Self-Employed? Here's How to Secure a Mortgage

If you're self-employed, getting a mortgage might seem complicated—but it doesn't have to be. Understanding how lenders evaluate your income and taking the right steps to prepare can make all the difference.

Here's how to navigate the process with confidence.

Step 1

Understand How Your Income is Calculated

Unlike traditional employees who qualify based on gross income, self-employed borrowers must use **net income** for qualification. Here's what lenders typically consider:

- **Two years of tax returns** (personal and business) to establish an average income.
- If you've been self-employed **for more than five years**, we may be able to use just your most recent tax return.
- If you have a **strong history working in the same industry prior to self-employment**, you might qualify for an exception and only need **one year of self-employed income** instead of two.

Step 2

Tips for Pre-Approval Success

Getting pre-approved as a self-employed borrower requires some extra planning. Follow these steps to improve your chances:

- **Keep business and personal finances separate** – Open a dedicated business bank account and pay all business expenses from there.
- **Why this matters:** If your business pays for expenses like credit cards, auto loans, or even a mortgage on an investment property, we may be able to exclude these debts from your personal qualification, increasing your buying power.
- **Work with a strong CPA & lender team** – We collaborate with CPAs to ensure your tax returns align with your home-buying goals.
- **Plan ahead** – If you're looking to buy in the next 1-3 years, schedule a consultation with us to review your tax returns. We can help structure them to maximize your qualification potential.
- **Document large one-time business expenses** – If you can prove an expense won't recur, we may be able to exclude it from your income calculation, improving your qualification amount.

Step 3

Lower Your Debt-to-Income Ratio (DTI)

Lenders typically look for a **DTI below 43%, but higher ratios may still qualify** depending on the loan program. Reducing personal and business debt before applying can help increase the amount you qualify for.

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Step 4

Explore Alternative Loan Programs

If tax write-offs significantly reduce your reported income, there are other options:

- **Bank Statement Loans** – Instead of tax returns, these loans calculate your income based on **12 to 24 months of business bank deposits**. This can **increase your qualifying income, but requires a 10-15% down payment** and typically carries a **higher interest rate**.
- **Profit & Loss (P&L) Loans** – If your tax returns are delayed, some specialty programs allow qualification based on a **CPA-prepared P&L statement**. Similar to bank statement loans, these require **10-15% down and may have higher interest rates.**

Step 5

Save for a Down Payment

A larger down payment isn't required but can improve your options. **Putting 10-20% down** can help lower your interest rate and make your offer more competitive.

Commonly Asked Questions

What if I want to move states and use my self-employed income?

It depends. If your business is location-independent (e.g., online services), and you can document that income won't be affected by the move, you may still qualify. If your business relies on a local customer base, lenders may require one year of income in the new state before approval.

Do I need a Profit & Loss statement?

Maybe. FHA loans require a year-to-date (YTD) P&L statement if the first quarter of the year has passed. Conventional loans typically don't, unless underwriting requests additional verification, or you haven't filed for the most recent year yet.

What if I owe back taxes or have an IRS payment plan?

That's okay! You can still buy a home as long as:

1. Your taxes aren't delinquent.
2. You've set up and are making payments on an IRS-approved repayment plan.
3. Any owed taxes must be paid in full or structured into your debt-to-income calculation before closing.

Take the Next Step

Your credit and down payment are two of the biggest factors in buying a home. Not sure where you stand? Let's create a personalized plan to get you homebuyer-ready.

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