

MORTGAGE LIBRARY • LOAN GUIDE 06

# Self-Employed Loans

How business owners and independent earners can qualify — including bank statement programs that look beyond your tax returns.

If you're self-employed, you already know your tax returns don't always tell the whole story. Smart write-offs that lower your tax bill can also lower the income a lender sees on paper — and that can make qualifying for a traditional mortgage harder than it should be.

This guide explains how lenders look at self-employed income, your options for both traditional and bank statement loans, and how to prepare so the process goes smoothly.

## At a Glance

### WHO IT'S FOR

Business owners, freelancers, contractors, gig workers, and commissioned earners.

### TWO PATHS

Traditional loans that use your tax returns, or bank statement programs that use your deposits.

### WHAT HELPS MOST

A track record of steady self-employment income and organized records.

### WATCH OUT FOR

Bank statement loans can have different pricing and down payment requirements than traditional loans.

## How Lenders Look at Self-Employed Income

For a traditional loan, lenders generally average your income from your recent tax returns, after business expenses. That's the number that counts — not your gross revenue. If you've had a strong recent year after a slower one, or heavy write-offs, the qualifying number may be lower than what you actually live on.

Bank statement programs take a different approach. Instead of tax returns, they look at the deposits into your personal or business bank accounts over a set period of months, then apply an expense factor to estimate your income. For many self-employed borrowers, that paints a more accurate picture.

## Your Loan Options

### **Traditional (full documentation)**

Conventional, FHA, or VA loans using your tax returns. Often the most favorable pricing if your tax-return income supports the loan.

### **Personal bank statement loans**

Income is based on deposits into your personal accounts over a set period. Good when your business pays you consistently.

### **Business bank statement loans**

Income is based on business account deposits, adjusted for business expenses.

### **Other non-traditional options**

Depending on your situation, there may be programs based on assets or a CPA-prepared profit and loss statement. I'll tell you which ones are worth considering.

## Your Questions, Answered

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### **How is my income figured without tax returns?**

With a bank statement program, the lender totals your qualifying deposits over a set number of months and applies an expense factor for business accounts. Transfers between your own accounts and one-time deposits are usually excluded. I'll tell you exactly how many months your program needs.

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### **Which statements will I need?**

Complete statements — every page — for the accounts and months your program requires. Business accounts may also need proof of business ownership, such as a business license or a letter from your CPA.

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### **What are the trade-offs versus a standard loan?**

Bank statement loans can have different pricing and may require a larger down payment or more reserves than traditional loans. They're a valuable option, not always the cheapest one. If your tax returns qualify you, a traditional loan is often worth checking first.

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### **How long do I need to be self-employed?**

Most programs want to see an established history of self-employment. If you're newer to self-employment but in the same line of work, there may still be options. Let's look at your specific timeline.

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### **Should I change how I file my taxes before buying?**

That's a conversation to have with your CPA, ideally well before you plan to buy. I'm happy to talk with your CPA so you can weigh tax savings against your borrowing goals.

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### **Can I use business funds for my down payment?**

Often, yes, with documentation showing that using the funds won't harm your business. A letter from your CPA is commonly requested.

## What to Expect, Step by Step

- 1 Start early.** Talk with me — and ideally your CPA — before you start house hunting.
- 2 Pick the right path.** We compare a traditional loan and bank statement options based on your actual records.
- 3 Gather your records.** Tax returns or bank statements, plus business documents. Organized files make a big difference.
- 4 Get pre-approved.** Your pre-approval reflects the program that fits you best.
- 5 Underwriting and closing.** I translate any follow-up questions about deposits or business income, then you close.

## Mike's Straight Talk

**Be ready to explain large deposits.** Underwriters ask about large or unusual deposits. A quick note and a document trail keeps things moving.

**Keep business and personal separate.** Separate accounts make your income much easier to document.

**Check both paths.** Even if you assume you won't qualify on tax returns, it's worth checking. The best option may surprise you.

**Bring in your CPA.** Your CPA and I working together usually produces the best outcome.

## Documents You'll Likely Need

- ☐ Personal and business tax returns, if using a traditional loan
- ☐ Complete bank statements for the required months, if using a bank statement program
- ☐ Proof of business ownership, such as a business license or CPA letter
- ☐ Year-to-date profit and loss statement, if requested
- ☐ Recent statements for savings and retirement accounts
- ☐ Photo ID

Your list may differ. See the full *What Documents Will I Need?* checklist in the Mortgage Library.

### Have a question? Ask me directly.

Asking a question isn't applying for a loan. You'll get a straight answer from a real person.

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