

Self Employed Borrower

- If you own at least 25% of a business you are considered self employed.
- Must be self employed for a minimum of 2 years
 - Your latest tax return must show at least 12 months of self employment income.
- Standard documentation is 2 years personal and business (Corporation, K1, S Corp, Partnership) signed Federal Tax Returns including all schedules, and a year to date signed profit and loss statement.



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Form 4506-T – IRS Transcripts

- IRS Form 4506-T form is executed on both personal and business tax returns.
 - Any discrepancies must be explained.
 - Business losses noted on the IRS Transcript but not noted on the application will need to be explained with supporting documentation.



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Underwriting Uses a Cash Flow Analysis to Determine Self Employment Income

Items to be added
back into the Adjusted
Gross Income

- Depreciation/Depletion
- Non-Recurring Expenses
- Business Use of Home
- Amortization/Casualty Loss

Items to be subtracted
from the Adjusted Gross
Income

- Non-recurring Income
- Meals and Entertainment Exclusion
- Mortgage or Notes Payable in less than one year

Net income after expenses is what can be counted for qualifying. Some non cash deductions such as depreciation can be added back in.



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Other Items to Consider

- Non-recurring income is any income that is unlikely to continue for the next 3 years
- Non-recurring expenses must be documented
- Partnership, S Corporation or Corporation Income must be considered based on the percentage of ownership.



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Most common delays for self employed borrowers

- Failure to provide two years of tax returns up front.
- Providing unsigned copies (please sign the copies you provide to us)



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