	11.44	429.00	Tax	463.58		
Holiday Pay	1.00	207.01	207.01	National Insurance	74.79		
Additional Pay	1.00	1207.78	1169.53	Workplace Pension	42.35		
A N Other Address 1 Address 2 Town Postcode	This Period			This Period			
	Total Gross Pay	1805.54		Total Gross TD	1805.54		
	Gross for Tax	1763.19		Gross For Tax TD	1763.19		
	Earnings for NI	1805.54		Tax Paid TD	463.58		
Total Deductions	609.52		NI Earnings TD	1763.19			
Tax Code	1257I/X		Net Pay		1224.52		
Payment Method	BACS						

Reconciliation Statement			
Employee No.	Employee Name	Process Date	National Insurance Number
12345	A N Other	XX.XX.XXXX	AB123456C
Company Receipts:			
Basic pay	Units	Rate	(£) 2100.00
Total			2100.00 (A)
Less: Company Costs:			
Company margin			(£) 35.00
Expenses			0.00
Employer's NIC			225.02
Pension Costs			25.41
Holiday Provision			207.01
Apprentice Levy			9.03
Total			501.47 (B)
Receipts less Costs			1598.53 (A) - (B)
Add: holiday pay take this period			207.01
Gross for Tax			1805.54
Holiday Pay Entitlement			
Brought Forward		(£)	00.00
Accrued this period			207.01
Taken this period			207.01
Carried Forward			00.00

Documentary evidence

Contractor Type	Documentary Evidence	Tips
Customers on Fixed Term Contract direct with End Client	<ul style="list-style-type: none"> Latest full contract and any previous contracts for the past 12 months. Last month's (4 weekly) payslips, including YTD figure covering last 3 months, or last 3 month's payslips. 	If latest payslips don't include YTD figure covering last 3 months, the last payslip from March is usually sufficient.
Contractors working via Umbrella Company	<ul style="list-style-type: none"> Latest full contract and any previous contracts for the past 12 months. Last month's (4 weekly) payslips, including YTD figure covering last 3 months, or last 3 month's payslips. 	
Self-employed Day Rate Contractors	<p>When we are treating a contractor as employed for income verification these are our requirements:</p> <ul style="list-style-type: none"> Copy of latest contract(s), which includes daily / hourly rate Copy of any previous contracts (including daily / hourly rate) for past 12 months, if applicable Where there has been a significant gap in recent contractor history (more than 6 weeks in last 12 months), we require contracts for previous 24 months in total and explanation for the gap. Last 3 month's payslips / remittance slips or invoices are required, whichever applicable. If annual income based on 2 contracts at the same time, then last 3 month's income documents must show similar levels of hours worked. Where current contract has less than 2 months remaining, we require evidence of intention to renew contract from end client First time contractors must provide evidence of 24 months previous employment in same line of work, e.g. P60s Latest full month's bank statement which includes contractor income and expenditure. 	Income evidence must be from the actual contracted employer and not customer's own company Evidence of income sustainability is important. Longer contractor history will support any cases on the edge of criteria
CIS Contractors	<ul style="list-style-type: none"> Last 2 years Tax Calculations and corresponding HMRC Tax Year Overview documents Applicants with 1 year's accounting information are acceptable up to 90% LTV (excluding fees) if they can; 1. Evidence previous employment in the same line of work; or 2. Demonstrate guaranteed income for the next accounting period; or 3. Provide management accounts for the first 6 months of the current year showing turnover is sustainable 	CIS Contractors are treated as self-employed

Application portal guidance

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1 Completing employment section of the Broker Portal

Contractors / brokers should choose 'Employed' as their Employment Status if they want affordability to be measured based on their gross annual salary and be assessed as if they were employed.

Applicant: Test Test | Case Reference: X4000154361

- Intermediary Declaration
- Applicant & Loan Type
- Submission Details
- Loan Details
- Applicant 1 Details
- Applicant Details
- Applicant Address Details
- Applicant Employment
- Applicant Commitments
- Portfolio Borrowing

Employment Status

Enter details below of all sources of income that meet Aldermore's allowable income criteria. [Click here](#) to view our residential lending criteria or [click here](#) to view our BTL lending criteria.

Please note, contractors that meet criteria should choose 'Employed' as their Employment status to ensure income is calculated on an employed / gross annual salary basis. Any contractors that own 100% of their Personal Service / Limited Company should also choose 'No' to being more than a 25% shareowner.

[Click here](#) to view Contractor Criteria guidance.

Employment status*

Employment Sub-Category*

25% or more share owner?* Yes No

The portal will then ask whether the customer owns more than 25% share of their company. **In all cases, to be treated as 'employed' for underwriting purposes, the answer must be 'No'.**

In particular, contractors with 100% shareholding of their limited company should also answer 'No'.

Employment Status

Enter details below of all sources of income that meet Aldermore's allowable income criteria. [Click here](#) to view our residential lending criteria or [click here](#) to view our BTL lending criteria.

Please note, contractors that meet criteria should choose 'Employed' as their Employment status to ensure income is calculated on an employed / gross annual salary basis. Any contractors that own 100% of their Personal Service / Limited Company should also choose 'No' to being more than a 25% shareowner.

[Click here](#) to view Contractor Criteria guidance.

Employment status*

Employment Sub-Category*

25% or more share owner?* Yes No

- Permanently employed
- Fixed Term Contract
- Contractor via Umbrella Company
- Day Rate Contractor

A further 'Employment sub category' will prompt the broker to answer if they are:

- Permanently employed
- Fixed term contract
- Contractor via Umbrella Company
- Day rate contractor

Application portal guidance (continued)

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Employment Status

Enter details below of all sources of income that meet Aldermore's allowable income criteria. [Click here](#) to view our residential lending criteria or [click here](#) to view our BTL lending criteria.

Please note, contractors that meet criteria should choose 'Employed' as their Employment status to ensure income is calculated on an employed / gross annual salary basis. Any contractors that own 100% of their Personal Service / Limited Company should also choose 'No' to being more than a 25% shareowner. [Click here](#) to view Contractor Criteria guidance.

Employment status*

Employment Sub-Category*

25% or more share owner?*

Permanently employed
Fixed Term Contract
Contractor via Umbrella Company
Day Rate Contractor

In all cases, they will be treated as 'employed' for underwriting purposes.

Remember, if the customer is a limited company director and / or owns more than 25% share of a company, they can be considered as 'employed' / day rate contractor if they:

- Own 100% share of the limited company, or the only other shareholder is a spouse / partner and they are also to be named on the mortgage
- Do not employ anyone else, other than themselves
- Do not have more than 2 contracts at the same time

Application portal guidance (continued)

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2 Completing the income section of the portal application (at DIP stage)

- Full-time – this will be ‘Yes’, as we will be assessing you based on the total assumed income for the year, regardless of how many days you work.
- Occupation – should include whatever best describes your role.
- Start date is when you started working as a contractor, not the start date of your most recent contract.
- ‘Day rate’ example shows gross amount based on a calculation that might look like: £400 per day x 5 days x 46 weeks = £96,000.
- If working 2 contracts at the same time, complete the same calculations for both and add them together. If 2 contracts are to be considered, our underwriter will need to consider feasibility of total hours worked in a day / week and contractor’s recent history with more than one contract.
- As long as the contract confirms the contractor is paid on a daily / hourly rate, the annual income does not need to be split into basic salary, overtime commission, etc.

Employment Details

Full time * Yes No

Occupation *

Business sector * ▾

Start date * (mm/yyyy)

To * (mm/yyyy)

Still within probationary period * Yes No

	Income	Assessable income
Gross annual salary *	<input type="text" value="£96,000"/>	<input type="text" value="£96,000"/>
Overtime in last year ⓘ	<input type="text" value=""/>	<input type="text" value="£0"/>
Commission	<input type="text" value=""/>	<input type="text" value="£0"/>
Bonus	<input type="text" value=""/>	<input type="text" value="£0"/>
Allowance ⓘ	<input type="text" value=""/>	<input type="text" value="£0"/>
London Weighting	<input type="text" value=""/>	<input type="text" value="£0"/>

Application portal guidance (continued)

3 Inputting notes section

This should be used to provide the underwriter with details about a case that doesn't quite meet standard criteria. For example, to explain why there's a gap in contractor history.

The screenshot shows the application portal dashboard. At the top is a navigation bar with icons for HOME, ILLUSTRATION, DIP, PRODUCT SWITCH, CASE SEARCH, USER PROFILE, and CALCULATORS. Below this is a summary for Case X4000154361, Residential Purchase. The summary includes a table with the following data:

Applicant Name(s)	Test, Test
Loan Amount	£50,000
Estimated Valuation	£100,000
Term	Years 15
Repayment Type	Capital & Interest (Repayment)
Property	
Solicitor	-
LTV	50%
Product	Standard - Level 165% Purchase Full Status 5 Year Fixed 5.44% (Free Valuation)

Below the table are buttons for 'Application Sta DIP Illustration Produced +', 'Contact Us +', and 'Notes +'. The 'Notes' button is highlighted with a blue box.

The screenshot shows the 'Add Note' form. It includes fields for Home Phone, Email, Work Phone, Pref. Contact Method, and Mobile Phone. Below these is an 'Add Note' button, a 'Subject' field with the value 'Gap in Contractor Income', and a 'Message' field containing the text: 'Customer was unable to work for 3 months this year due to illness. They had a bad case of glandular fever and the doctor signed them off from work. They are now completely recovered and do not expect this to re-occur. Confirmation letter attached.' There is a checked box for 'Is important?' and a 'Mandatory fields *' label. At the bottom are 'Cancel' and 'Submit' buttons.

The screenshot shows the 'Notes' section. It contains a single note with the text: '19/06/24 11:07 - Gap in Contractor Income Customer was unable to work for 3 months this year due to illness. They had a bad case of glandular fever and the doctor signed them off from work. They are now completely recovered and do not expect this to re-occur. Confirmation letter attached. [Five Tester]'

Application portal guidance (continued)

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4 Completing employer details at full mortgage application (FMA) stage

- Employer's name should be inputted as the name of the client that is providing the contract.
- For contractors working via an umbrella company, the name of the umbrella company that they effectively work for should be used.

Applicant: Test Test | Case Reference: X4000154361

Navigation	Application Progress	Form Fields
HOME	Full Mortgage Application ✓	Employment status: Employed
ILLUSTRATION	Applicant 1 Details ✓	Employment Sub-Category: Fixed Term Contract
DIP	Applicant Contact Details ✓	Primary Employment Details
PRODUCT SWITCH	Applicant Employment >	Occupation: Contractor - Consultant
FMA	Property Details >	Job title*: IT Consultant
CASE SEARCH	Access Details >	Employer's name*: DL Enterprise
USER PROFILE	Solicitor Details >	Payroll number:
CALCULATORS	Direct Debit Details >	Employer's Telephone number*: 07952123456
	FMA Declaration >	
	Fees >	
	Decision Result >	
	FMA Summary >	

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ARM1022-0524-900579