The Self-Employed Borrower's Guide

How lenders look at business income, and the different ways you can prove what you actually make.



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What is it?

If you own 25% or more of a business, lenders treat you as self-employed. What changes is how you prove your income, and picking the right way can make a big difference in how much you qualify for.

The traditional route uses your tax returns, usually a 2-year average after write-offs, and gets the best rates when your returns show strong income. A bank statement loan looks at your deposits instead. If your CPA (certified public accountant) maximizes your write-offs, it complements that strategy, so you keep the tax savings and can still qualify on the cash that comes in.

Usually a good fit if
You write off a lot, you've been in business about 2 years, and your income shows up in your bank deposits.

Maybe not the best fit if
Your tax returns already show strong income. A conventional loan using them will usually be cheaper.

What documents do I need?

If we use your tax returns

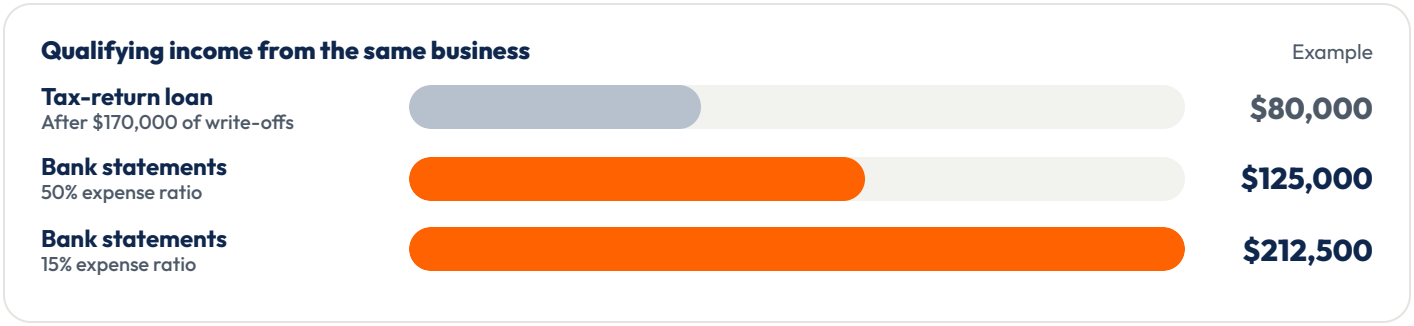
- Personal tax returns from the last 2 years
- Business tax returns, if you file them
- A year-to-date profit and loss statement
- Bank statements from the last 2 months

If we use bank statements (no tax returns)

- 12 or 24 months of bank statements
- Proof you own 25% or more of the business
- Bank statements showing your down payment
- Letters of explanation for certain deposits

Let's run the numbers

Here's how the same business can qualify for very different amounts. Say your business deposits $250,000 a year and you write off $170,000 on your taxes.

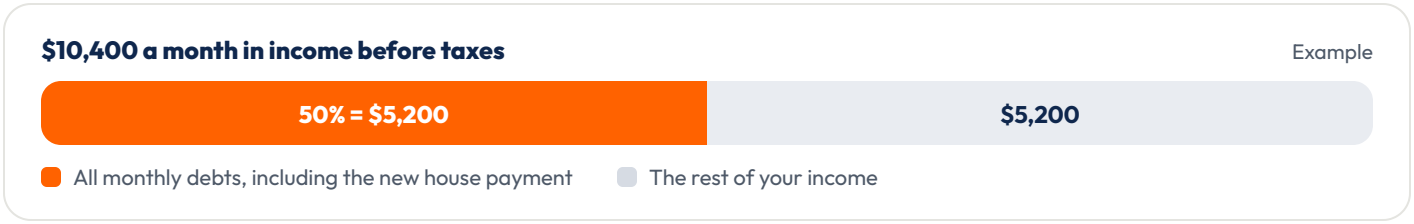


Business or personal statements

With business statements, the lender adds up your deposits and applies an expense ratio. 50% is the standard, and depending on your type of business, sometimes with a letter from your CPA, it can go as low as 15%. With personal statements, where your business pays you into a separate personal account, lenders can often count 100% of the deposits. If business and personal money are mixed in one account, the lender will usually treat it like a business account and apply the expense ratio. Either way, we need either 12 or 24 months of statements, and no tax returns.

Your debt-to-income ratio

Most bank statement programs allow a DTI up to 50%, and some go a little higher. In the $125,000 example, that's about $10,400 a month in income.



Things most buyers don't know

1. **Your write-offs and your mortgage work against each other.** Every deduction that lowers your tax bill also lowers the income a lender can count. A few, like depreciation, get added back, but most don't.
2. **Timing matters.** If you're planning to buy in the next year or two, talk to me before you file. Your CPA and I can look at it together so your taxes and your home plans line up.
3. **Keep business and personal money separate.** Mixed accounts are harder to read and slower to approve, and large deposits you can't explain will get questions.

Lesser-known strategies

1. **Buy now, refinance later.** Use a bank statement loan to buy now, then refinance into a lower-rate loan once your tax returns show enough income. You don't have to put your plans on hold for 2 years.

2. **Look at a P&L loan.** Some programs qualify you on a 12 or 24-month profit and loss statement prepared by your CPA or tax preparer, usually with a few months of bank statements to back it up. No tax returns there either.

30-second recap

- 25% or more ownership means you're self-employed to a lender
- Tax returns get the best rates when they show strong income
- Bank statement loans use 12 or 24 months of deposits
- Business statements: 50% expense ratio is standard, as low as 15% for some businesses
- Expect a higher rate than conventional and usually 10% or more down
- If you plan to buy soon, talk to me before you file taxes



Want to see what you qualify for?

A quote takes about 2 minutes and doesn't touch your credit. Once I see your situation, I'll walk you through your options and what each one would actually cost you.

Get a Quote →

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