

Self-employed borrowers present one of the most challenging areas of mortgage underwriting. Qualifying self-employed people often requires time, energy, and patience. A fair and honest qualification requires a special set of skills.

Most mortgage companies underwrite their loans based on guidelines established by the Federal National Mortgage Association (Fannie Mae), the Federal Housing Administration (FHA), or the Veterans Administration (VA). These organizations share similar underwriting guidelines for self-employed borrowers. Additionally, some lending institutions have non-standard sources to draw upon for the purpose of making loans available to those who do not fit into specific guidelines.

Generally, there is a standard set of guidelines that pertain to employment and income. They include:

1. Two or more years of self-employment.
2. Owning 25 percent or more in a business.
3. A two-year minimum average income. This is done to even out fluctuations common to self-employed borrowers.
4. A positive overall economic outlook in the area for the particular business you own.
5. No significant decline in income over the period analyzed.

Self-employed borrowers are generally evaluated along similar guidelines that salaried borrowers are by determining if the borrower has sufficient income to support the mortgage payment and a willingness to repay all debt provided on a credit report. However, the methods used in the analysis of the self-employed borrower's income are different.

Most of the time a salaried borrower's gross salary is used for qualification. This method is not adequate for the self-employed because the daily operation of the business must be supported by gross receipts along with income to the owner. This requires analyzing the borrower's federal income tax returns and other schedules, depending on the type of business, to determine net income.

The growth, viability, and stability of the business field are also taken into account in determining the ability of the borrower to meet ongoing obligations. The length of self-employment time and overall experience in the field must also be considered. Because of the subjective nature of underwriting these loans, it is important for the borrower and the lender to put together a narrative along with documentation to support the income claim needed for the transaction.

There are several new loan programs available today for the self-employed. Lenders do their best to qualify people with the lowest rates and lowest down payments. They also attempt to complete the transaction with the fewest verification documents. Most loan programs have the same requirements for different types of self-employment. Programs are available for first-time buyers, move-up buyers, or investors regardless of their employment. However, some loan programs will be stricter for self-employed individuals.

If a borrower can't qualify because tax write-offs decrease his new income too much, a problem common among self-employed borrowers, lenders will then look to see if the borrower has enough independent income to pay the mortgage and other debt obligations. They will carefully inspect tax returns and check to see any possible way to get a self-employed businessman into a new home. Generally, two years of tax return history will be analyzed to account for fluctuations and track income patterns. Simple common sense is often a prevailing factor when reviewing these documents.

As for newly self-employed applicants, they represent a special situation. Verifying previous employment history to determine a track record of skills, length of employment and work environment can be taken into account. Previous income helps establish the financial history, as well as indicates whether the move to self-employment represents a logical process or a complete departure from an established profession.

There are some things to keep in mind. If the borrower recently had a bad year but had previous successful years, qualification is still possible. One bad year may be the result of a divorce, death, or medical illness. Provided the business had been previously successful, don't assume that you can't be qualified.

As a self-employed borrower, you must be willing to spend the time to work with an agent and a mortgage consultant specific to your situation. Careful scrutiny of tax returns will be necessary and meetings will be done person-to-person - not over the phone. The process may be a little more involved than a typical home loan, but the extra work will ultimately result in the most important part of the purchase - getting you into a new home.

Choose your agent wisely. Working with a full-time professional real estate agent is a must. Ask questions of your agent. Find out how knowledgeable he or she is about houses currently for sale in your price range and also of houses that have recently sold. Can your agent recommend a good lender that has the reputation of excellent customer service and low rates? Does your agent ask questions of you to have a full understanding of what you are looking for to help you get the most home for the money?

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