

# How to get a mortgage when you're self-employed

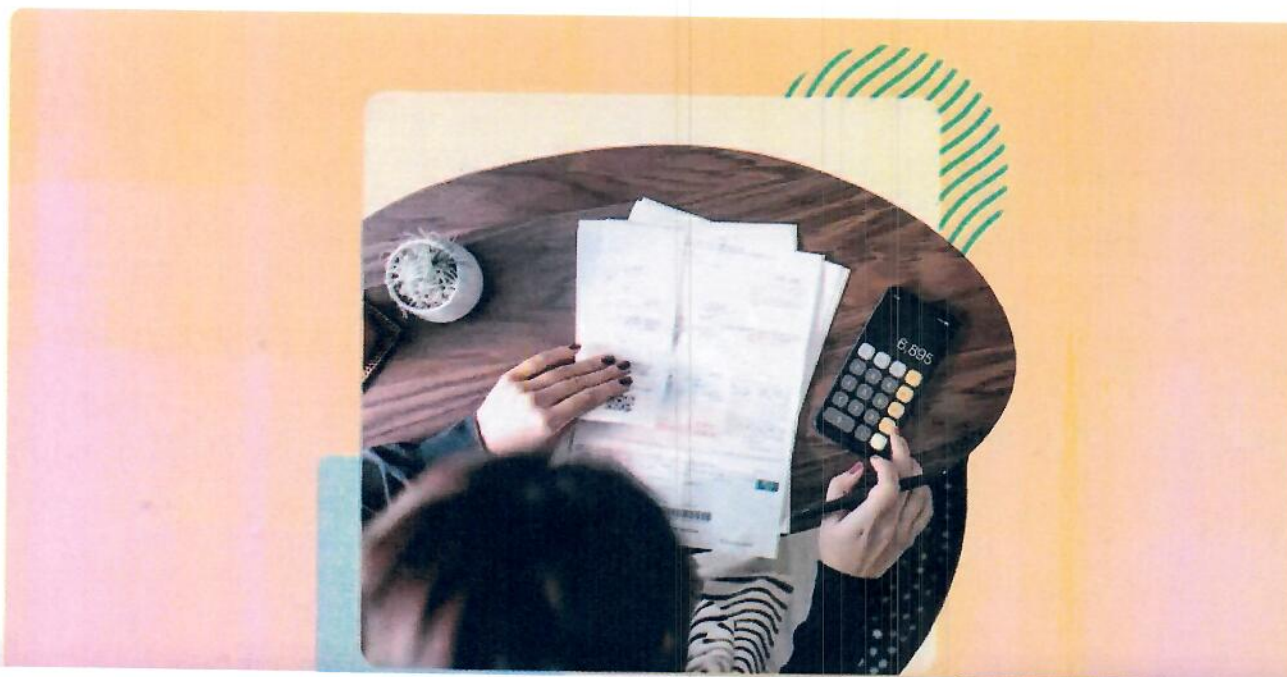


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- It's possible to get approved for a home loan as a self-employed borrower, but you often have to take a few extra steps to prove your creditworthiness.
- To boost your chances, consider non-conforming loans and non-qualifying mortgage lenders or mortgage brokers who specialize in the self-employed.
- Other strategies include making a larger down payment, raising your credit score and lowering your debts.

If you run your own business — or are a gig worker, freelancer or independent contractor — financing a home could prove challenging. One of the first things lenders look for is a steady, verifiable income. Without a regular paycheck or W-2 statement, it can be harder to prove how much you make, and how reliably you make it. But just because you work for yourself doesn't mean you're guaranteed to have a hard time getting a mortgage. Here's what to know about getting approved for a loan when you're self-employed.

## Can you qualify for a mortgage while self-employed?

Yes, it is possible to qualify for a mortgage while self-employed. However, in some cases, you may need to put in a little extra work.

It's a common misconception that it's always more difficult for self-employed applicants to get a loan than regular salaried or hourly workers with a W-2 from

of stable employment.”

Challenges can crop up, however, when you're self-employed buying a house if you've only been working for yourself for a short time or make less money than lenders prefer — even if it's just on paper. “Self-employed individuals often take full advantage of the legal tax deductions and write-offs that are allowed by the IRS; unfortunately, this means that they often show a low net income — or even a loss — on their [tax returns](#),” says Eric Jeanette, president of Dream Home Financing and FHA Lenders, based in Adelphia, New Jersey. “That can make it tougher to qualify for a mortgage.”

Complicating matters is that the rules for self-employed applicants can vary depending on the lender or loan type.

“This makes the process confusing, especially if you are shopping around and applying with multiple lenders,” says Anna DeSimone, a New York City-based personal finance expert and author of “Housing Finance 2020.” Often, “it lengthens the time you may have to spend trying to get approved for a loan.”




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 30 Year Fixed NMLS: #3304 ★★★★☆ 4.69	<b>6.33%</b> Nov 3, 2024	<b>6.12%</b> Points: 1.796	<b>\$2,186</b> Fees: \$7,959	<a href="#">Next →</a>
 30 Year Fixed NMLS: #449401 ★★★★☆ 4.48	<b>6.42%</b> Nov 3, 2024	<b>6.19%</b> Points: 2.000	<b>\$2,203</b> Fees: \$8,595	<a href="#">Next →</a>

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## How to get a mortgage when you're self-employed

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## 1. Determine if you're classified as self-employed

If you own a business or have one partner, you will be considered self-employed. “A loan qualification is based on your taxable income shown on your personal 1040 federal tax returns,” says DeSimone. If earned income is verified by 1099 forms, rather than W2s, you're likely to be considered a freelancer rather than a salaried worker bee.

The same goes if your return includes Schedule C, which is used “to report income or loss from a business you operated or a profession you practiced as a sole proprietor, [to quote the IRS](#). “Mortgage applicants with a 25 percent or greater share in a business or partnership are considered self-employed,” says DeSimone. Here are other factors that qualify you as self-employed:

- You run a business as a sole proprietor or independent contractor
- You are part of a partnership that runs a trade or a business
- You are a gig worker or run a part-time business that accounts for most of your income

Even when you have a second, part-time job with a W2, a lender will likely place more weight on your own gig — if it's your primary income source.

## 2. Prepare a pitch that explains your business

Depending on the nature of your work, your problem may not be so much the

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links to a professional website that helps an underwriter understand you're serious and successful in your field.

If you have any contracts or written agreements indicating that you're on retainer or guaranteed compensation for a period, include those. These details may convince a lender that you can make those [monthly mortgage payments](#).

Providing the lender with any of the below items can help show your job is secure:

- Data showing the health of the industry and demand for your services
- A description of your experience in the business, including any certifications
- Tax returns from previous years, especially if they show growth in revenue over time
- Explanations of any revenue gaps
- Your professional website
- A business plan, if you have one
- Description of the services you provide
- Ongoing contracts you have with clients
- Anything else that shows your income is likely to continue

### 3 Gather necessary documents to show lenders

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may be required to show additional income documents when applying for the mortgage,” says Alan Rosenbaum, founder and CEO of GuardHill Financial Corp. in New York City.

The sort of documents you might need include:

### **Employment verification**

- A copy of your business license
- Proof of business insurance (if applicable)
- Articles of incorporation, LLC or partnership (if applicable)
- State or federal permits
- Any other documents that prove when you began operating

### **Income documentation**

- Two years of federal income tax returns (personal and business)
- Recent business bank statements and profit-and-loss reports (aka income statements)
- An itemized list of unpaid accounts receivable

## **4. Shop multiple lenders**

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may also be a better fit than traditional loans because they are guaranteed by the government and lessen the lender's risk.

A mortgage broker might be able to steer you toward lenders who specialize in self-employment mortgages.

## Loan types to consider when you are self-employed

Fortunately, self-employed borrowers are eligible for virtually all of the same mortgage types available to others. That means you can qualify for a [conventional loan](#) from various private lenders or a government-backed loan.

“You should be eligible for all available options, including both conforming mortgage programs by Fannie Mae, Freddie Mac, FHA and others, as well as non-conforming loans if necessary,” says DeSimone.

Here's a closer look at each:

- [Fannie Mae and Freddie Mac mortgages](#): These are traditional conforming loans that require a minimum 3 percent down payment and may have fairly strict approval requirements. It's not impossible for a self-employed person to get approved, but you may have more success after several years in business.
- [FHA mortgage](#): FHA loans are guaranteed by the Federal Housing Administration and only require a 3.5 percent down payment for most

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- **[VA mortgage](#)**: VA loans are available to current service members and people who were previously active-duty. Requirements depend on the time of your service. These loans can guarantee up to 100 percent of the loan, which would mean you're not responsible for any down payment. If you have a VA home loan certificate of eligibility, your lender may find your application more appealing.
- **Non-qualified mortgage lenders**: A **[non-qualified mortgage](#)** (non-QM mortgage or loan, for short) is a type of non-conforming loan, one in which there are looser income verification criteria. Instead of using standard federal qualifications to assess your creditworthiness, the lender bases approval on alternatives — like your average bank statement balance over the last 12 to 24 months, for example. The lender would be willing to consider this balance as an earned-income equivalent in place of pay stubs.

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## How to improve your chances of getting a mortgage when you're self-employed

There are several ways to boost your odds of getting approved for a mortgage as a self-employed borrower

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Focus on [improving your credit score](#) and credit history. This requires making bill payments on time, paying down debt, correcting any errors or red flags on your credit reports and sticking to the limits on your revolving credit accounts.

## Lower your debt-to-income ratio

Another way to increase your likelihood of funding is to lower your [debt-to-income \(DTI\) ratio](#) to 43 percent or less. This can be done by avoiding taking on any new debt, lowering your existing debt and paying it off faster than scheduled and earning extra money.

## Make a larger down payment

Forking over a [higher down payment](#) than the minimum needed can help, too. “Down payment requirements for a bank statement loan were as low as 10 percent before COVID-19 hit,” says Jeanette. “But now, many lenders require 20 percent or more.”

## Shop around for the right lender for you

Shopping around among [different lenders](#) and programs can yield the best opportunities to secure home loans for self-employed individuals. Focus on lenders that do business with independent contractors or sole proprietors.“

## Work with an experienced loan officer who understands self-employed business

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Enlisting a skilled mortgage broker (again, one familiar with self-employed applicants) can also up your chances.

## Find a co-signer or co-borrower

If your self-employment income is insufficient to qualify for a mortgage, having a co-signer or a [co-borrower](#) can help you qualify for a mortgage or even a larger loan amount. Having either a co-signer or a co-borrower allows you to use their income and credit to qualify for a loan.

It's important to note that [co-signers are slightly different from co-borrowers](#). Both take on the debt as their own in addition to you. However, a co-borrower becomes a joint owner on the title, while a co-signer does not.

## What if I don't qualify for a mortgage?

If you don't get approved for a traditional mortgage, you can try applying for a [non-conforming loan](#). "But these often come at a higher cost to the consumer, and not everyone can qualify," says Buege, who adds that non-conforming loans can charge a higher [interest rate](#) and closing costs and impose less favorable repayment terms.

Alternatively, you could pursue a [personal loan](#), although the maximum amount you can borrow likely won't cover the cost of the home purchase.

If you're trying to refinance and get denied, you could try applying for a [home](#)

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