

PERSONALISED LEGAL ASSISTANCE

Professional legal and property consulting

SONNENBERG & ASSOCIATES PROPERTY AND LEGAL ADVICE NEWSLETTER #37

1. Legal Quotes

"Behind every successful man is a good woman. Behind every good woman is a good lawyer." [unknown]

"Know the rules well, so you can break them effectively." [Dalai Lama]

"I used to want to be a lawyer, but I didn't want to have half my brain sucked out." [Max Walker]

2. Overheard in court

The defence attorney was cross-examining the coroner in a murder trial:

Q: "Before you signed the death certificate did you take the pulse, listen to the heart or check for breathing?"

A: "No."

Q: "So when you signed the death certificate, you weren't sure the man was dead, were you?"

A: "Well, the man's brain was in a jar on my desk, but I suppose he could still have been practising law for a living."

3. Inspiring quotes

"A person is not old until regrets take the place of dreams." [John Barrymore]

"Accept the challenges, so you may feel the exhilaration of victory." [General George S Patton]

"Nothing fails like success because we don't learn from it. We only learn from failure." [Kenneth Ewart Boulding]

4 Qualifying for a home loan as an entrepreneur or self-employed person

As a [self-employed person](#) you are considered a [high risk](#) by home loan institutions. Banks prefer an applicant to have a "guaranteed income from a single source". This doesn't mean that getting bond finance is impossible, but self-employed applicants will probably have to submit more paperwork than employed applicants, and these applications will come under more scrutiny by the banks. Statistics from bond originators show that **roughly only 9% of self-employed people get their home loans approved**. This is due to the banks' general view that self-employed people's sustainability of income is more volatile than employed people, hence the granting of mortgage finance is a greater risk to the financial institution.

How does a self-employed person improve his chances of obtaining mortgage finance?

1. Credit check

Have a credit check done to ensure your credit rating is good (each consumer is entitled to a free credit check annually). Your credit check gives an indication of your chances of getting your loan approved.

2. Get a bond pre-qualification

Go to your bank or to an accredited bond originator to have a pre-qualification check done to determine which price range you should consider when looking for property.

[Checklist for your bank/bond originator:](#)

There are a number of boxes you need to tick before approaching a bank:

1. Have a separate business account

The importance of having a separate bank account for your business cannot be overstressed, even if you are simply a freelancer. This ensures that business money is used for business-related purposes and not for personal affairs. This would mean you would need to account for when and how that money is used. Make sure your bookkeeping system is up-to-date to track cash flow. This will enable the bank to see how your business is run from a financial perspective on both a daily and monthly basis.

2. Have a track record

Not having a track record, especially when starting a business, will make it very difficult for an entrepreneur to get funding. Those who have been around for a while have up to date financial statements. For entrepreneurs, it is likely that the banks will need at least a two to three-year track record. This should prove to the bank that your business is sustainable, has been around for a period of time and has a history of profits.

3. Be tax compliant

Entrepreneurs must be tax compliant and show what their real income is. You can't expect to show a bank or lender poor financial statements, expect less tax and then still expect success when applying for a home loan. You will need to show the bank a good set of the financial statements.

The paperwork:

When applying for a bond, the bank will require the following documents from you:

- Comparative financials covering a trading or working period of the latest two years;
- Letter from your auditor confirming personal income;
- If your financials are more than six months old, you will need up-to-date signed management accounts;
- Cash flow forecast for the next 12 months;
- Personal statement of assets and liabilities;
- Personal and business bank statements (these may be from six months to 12 months, depending on the bank you're approaching for your home loan financing);
- Latest IT34, which is a confirmation from SARS that your tax affairs are in order;
- Company, CC or Trust statutory documents, and ID documents for all the directors, members or trustees in your business.

If a self-employed person has a clean credit record and the correct paperwork in place, there is a good chance that his application for home loan finance will be successful.

I am temporarily available on cell number 063 263 2887.

All newsletters can be obtained on our website: www.sonnenberg.co.za.



FRITZ SONNENBERG | Legal Consultant

Mobile: 083 251 5451 | Email: Fritz@sonnenberg.co.za | Skype: fritzsonnenberg



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