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Loans for the Self-Employed

Are you self-employed and looking for a home loan? Are you having trouble getting qualified? There may be some options you have not yet discovered. National guidelines have been streamlined in recent years to make the home buying process easier for the self-employed.

There are several problems self-employed people have run into with traditional loan applications. One of the more common ones is that accountants are skilled at showing the least amount of income possible to help self-employed people receive the biggest tax breaks available. However, when it comes time to prove your income to a mortgage lender, you will only have that minimized sum as evidence, when you really might have a better financial situation.

Another problem for self-employed home buyers is that with traditional full documentation loans, income is averaged over the past two consecutive years. If you had a bad year between one of those, your income as counted by the lender will be significantly lower and you may not qualify for the type of home you want.

During the past several years certain loans have become very useful for self-employed buyers. These include the no-income verification loans and the “no-doc” loans.

A no-income verification loan requires proof that you have been self-employed for two or more years, that you have sufficient assets to qualify, and that you have an excellent credit history. With a standard loan, you would be required to show two years of both business and personal tax returns, provide credit references for your business, profit and loss statements for the current year, and an up-to-date business balance sheet. With a no-income verification loan, there is a lot less paperwork and a higher chance of qualification. The catch is that because less proof of income means greater risk for your lender, the interest rate on your loan will be higher than on a traditional loan, generally about an eighth to a half percent higher. You may also be required to pay more in points up front.

Two other requirements have been attached to these loans since a high volume of no-income loan mortgage fraud occurred in the 1980s. These include a stipulation that you must allow the lending company to have the IRS do a check on your tax returns and previous income. The other requirement is that you show proof of income-related assets.

The other common option for the self-employed is the “no-doc” or no-documentation loan. With this program, you do not have to provide proof of your total income, nor do you have to let the IRS do a search of your records for the lender. You simply have to have enough money in assets for the down payment and closing costs. Be aware though, that like the no-income verification loans, you will have to settle for higher rates on these loans, usually around 0.5% higher.

If you are self-employed, you’d be wise to check into these two helpful loans. Also be sure to shop around for different quotes on these programs with many different lenders to get the best rates and terms. After you’ve found the right loan for you, getting into the right home will be much easier.