Tips for Self-Employed Borrowers

Mortgage lending standards have become far more stringent since the housing crisis. In particular, the increased need for documentation of consistent income presents a hurdle for the self-employed. Personal and business tax returns as well as other financial statements will be more carefully scrutinized than in the past in order to make sure the borrower is able to pay back the loan.

Lenders will typically look at a two-year average of a prospective borrower's income (at a minimum) in order to determine whether the borrower has the means to afford a mortgage. However, if the income from the most recent year is less than the year prior, the underwriter may opt not to average the two years, which make it more difficult to qualify for a loan, especially at a time when many businesses are struggling due to the overall economy.

There are some things you may be able to do to help improve your chances for loan approval:

Have as much documentation of income as possible.

Homeowners who work for themselves may not have the benefit of employer-issued pay stubs or W-2s. Instead, make sure to have as much documentation in the way of bank statements and tax documents as possible.

Save as much as possible for a larger down payment.

A lender is more willing to fund a loan where you have significant skin in the game in the form of home equity. That way, if things go wrong, they'll be able to recoup at least a portion of their investment.

Be able to show a track record of successful self-employment.

The longer the track record and the steadier the income, the better. This is where those who became self-employed after buying a home may run into problems.

Have as much cash as possible in reserve.

Large cash reserves can help to soothe lenders as well. This shows that you will be able to weather downturns in your business cycle without missing mortgage payments.

Improve your credit score and pay down consumer debts.

If you've done all you can to make sure your income is in line, it's time to take a look at your credit and debt levels. Since lending to self-employed borrowers generally requires stricter guidelines, you're going to be glad you took the time to pay down debt and boost your credit a bit ahead of time.

Speak to an accountant before you apply.

You may have taken many valid tax deductions that make your income appear less than it is to a lender looking over your returns. These returns may be amendable to make you a more attractive candidate.

If you're a self-employed homeowner thinking about refinancing, reach out to Christensen Financial, Inc. Because of our wide array of programs, we may have more flexibility when it comes to lending to the self-employed than other lenders.

To get a free rate quote, fill out our quick apply form.