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MORTGAGE GUIDE FOR SELF-EMPLOYED WORKERS



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HOW TO BUY A HOME WITHOUT FILING TAXES

Loans for Self-Employed Workers: From Application to Closing

If you are a business owner, entrepreneur, or contractor, you may have been told when trying to buy a home:

- “Your taxes don’t show enough income to qualify.”
- “You need a W2 or a stronger tax history.”

But here’s the solution!



Solution: Choose a Non-QM loan that evaluates your true ability to pay without relying on tax returns.

Introduction

There are alternative loans (Non-QM) designed for self-employed workers that allow you to qualify without relying on your tax returns.

This guide will help you understand the homebuying process, what options are available, and how to take advantage of them to purchase your property.

Here are some common problems self-employed workers face:

- High income but low tax reporting
- Variable income without stability
- Tax returns not filed or with errors

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Mortgage Process

Buying a home can be an exciting and rewarding experience when you understand the process and make informed decisions. Here is the mortgage workflow that shows you each step of the process.

- Submit a mortgage loan application
- Your lender will issue a pre-approval letter
- Start the home search and sign a purchase contract
- Request a property inspection and appraisal
- Your loan file will be processed and sent to the bank for review
- The underwriter will review the file and issue a conditional approval
- Satisfy all loan conditions
- Your loan will undergo a final review and be cleared to close
- Attend the closing and sign all documents



Mortgage Process Explained



01 - Application

The first step in the mortgage process is submitting an application to your lender. The application form, called the Uniform Residential Loan Application or Form 1003, includes information about you, your finances, and the details of your potential mortgage. You will also provide the necessary documents to verify the information in your application.

02 - Pre-Approval

Once the application is complete, your lender will review it with you and submit it through the organization to obtain the required approvals. If your loan is pre-approved, you will receive a pre-approval letter, which is the lender's conditional commitment to lend you a specific amount of money to purchase your home. With this letter, you will know the maximum amount your lender is willing to offer. Although this information is useful, you should decide for yourself whether you can comfortably live with the suggested mortgage amount and the associated monthly payment.

Sellers often require a pre-approval letter before accepting an offer on their home. This shows them that you are a willing and capable buyer.

Pre-approval letters typically expire 60 to 90 days after they are issued, so make sure to check the expiration date with your lender.

Mortgage Process Explained



03 - Home Search

With your pre-approval letter in hand, you can now begin the home search process—how exciting! Your real estate agent will present you with a list of properties that match your criteria and the housing budget established by you and your lender. Once you identify your dream home, you will make an offer. Your agent will know how to structure the offer. This may include contingencies or conditions that must be met before the deal is finalized. If accepted, you will officially be under contract.

04 - Appraisal

At this point, the lender already has a copy of the contract to begin the documentation process with the bank. An appraisal will be ordered, and the appraiser will inspect the home and provide a report that indicates an independent estimate of the property's value. Keep in mind that the appraiser is independent from the process. Most lenders do not order appraisals directly from a specific appraiser; they usually go through a third-party company.

05 - Processing

This step in the process is considered behind-the-scenes, as it is mostly a waiting period for you. Your loan processor will prepare your file to be submitted to the underwriter. During this time, all necessary reports will be ordered, such as the title search and tax transcripts, and all information in your application will be verified, including bank deposits and payment histories.

06 - Underwriting

Once your processor has gathered your complete loan package, it will be sent to the underwriter. During this step, the underwriter will review your information in detail. Keep in mind that the underwriter may ask additional questions. Make sure to respond promptly to ensure a smooth underwriting process.

07 - Conditions

After a thorough review, your underwriter will issue a formal approval. In most cases, there will be conditions that must be met before you can close. Once you provide the documents addressing your loan conditions, they will be sent back to the underwriter for review. Note that sometimes a loan file can be reconditioned, which means that after reviewing the requested items, the underwriter may raise additional questions requiring more conditions.

08 - Clear to Close

Once all conditions have been satisfied, your underwriter will review your file one last time and issue the “clear to close.” At this point, your loan can be scheduled for closing. You will also be informed of the final amount to transfer to the title company.

09 - Closing

What is a closing? The closing is a meeting where all parties sign the final documents and the property is legally transferred to you. Once you finish signing the closing documents, you will receive the keys to your new home. Congratulations!



Buyer Insights

- 31% of buyers are first-time buyers.
- The average first-time buyer is 34 years old.
- The average down payment for first-time buyers is 7% when qualifying with tax returns.

Qualification



Getting a mortgage loan is no small step. However, qualifying is not as difficult as you might think. The basic thresholds or minimum eligibility requirements are no secret—and they are actually not hard to meet. With proper guidance from a mortgage expert, you'll be well prepared for the qualification process.

Are You a Good Credit Risk?

When you apply for a mortgage loan, lenders begin by reviewing your full loan application and your financial documents. Together, these pieces of information paint a picture of your financial situation and provide the details needed to pre-approve your loan. Lenders will then evaluate your repayment ability and determine exactly how much they can lend you and what the maximum affordable payment would be. They will also ensure that your profile meets loan policies and program guidelines.

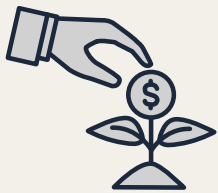
To do this, lenders evaluate your loan based on four basic criteria. Let's explore what they are and which financial documents they will require from you.

Credit

One of the first aspects your lender will review is your credit, which includes both your score and history. A high score indicates that you pay on time and manage your debt well, while a low score may reflect late payments or excessive debt. In addition, your credit score affects your interest rates: higher scores generally result in lower rates, while lower scores mean higher rates. The best rates are usually available for those with a credit score of 640 or higher—always depending on the type of financing.



Income



Common Income Sources:

- Base salary
- Self-employment income
- Retirement income
- Rental income

Talk to your lender if you need to qualify using other sources of income, as this is not a complete list. Your lender will guide you based on your specific income situation.

Other income sources

- Trust income
- Alimony
- Child support
- Disability benefits
- Foster care income
- Social Security
-



The next aspect your lender will evaluate is your income. While there is no minimum required amount, it is essential to demonstrate that you have sufficient income to cover both your mortgage payment and your existing debt obligations.

Acceptable income can vary and does not have to come from a fixed salary. Lenders will accept any type of income as long as it is stable, predictable, and expected to continue. If you are applying with a co-borrower, both of your incomes (and debts) will be considered.

For lenders, income is considered stable if you have consistently received it from the same source or type of work over the past two years and if you expect to continue receiving it for the next three years. Keep in mind that a two-year employment history will be required. If you have had a gap in income during this period, it may still be acceptable, but you should be prepared to explain it. Additionally, lenders will require documentation to verify your income and calculate your debt-to-income ratios.

Debt-to-Income Ratio (DTI)

Your debt-to-income ratio (DTI) is the amount of debt you have in relation to your income, including your projected mortgage payment. To qualify for a mortgage—depending on the loan program—your required DTI should not exceed 41% to 56%, although there are some exceptions.

If your DTI is too high, you may need to consider purchasing a less expensive home or paying off debts before attempting to obtain a home loan.

Assets

The next thing your lender will review are your assets. The reason is twofold: Do you have enough liquid assets to cover the down payment and closing costs, and are they properly documented? Lenders will need to verify the source of your funds, as only verifiable assets are accepted. Be prepared to provide two months of bank or asset statements.

If your down payment comes from a donor, such as a parent, your lender will also require a gift letter from the donor clearly stating that it is a gift and not a loan that you are expected to repay.

Collateral

Finally, lenders want to ensure that the home they are financing is in good condition and has a value that matches the purchase price. They will require an appraisal of the property and determine how much you can borrow based on the appraised value. Lenders generally will not lend more than the home's value (unless it is a specialized loan, such as a renovation loan, where the value increases upon completion).

If the appraised value is equal to or higher than the offer price, you are in a good position. If it is lower than the offer price, you will need to cover the difference or renegotiate the purchase price.

When lenders review your bank statements, they will also look for large deposits, as these may indicate newly opened debt or suspicious activity. Try to avoid making large deposits in the months leading up to your home purchase. This will help eliminate additional loan conditions, possible reconditions, and letters of explanation regarding the deposits.

Acceptable Sources of Funds

- Savings account / Checking account
- IRAs, retirement savings plans, 401(k) accounts, and Keogh accounts
- Stocks and bonds
- Savings bonds
- Gift funds
- Sale of personal or real property
- Down payment assistance programs
- Employer assistance programs
- Cryptocurrency!

Mortgage Tip

Loan Documentation

Every mortgage loan can be different, but the documentation lenders need to pre-approve a loan is fairly standard. Below is a list of common items. Be prepared to submit these documents along with your application:

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Valid driver's license

Social Security card

Two-year residential address history

Two-year employment history

Income verification – Employer information

W-2s from the past two years

Pay stubs from the last 30 days

Two months of bank statements

Copies of federal tax returns from the last two years, if applicable

If you are a veteran (VA loan) – Certificate of Eligibility

List of assets – especially real estate you currently own.

If you are self-employed – you must also provide business tax returns, business bank statements, and a year-to-date profit and loss statement, when applicable.



Mortgage Payment Breakdown



It's crucial to understand the composition of your mortgage payment, since it represents a significant portion of your monthly expenses.

PRINCIPAL

The principal is the portion of your payment that reduces the outstanding loan balance — in other words, the amount you borrowed.

INTEREST

Interest is the cost of borrowing the principal. It's the money you pay the lender in exchange for the loan. During the early years of your mortgage, most of your payment will go toward interest rather than principal.

TAXES

This portion of your payment is determined by your county assessor's office and can vary. Regardless of where you live, you must pay property taxes. These taxes fund local services such as schools, roads, and fire departments. Your lender collects them and holds the funds in an escrow account.

INSURANCE

- **Homeowner's Insurance:** Required by the lender to protect the property against loss or damage. This cost can vary year by year and is typically collected into an escrow account by your lender.
- **Mortgage Insurance:** If your down payment is less than 20%, you'll pay private mortgage insurance (PMI) to protect the lender in case of default. For government-backed loans like FHA, you'll pay a mortgage insurance premium (MIP), which works similarly to PMI.

Loan Programs

When it comes to mortgage loans, there's no one-size-fits-all solution. There are several loan programs available in the market, but not all will be the right fit for you. Each program is designed to meet the needs of a specific borrower profile or financial situation.

This section highlights loan programs for self-employed borrowers and outlines their main features.



BANK STATEMENT LOAN

This type of loan allows self-employed borrowers to qualify without providing tax returns. Instead, lenders review the deposits made into the borrower's personal or business bank accounts over the past 12–24 months.

- Great option for individuals who generate strong income but report lower figures on their tax returns.
- Flexibility in documenting income.
- Designed for entrepreneurs, freelancers, and business owners.

Features:

- Can use personal or business bank statements from the past 12–24 months
- Down payment starting from 10% (depending on credit and borrower profile)
- Strong credit history required
- Sufficient funds for down payment, closing costs, and reserves

PROFIT & LOSS LOAN

This loan is designed for business owners who want to demonstrate their income using a financial report prepared by their accountant or tax preparer. Tax returns are not required, as the analysis is based on the company's profit and loss statement. Commonly used by businesses that handle a lot of cash not fully reflected in bank accounts. Allows business owners to qualify using accurate financial records rather than tax filings. Ideal for self-employed entrepreneurs whose income may not be fully captured in traditional documentation.

Features:

- 1–2 years of profit & loss financial statements
- Down payment starting from 15%
- Strong credit history required
- Sufficient funds for down payment, closing costs, and reserves



1099 CONTRACTOR LOAN

This loan is ideal for self-employed individuals who receive payments via 1099 forms instead of a W-2. It allows borrowers to demonstrate income using these forms rather than tax returns.

Features

- Down payment starting from 10%
- Use 1–2 years of 1099 forms to document income
- Good credit history required
- Proof of funds for down payment, reserves, and closing costs

DSCR LOAN - DEBT SERVICE COVERAGE RATIO

This loan is designed for investors who want to purchase properties for rental purposes. Instead of evaluating the borrower's personal income, the lender assesses whether the rental income from the property can cover the mortgage payment.

Features

- Approval is based on the profitability of the property
- Rental income must cover the mortgage payment
- Down payment starting from 15%
- Investment property only
- Proof of funds required

These Non-QM loans do not require private mortgage insurance (PMI). Borrowers must provide a letter from their accountant or tax preparer to verify that the business has been operating for two years or more, along with other relevant business information. Note: This letter requirement does not apply to DSCR loans.

Closing Costs

Closing costs are expenses incurred to finalize a real estate transaction. Some costs are paid to the lender, while others are paid to third-party service providers, such as a title company or an appraisal firm.

You can expect these costs to range between 3% and 6% of the loan amount, depending on the type of financing.

Origination Fee

Upfront fee paid to the lender to process and underwrite the loan.

Discount Points

Prepaid interest; fee paid to reduce the interest rate over the life of the loan.

Mortgage Insurance (PMI)

Only required for conventional loans, FHA, and CV loans when the down payment is less than 20%.

Appraisal Fee

Paid to the appraiser to assess the market value of the home.

Title Search

Examination of public records to determine current ownership and liens.

Title Insurance

Protects both the lender and the borrower against title claims.

Termite/Pest Inspection Fee

Required to certify that the home is free from termite or pest damage.

Survey Fee

Paid to the surveying company to verify property boundaries.

Flood Certification Fee

Cost to determine if the property is in a designated flood zone. If it is, flood insurance will be required.

Closing or Settlement Fee

Paid to the title company, attorney, or escrow company handling the closing.

Recording Fee

Paid to the state to record the transfer of property from one owner to another.

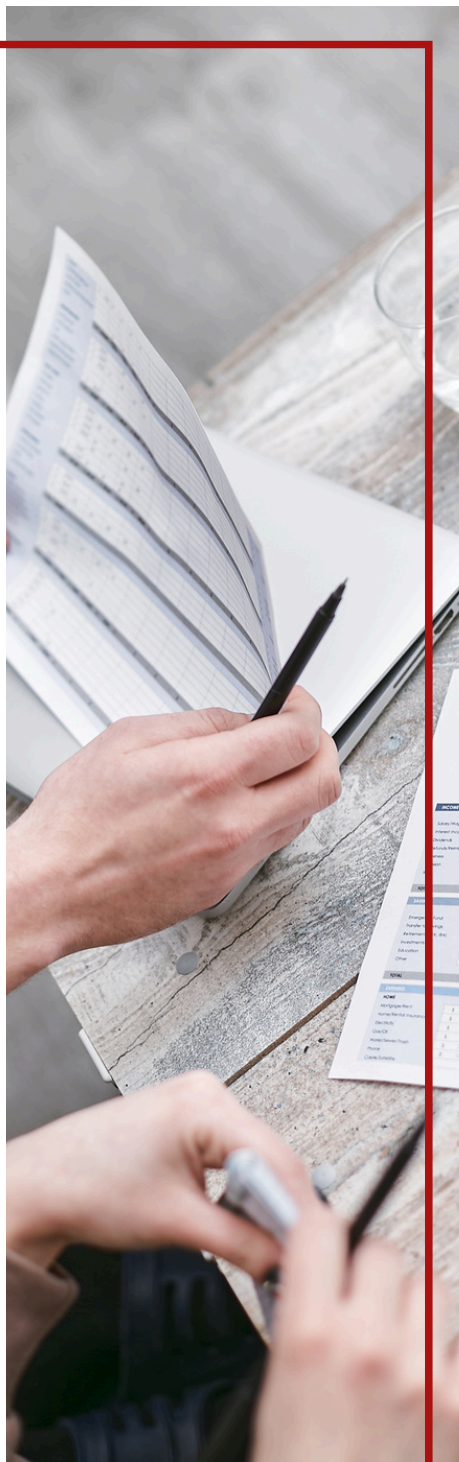
Transfer Tax

Paid to the state, based on the loan amount.



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Mortgage Tip



The saying, “Preparation is the key to success”, has never been more true than when buying a home. The more you know and prepare today, the better your chances of securing a mortgage loan in the future.

Let’s look at what you can do to ensure a successful home purchase.

Save Money

Most buyers know they should start saving for a down payment and closing costs in advance, but they often overlook the true cost of homeownership, which includes repairs and maintenance. The last thing you want is to deplete your bank account buying your ideal home and have no funds left for necessary repairs. Start saving early and save enough.

Check Your Credit Report and Know Your Situation

As discussed earlier, your credit score is key to qualifying for a mortgage loan. It also determines the interest rate you will be offered, so it’s wise to review your credit report and score. If improvements are needed, now is the time to work on them. Make all your debt payments on time and keep your revolving account balances low. A credit card balance below 30% is good, but below 10% is even better.

You can check your credit at www.annualcreditreport.com.

Clean Up Credit Issues

Believe it or not, errors on your credit report are common. They can include, Identity errors: incorrect name or address, or accounts belonging to someone with a similar name. Incomplete reporting: closed accounts reported as open, or accounts incorrectly reported as delinquent. Data management errors: accounts listed multiple times. Balance errors: incorrect reporting of balances or credit limits.

These errors can negatively affect your desired credit score. The best practice is to review your credit report for errors and take steps to have them corrected.

Get a Pre-Approval Letter

When you're ready to start looking for your ideal home, schedule an appointment with your lender to begin the pre-approval process. This will tell you how much you are pre-approved for and what you can realistically afford.

You don't want to start house hunting without it, as you could be looking outside your price range—either too high or too low. Don't miss out on your dream home by searching in the wrong price range!

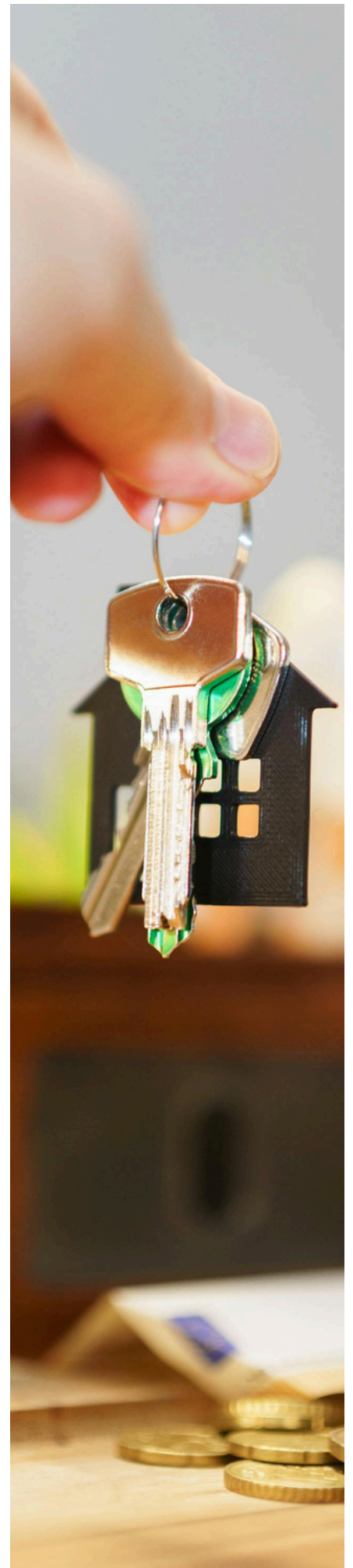
Stay Calm and Avoid Changes

Do not make financial changes that could affect your loan. Changing jobs, buying a new car, making large credit purchases, or co-signing a loan are common—and avoidable—mistakes that could prevent you from closing your loan and buying your dream home.

Wait to make major financial changes. (Yes, lenders will perform a final credit check and employment verification right before closing to ensure nothing has changed since your pre-approval or conditional approval.)

So, stay calm, close your loan, and enjoy your new home!

”
*Don't Wait to Buy Real Estate.
Buy Real Estate and Wait.*
- Robert G. Allen





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