

Successful Loan Strategies for Self Employed Borrowers in California

Self-Employment carries many benefits including making decisions, schedule flexibility and not having to work for an incompetent Boss. From 2001 to 2012 self-employment in the US grew by 14.4% to a total of 10.6 million jobs and 7.1% of the total workforce according to an Economic Modeling Special International Report.



However there are some disadvantages to generating your own income when it comes to applying for a home loan. Today, under new Federal Regulations, borrowers need to prove their income with tax returns rather than using a “stated income” loan. Banks like to see that a potential borrower has a steady paycheck in the form of a job. Does the borrower have sufficient cash flow to pay the mortgage? Self-employed individuals typically write off a large part of their income with business expenses leaving little net income on the tax return. Without sufficient net income on the tax return, it is very difficult to qualify for a home loan. What steps should a self-employed borrower take to get a loan?

1. **Try to Qualify for a Conventional Loan:** Conventional loans (loans from banks guaranteed by Fannie Mae or Freddie Mac) carry significantly lower interest rates. However, stated Income Loans that used to be a godsend have been hit hard by the new Dodd-Frank 2014 regulations. Conventional loans for self-employed typically require: 2 years tax returns, pay stubs, and professional balance sheets and income statements.

Borrowers have to decide what is more important to them. Qualifying for a larger mortgage or avoiding paying taxes. I am self-employed and wanted to refinance my primary residence to a fixed rate for 30 years. I increased my salary for 2011 and 2012 and was able to get a refinance in 2013 based on my increased Salary. Planning ahead was the key. Don’t be surprised even if you do qualify for a conventional loan that the loan will require a higher down payment, a higher interest rate and a temporary increase in net income.

2. **Acquire a Hard Money Loan:** If a conventional loan is not attainable, self-employed borrowers should consider a hard money loan. Typically, hard money loans don’t require tax returns. Underwriting is based on the equity in the property, and income that provides an “ability to pay” rather than in place cash flow or a tax return. The concept of “residual income” is used as opposed to a strict Debt to Income (DTI) ratio. Income can be derived from the rental income, employment, assets, Trusts or even depletion of current capital.

Hard Money Loans can close quickly and are ideal for entrepreneurial Real Estate Investors needing sources of capital to leverage their investments.

3. **Ask the Seller to “Carry Back” some of the Purchase Price:** If a self-employed individual can get a conventional or hard money loan, and they don’t have the requisite down payment, consider a Seller “Carry Back” loan.

Mortgage Vintage, Inc. offers robust loan programs for self-employed borrowers. Are you self-employed? How have you successfully obtained financing? We would like to know. Please submit a post on our [Mortgage Vintage, Inc. Facebook Page](#) or our [LinkedIn Company page](#). If you enjoy discussions like this, please sign up for our [Linked in Group](#) called Southern California Trust Deed Investment Group.