

VABASSO MORTGAGE

# The Bank Statement Loan Guide

Qualifying with business and personal  
bank deposits when tax returns  
do not tell the whole story



Edition 1.0 · Last reviewed July 2026

## VABASSO MORTGAGE

# The Bank Statement Loan Guide

A practical guide to understanding deposit-based income analysis, business expense factors, eligible deposits, documentation, reserves, and mortgage qualification for self-employed borrowers.

Version 1.0 · Published 2026-07-31 · Last reviewed 2026-07-31

Written by Vabasso Mortgage Editorial Team · Reviewed by Vabasso Mortgage Licensed Advisory Team

Read online: <https://vabasso.com/resources/guides/bank-statement-loan-guide>

## In short

A bank statement mortgage is an alternative-documentation loan that may estimate qualifying income using eligible deposits shown on personal or business bank statements. The analysis generally excludes transfers, borrowed funds, one-time deposits, and other non-income activity, then applies a program-specific expense methodology where required.

## Key takeaways

- Bank statement loans document income from deposit activity rather than from tax returns alone.
- Not every deposit counts. Transfers, loans, and one-time items are typically excluded before any income is calculated.
- Business-statement analysis usually applies an expense factor, and no single factor applies universally across lenders.
- Statement periods commonly range across shorter and longer windows, and no single period is required industry-wide.
- Credit, reserves, and overall file strength still matter — deposit analysis replaces one documentation method, not the rest of underwriting.
- A CPA or tax professional letter estimating actual business expenses can sometimes be used in place of a flat expense factor.

## Who this guide is for

- Self-employed borrowers whose tax returns understate cash flow after deductions
- Business owners with strong deposit activity but complex or recently filed returns
- 1099 contractors and gig-economy earners without traditional pay statements
- Real estate investors who also operate a business and want a combined qualification strategy
- Borrowers between full documentation and asset-based or DSCR qualification paths
- Repeat buyers whose income structure changed after selling or restructuring a business

## Table of contents

- 01 What is a bank statement loan?
- 02 Who may consider bank statement financing?
- 03 Personal versus business statements: how do they compare?
- 04 How many months of statements are reviewed?

- 05 Which deposits are generally eligible?
- 06 Which deposits are generally excluded?
- 07 How do business expense factors work?
- 08 What does an income analysis look like? (Hypothetical examples)
- 09 How are multiple businesses handled?
- 10 How much business history is expected?
- 11 How are credit and debt reviewed?
- 12 What assets and reserves are typically expected?
- 13 Can business funds be used for closing and reserves?
- 14 How do property type and occupancy affect the loan?
- 15 Bank statement loans versus full documentation: how do they compare?
- 16 Bank statement loans versus profit-and-loss-only qualification: how do they compare?
- 17 Bank statement loans versus asset qualifier loans: how do they compare?
- 18 Bank statement loans versus DSCR loans: how do they compare?
- 19 What documents are commonly requested?
- 20 How should a borrower prepare?
- 21 What common mistakes should borrowers avoid?
- 22 A planning worksheet
- 23 Important disclosures
- 24 Frequently asked questions
- 25 Tools, related pages, and next steps

## 01

## What is a bank statement loan?

A bank statement loan is a mortgage program designed for borrowers whose income is difficult to capture through traditional tax-return documentation, most commonly self-employed business owners, independent contractors, and gig-economy earners. Instead of relying primarily on adjusted gross income from federal tax returns, the lender reviews a defined period of personal or business bank statements and derives an estimate of qualifying income from the deposit activity shown there.

The underlying idea is straightforward: business owners routinely take legitimate deductions that reduce taxable income on paper without reducing the actual cash flow available to support a mortgage payment. A bank statement review attempts to reconstruct a more realistic picture of that cash flow by looking at what actually moved through the borrower's accounts, then narrowing that figure down to what can reasonably be treated as recurring, business-related income.

That narrowing step is the part borrowers most often misunderstand. A bank statement loan does not simply add up every deposit in an account and call the total income. Underwriters exclude transfers between the borrower's own accounts, loan proceeds, gifts, tax refunds, and other non-recurring or non-income activity before any calculation begins. For business accounts, a further adjustment — commonly called an expense factor — is typically applied to account for the operating costs embedded in gross deposits.

The result is a program that can open a path to financing for borrowers whose true earning capacity is not fully reflected on a tax return, but it is not a shortcut around underwriting. Credit, assets, reserves, the property, and the overall risk profile are still reviewed, often more closely than on a fully documented file precisely because the income figure itself is an estimate rather than a verified tax-return number.

Because deposit analysis methodology, eligible statement types, and expense treatment vary meaningfully across lenders and investors, two lenders reviewing the same set of statements can arrive at different qualifying income figures. That variability is normal in this product category and is a primary reason to compare more than one program before assuming a result.

Bank statement lending changes how income may be documented. It does not eliminate underwriting.

## 02

## Who may consider bank statement financing?

The clearest candidate for a bank statement loan is a self-employed business owner or independent contractor whose tax returns, after legitimate deductions, show adjusted income that is meaningfully lower than the cash flow actually generated by the business. Sole proprietors, S-corporation and partnership owners who take significant distributions, 1099 contractors, freelancers, and gig-economy workers frequently fall into this category, particularly when a large share of business expenses are non-cash items such as depreciation.

Borrowers with a relatively new business, a recent change in business structure, or tax returns that have not yet been filed for the most recent year may also find this path relevant, since bank statement programs typically place less emphasis on multi-year tax filings and more emphasis on recent, verifiable deposit history. Investors who also run an active business, and borrowers transitioning out of traditional employment into self-employment, sometimes use this documentation type as a bridge while their tax-return history builds.

This path is not automatically the strongest option for everyone who is self-employed, however. A borrower whose tax returns already show strong qualifying income after standard adjustments may qualify for more

competitive pricing and broader loan-to-value options through full documentation instead, since bank statement programs sometimes carry different pricing, reserve, or leverage parameters than a fully documented loan with comparable credit. A borrower with thin or erratic deposit activity, heavy reliance on one-time or unusual deposits, or a business that recently changed materially may also find the deposit-based estimate less favorable than expected.

Borrowers who qualify comfortably using W-2 income, salaried co-borrowers, or straightforward tax-return income generally have no reason to use this documentation path at all. And for investors purchasing rental property specifically, a DSCR program that qualifies from the subject property's rental cash flow — rather than personal income of any kind — can sometimes be a simpler and more competitive comparison. The right starting point depends on how the numbers actually run for a specific borrower, not on a general rule about self-employment.

### 03

## Personal versus business statements: how do they compare?

Bank statement programs commonly allow either personal account statements, business account statements, or a combination of both, and the choice affects both the deposits considered and the adjustments applied. Personal statements are often used by sole proprietors and single-owner operations where business and personal funds are not clearly separated, while business statements are more typical for borrowers who maintain a distinct business entity and operating account.

The core distinction is how gross deposits are treated on the way to a qualifying figure. Business account deposits are generally understood to include revenue that still needs to cover operating costs, so an expense factor or a documented expense ratio is typically applied to arrive at a net income estimate. Personal account deposits, when the ownership percentage and use of funds are properly documented, may in some programs be treated more directly as available income, though many lenders still apply some form of expense consideration if the deposits clearly represent business receipts rather than already-net personal income.

Combination approaches exist where a borrower's business deposits and personal account activity are both reviewed to build a complete income picture, particularly when a business owner draws distributions to a personal account rather than depositing business revenue directly. In these cases the underwriter typically needs to trace the relationship between the two accounts to avoid double-counting the same income twice.

There is no single correct choice between personal and business statements; the right combination depends on how a specific borrower's business is structured, how funds actually flow, and which approach a given lender's guidelines support.

General comparison. Treatment varies by lender, program, and how a borrower's funds actually flow.

| Consideration     | Personal statements                                       | Business statements                                          |
|-------------------|-----------------------------------------------------------|--------------------------------------------------------------|
| Typical borrower  | Sole proprietors, commingled accounts                     | Owners with a distinct business entity and operating account |
| Deposit treatment | May be treated more directly, subject to ownership review | Generally treated as gross revenue before expense adjustment |
| Expense factor    | Sometimes applied, program-dependent                      | Commonly applied or offset by a CPA expense letter           |

| Consideration           | Personal statements                               | Business statements                                 |
|-------------------------|---------------------------------------------------|-----------------------------------------------------|
| Ownership documentation | Business ownership and percentage still confirmed | Entity documents and account ownership confirmed    |
| Best fit                | Simple, undifferentiated income flow              | Businesses with clear separation of operating funds |
| Common pitfall          | Personal transfers mistaken for income            | Business loan proceeds mistaken for revenue         |

## 04

## How many months of statements are reviewed?

Bank statement programs review a defined period of consecutive statements, and the length of that period varies by lender and program. Shorter review periods and longer review periods both exist in the market, and some lenders offer more than one option within their own guidelines, sometimes with different pricing or leverage attached to each. There is no single statement period required across the industry, and this guide intentionally does not state one as a rule.

A longer review period generally gives an underwriter more data to evaluate consistency, seasonality, and trend, which can support a stronger case for a borrower with steady or growing deposits. A shorter review period can benefit a borrower whose income has recently improved, since it may avoid diluting a strong recent trend with weaker activity from further in the past — but it can also draw more scrutiny if the shorter window happens to include an unusually strong or unusually weak stretch.

Seasonality is a related and important consideration. A landscaping company, a tax preparation practice, a tourism-dependent business, or a contractor working around a construction season can show deposit patterns that swing significantly across the calendar year. Underwriters reviewing seasonal businesses typically want a statement period long enough to capture a representative annual cycle, or they may request additional context, such as a prior year's statements or a CPA letter, to avoid drawing conclusions from a single unrepresentative slice of the year.

Trend direction also matters independently of the raw average. A business with rising deposits over the review period is often viewed more favorably than one with the same average but a declining trajectory, since underwriting is fundamentally trying to estimate income that is likely to continue. Gaps in statement coverage, missing pages, or unexplained account changes during the review period typically require explanation and can slow the review, so continuity of documentation matters as much as the deposits themselves.

Because there is no universal statement period, borrowers considering this path should ask each lender directly which period options they offer, how seasonality is handled, and whether a longer or shorter window would better reflect their actual business performance before assuming any specific timeframe applies.

## 05

## Which deposits are generally eligible?

Eligible deposits are, broadly speaking, funds that represent recurring business revenue or documented, recurring personal income received into the account under review. The specific list of what qualifies, and how it must be documented, varies by lender, but several categories appear consistently across programs as generally eligible when properly supported.

Recurring client or customer payments deposited into a business operating account are the clearest example, particularly when they show a consistent pattern across the statement period. Documented recurring distributions from a business to an owner's personal account, contractor or 1099 payments received on a recurring basis, and other verifiable, recurring income deposits generally fall into this category as well, subject to each lender's specific documentation standards.

## Deposit types commonly treated as eligible

Confirm specific treatment with your lender; documentation requirements vary by deposit type.

- Recurring customer or client payments into a business operating account
- Documented, recurring owner distributions from a business account to a personal account
- Recurring 1099 contractor or freelance payments
- Recurring merchant processing or point-of-sale deposits tied to business activity
- Documented recurring rental income deposited on a consistent basis, where permitted
- Other verifiable, recurring deposits that a lender's guidelines specifically treat as income

06

## Which deposits are generally excluded?

Excluded deposits are amounts that do not represent recurring income, even if they appear on the statements under review. Underwriters typically remove these items before calculating any gross deposit figure, because including them would overstate the borrower's actual earning capacity.

The most common exclusion is a transfer between accounts the borrower already owns or controls, since moving the same dollar from a savings account into a checking account is not new income, it is the same money appearing twice. Loan or credit line proceeds, one-time gifts, insurance settlements, tax refunds, and the proceeds of an asset sale are also generally excluded, along with any deposit that appears unusual, unexplained, or inconsistent with the pattern of the account and therefore requires a documented, satisfactory explanation before it can even be considered.

## Deposit types commonly excluded before income is calculated

- Transfers between the borrower's own personal and business accounts
- Loan, credit line, or credit card cash advance proceeds
- One-time gifts, inheritances, or legal settlements
- Tax refunds and one-time government payments
- Proceeds from the sale of an asset, such as a vehicle or investment
- Large, unusual, or unexplained deposits inconsistent with the account's normal pattern

Total deposits are not automatically qualifying income.

07

## How do business expense factors work?

When business account deposits are used, most programs recognize that gross revenue is not the same as net income available to the business owner personally, since a business has to cover payroll, rent, materials, and

other operating costs before anything is left over. To account for this, lenders typically apply an expense factor: a percentage of gross eligible deposits is treated as the cost of doing business and subtracted, leaving the remainder as estimated qualifying income.

There is no universal expense factor. Different lenders and investors set their own default percentages, and those defaults can vary depending on the type of business, the loan program, and the lender's own risk appetite. A factor that one lender applies to a service-based business with low overhead may differ substantially from the factor applied to a business with significant equipment, inventory, or payroll costs, and the same borrower can see meaningfully different qualifying income figures across two lenders simply because of differing expense-factor assumptions.

Many programs allow a borrower to submit a letter from a CPA, enrolled agent, or other qualified tax preparer that documents the business's actual expense ratio, rather than relying on a lender's flat default percentage. When a documented actual expense ratio is lower than the lender's standard factor, this can sometimes result in a higher qualifying income figure than the default approach would produce — though it can also work in the other direction if actual expenses run higher than a lender's default assumption. Some lenders also accept supporting profit-and-loss statements alongside or instead of a CPA letter, subject to their own verification standards.

Industry type is a meaningful variable in how expense factors are set and interpreted. A consulting or professional-services business with minimal overhead is a fundamentally different cost structure than a restaurant, a construction contractor, or a retail operation with inventory, and lenders that differentiate by industry may apply different default assumptions accordingly. Because this area varies so significantly across the market, borrowers benefit from asking each lender directly how their expense factor is determined and whether a CPA letter or documented expense ratio would be considered in place of a default percentage.

## 08

# What does an income analysis look like? (Hypothetical examples)

The following examples are entirely hypothetical and are provided only to illustrate the mechanics of a deposit-based income calculation. They do not represent any specific lender's guidelines, factors, or statement-period requirements, and they should not be used to estimate a real qualifying income figure.

**Example one: business statements.** A hypothetical self-employed borrower's business operating account shows total deposits over an illustrative review period. After excluding transfers and one-time items, the underwriter arrives at eligible gross deposits, applies a hypothetical expense factor to estimate operating costs, and divides the resulting net figure by the number of months in the illustrative review period to reach an estimated monthly qualifying income.

**Example two: personal statements.** A hypothetical sole proprietor deposits business receipts directly into a personal account. After excluding transfers and confirming which deposits represent business revenue, the underwriter applies the lender's chosen treatment for personal-account business deposits — which may or may not include an expense factor depending on the program — to reach an illustrative monthly figure.

**Example three: seasonal business.** A hypothetical business shows significantly higher deposits in several months of the year and much lower deposits in others. Using a longer illustrative review period that captures a full annual cycle, the underwriter totals eligible deposits across the entire period, applies an expense factor, and divides by the total number of months reviewed — rather than by only the strongest months — to produce a more representative illustrative average.

Entirely hypothetical figures for illustration only. Actual periods, factors, and results vary by lender and file.

| Step                                    | Example 1: business statements  | Example 2: personal statements    | Example 3: seasonal business                                |
|-----------------------------------------|---------------------------------|-----------------------------------|-------------------------------------------------------------|
| Illustrative review period              | 12 months (hypothetical)        | 12 months (hypothetical)          | 24 months (hypothetical)                                    |
| Total deposits shown                    | \$420,000 (hypothetical)        | \$180,000 (hypothetical)          | \$600,000 (hypothetical)                                    |
| Less: excluded transfers/one-time items | -\$60,000 (hypothetical)        | -\$15,000 (hypothetical)          | -\$40,000 (hypothetical)                                    |
| Eligible gross deposits                 | \$360,000 (hypothetical)        | \$165,000 (hypothetical)          | \$560,000 (hypothetical)                                    |
| Expense factor applied                  | Illustrative percentage assumed | None assumed in this illustration | Illustrative percentage assumed                             |
| Estimated net annual income             | Illustrative reduced figure     | Illustrative figure, unreduced    | Illustrative reduced figure                                 |
| Months divided by                       | 12 (hypothetical)               | 12 (hypothetical)                 | 24 (hypothetical)                                           |
| Estimated monthly qualifying income     | Illustrative monthly figure     | Illustrative monthly figure       | Illustrative monthly figure, smoothed across the full cycle |

These examples use invented numbers and an invented expense factor solely to show the sequence of a calculation. No figure here reflects an actual program, lender, or expected result.

09

## How are multiple businesses handled?

Borrowers who own more than one business, or who hold an ownership interest in a business alongside separate 1099 or contract income, generally need each income source analyzed on its own terms rather than combined into a single undifferentiated deposit total. This matters because different businesses can have very different expense structures, ownership percentages, and levels of documentation available.

When a borrower owns less than one hundred percent of a business, underwriting typically prorates the usable income to reflect the borrower's actual ownership share, since only the borrower's portion of the business's cash flow is available to support a personal mortgage payment. Documentation confirming exact ownership percentage — such as an operating agreement, partnership agreement, or corporate documents — is generally required to support this calculation.

Where a borrower operates multiple businesses with separate bank accounts, most programs review the statements for each business independently, applying the appropriate expense treatment to each before combining the resulting net income figures into a single qualifying total. Cross-transfers between the borrower's own multiple business accounts are typically excluded from each account's gross deposits to avoid double-counting the same funds as income more than once.

Because multi-business scenarios add documentation complexity, borrowers in this situation benefit from organizing account statements, ownership documents, and, where available, a CPA summary of each entity's structure before beginning the loan process, so that the analysis can proceed efficiently once underwriting begins.

10

## How much business history is expected?

Bank statement programs generally want evidence that a business has an operating history long enough to demonstrate a reasonably stable pattern of deposits, and they also want reasonable assurance that the business is likely to continue. What counts as a sufficient history, and how it must be documented, varies by lender and program, and this guide does not state a universal minimum.

Common ways lenders confirm business history and continuance include a business license or formation document showing the entity's establishment date, a letter from a CPA or tax preparer confirming the business is active and has been operating for a stated period, and, in some cases, a review of prior years' tax returns even though the returns themselves are not being used to calculate income. A newer business with a shorter operating history may face additional scrutiny or, in some programs, may not meet a lender's minimum history requirement at all.

Borrowers who recently changed business structure — for example, converting a sole proprietorship into an LLC or S-corporation — should expect underwriting to ask questions about continuity between the old and new entity, since a change in legal structure does not necessarily reset an otherwise continuous operating history, but it does require documentation connecting the two.

## 11

# How are credit and debt reviewed?

Credit review on a bank statement loan generally follows the same broad framework used across mortgage underwriting: score, depth and length of credit history, payment history on housing and other obligations, revolving utilization, recent derogatory events, and recent credit inquiries or newly opened accounts are all commonly considered. Because the income figure itself is an underwriting estimate rather than a verified tax-return number, some lenders place additional weight on credit strength and payment history as a way of evaluating overall file risk.

Debt-to-income analysis compares the proposed housing payment, and typically the borrower's total monthly obligations, against the estimated qualifying income derived from the deposit analysis. Because that income figure can shift meaningfully depending on which expense factor or statement period a lender applies, the resulting ratio can also shift — which is one reason a borrower's apparent qualification can look quite different from one lender's calculation to another's for the identical set of bank statements.

Business debts that already appear on the borrower's personal credit report generally need documented treatment, similar to other self-employed income scenarios: some programs allow a business debt to be excluded from personal debt-to-income calculations when it can be shown that the business, not the individual, makes the payment, while incomplete documentation can result in the debt being counted against the borrower personally.

There is no universal minimum credit score or maximum debt-to-income ratio described in this guide, because both vary by lender, loan-to-value, occupancy, property type, reserves, and the overall strength of the file. Borrowers should ask a specific lender which credit and debt parameters apply to their scenario rather than assuming a single standard governs the entire bank statement category.

## 12

# What assets and reserves are typically expected?

Funds needed for a down payment, closing costs, and any required reserves are generally reviewed separately from the income analysis, using standard asset documentation and sourcing practices: recent account statements, explanation and documentation of any large or unusual deposits, and verification that funds have been in the borrower's possession for an appropriate period before closing.

Reserve requirements — funds that must remain available after closing, typically expressed as a number of months of housing payments — are common on bank statement programs and, in many cases, may be somewhat more significant than on a comparably qualified fully documented loan, reflecting the additional uncertainty inherent in an estimated income figure. Reserve expectations vary by lender, loan amount, loan-to-value, occupancy, and property type, and this guide does not state a universal figure.

Gift funds are permitted under some bank statement programs, subject to the same general documentation standards used across mortgage lending: a signed gift letter, verification of the donor's ability to give the funds, and documentation of the transfer. Not every program accepts gift funds on this documentation type, and some limit the portion of funds to close or reserves that gifts can cover, so this should be confirmed early if it applies to a specific borrower's plan.

13

## Can business funds be used for closing and reserves?

Business account funds can sometimes be used toward a down payment, closing costs, or reserves, but lenders generally want assurance that withdrawing those funds will not impair the business's ongoing ability to operate — since a business that cannot meet its own obligations is a risk to the very income stream being used to qualify for the mortgage.

Common documentation for using business funds includes a letter, often from a CPA or the borrower, confirming that the withdrawal will not negatively affect business operations, and in some cases a review of business account balances and cash flow to support that conclusion. Some programs also limit the percentage of business funds that can be used, or require the borrower's ownership percentage in the business to be documented before crediting the full account balance toward the transaction.

Because standards here vary meaningfully by lender, borrowers who plan to use business funds for any part of their transaction should raise the question early, before assuming those funds are fully available, so that any required documentation can be gathered without delaying the closing timeline.

14

## How do property type and occupancy affect the loan?

Bank statement programs are typically available across primary residences, second homes, and investment properties, though eligibility, down payment expectations, pricing, and reserve requirements often differ by occupancy type, with investment properties generally facing somewhat more conservative parameters than primary residences.

Property type also plays a role. Single-family homes, condominiums, and small multi-unit properties are commonly eligible, though condominium projects are typically subject to their own separate review covering the project's insurance, budget, reserves, and any pending litigation, independent of the borrower's income documentation type. Unique or non-warrantable properties may narrow the pool of lenders willing to combine that property type with bank statement income documentation.

Borrowers using this documentation path to purchase an investment property should also compare it against DSCR financing, which qualifies based on the subject property's rental income rather than the borrower's personal deposit history; depending on the borrower's profile and the specific property, one path or the other

may be simpler or more favorable.

15

## Bank statement loans versus full documentation: how do they compare?

Full documentation underwriting relies primarily on tax returns, often supplemented with a year-to-date profit-and-loss statement for self-employed borrowers, to establish adjusted qualifying income. Bank statement underwriting substitutes deposit analysis for that tax-return-based calculation. Each approach has trade-offs that depend heavily on how a specific borrower's tax returns compare to their actual cash flow.

General comparison. Actual terms and eligibility vary by lender, investor, and borrower profile.

| Consideration         | Full documentation                                                | Bank statement loan                                                        |
|-----------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------|
| Primary income source | Tax returns and, where applicable, employer verification          | Personal or business bank statement deposits                               |
| Best fit              | Borrowers whose tax returns already show strong qualifying income | Borrowers whose tax deductions understate actual cash flow                 |
| Documentation burden  | Multiple years of tax returns, often with a CPA-prepared P&L      | Bank statements, and often a CPA letter or expense documentation           |
| Income calculation    | Standardized tax-return-based methodology                         | Deposit total minus exclusions minus expense factor, where applicable      |
| Pricing and leverage  | Often the most competitive available pricing and leverage         | Can differ from full documentation pricing depending on lender and profile |
| Reserve expectations  | Program-defined, often more modest                                | Frequently somewhat higher given income estimation                         |

16

## Bank statement loans versus profit-and-loss-only qualification: how do they compare?

Some lenders offer a documentation path that relies primarily on a CPA-prepared or borrower-prepared profit-and-loss statement, sometimes without full tax returns and sometimes without a full bank statement deposit analysis. This differs from a bank statement loan in that the income figure comes from the accounting record itself rather than from reconstructing income out of raw deposit activity.

A profit-and-loss approach can be advantageous for a borrower whose accounting records are clean, current, and prepared by a qualified professional, since it may avoid some of the deposit-by-deposit scrutiny inherent in a bank statement review. It can be less advantageous for a borrower whose bookkeeping is informal or inconsistent, in which case a bank statement analysis anchored to verifiable account activity may actually be the more defensible path.

Some lenders combine the two approaches, using bank statements to substantiate the deposit activity implied by a profit-and-loss statement, which can strengthen a file relative to either method used alone. Availability of a

pure profit-and-loss-only path varies significantly by lender and is generally less widely offered than standard bank statement programs.

17

## Bank statement loans versus asset qualifier loans: how do they compare?

An asset qualifier program takes a fundamentally different approach: rather than analyzing any form of income, it converts a portion of the borrower's documented liquid or eligible assets into an imputed monthly income figure, typically by dividing a qualifying balance over a defined period, and uses that imputed figure in place of traditional or deposit-based income entirely.

This makes asset qualifier financing most relevant for borrowers with substantial verified assets but limited or inconsistent income of any kind, including retired borrowers, borrowers between business ventures, or high-net-worth borrowers whose income does not reflect their actual financial capacity. A self-employed borrower with strong deposit activity but comparatively modest total assets is generally better suited to a bank statement approach, while a borrower with significant assets but weak or unpredictable deposit activity may find an asset qualifier program a better fit.

The two paths are not mutually exclusive as concepts, but a specific loan is generally underwritten using one methodology or the other, not both simultaneously, so borrowers who could qualify either way benefit from comparing the resulting terms, pricing, and reserve requirements under each approach.

18

## Bank statement loans versus DSCR loans: how do they compare?

A DSCR loan qualifies a real estate investment transaction based on the subject property's own rental income relative to its housing payment, rather than on any measure of the borrower's personal income, whether from tax returns, pay statements, or bank deposits. This makes DSCR financing fundamentally different in what it analyzes, even though both products are frequently used by self-employed and investor borrowers.

For a borrower purchasing an investment property, a bank statement loan can still make sense when the borrower wants to lean on their personal or business cash flow to support the transaction, particularly if the property's own rental income would not independently support a favorable debt-service ratio. A DSCR loan can be the simpler path when the property's rental income is strong on its own and the borrower would prefer not to document personal income at all.

Borrowers evaluating an investment property purchase are generally well served by asking their lender to model the transaction both ways, since the property's rental profile and the borrower's personal deposit activity may point toward different — but equally viable — paths to approval.

19

## What documents are commonly requested?

Document requests on a bank statement loan span several categories: identity and application documentation, the bank statements themselves, business documentation supporting the expense analysis and continuance of the business, and standard asset, credit, and property documentation shared with most mortgage transactions.

## Statement and business documentation

- Consecutive personal or business bank statements covering the lender's required review period
- Business license, formation documents, or other evidence of the business's establishment date
- CPA, enrolled agent, or tax preparer letter confirming business operation and, where used, an actual expense ratio
- Explanation and documentation for any large, unusual, or unexplained deposits
- Entity documents confirming ownership percentage where more than one owner exists

## Standard identity, asset, and property documentation

- Government-issued identification and completed loan application
- Asset statements for funds to close and any required reserves
- Gift letter and donor documentation, if applicable
- Purchase contract, or existing mortgage statement for a refinance
- Homeowners insurance information and, where applicable, flood or wind insurance documentation
- Authorization to pull credit and verify employment or business status

20

## How should a borrower prepare?

Preparation for a bank statement loan generally starts well before an application is submitted, since organizing account activity and business documentation in advance can meaningfully shorten the underwriting timeline and reduce the number of follow-up conditions.

### Steps that generally help before applying

- Gather complete, consecutive bank statements for the likely review period, with no missing pages or gaps
- Separate business and personal deposits clearly, or be ready to document the relationship between accounts
- Ask a CPA or tax preparer whether they can provide a letter documenting actual business expenses
- Identify and be ready to explain any large or unusual deposits in advance
- Confirm business ownership percentage and gather supporting entity documents
- Review credit in advance and address any inaccuracies before applying
- Compare more than one lender's statement period options and expense-factor approach
- Use the Mortgage Pathway tool to organize your scenario before speaking with an advisor

21

## What common mistakes should borrowers avoid?

Most avoidable problems on a bank statement file trace back to incomplete documentation, unexplained deposits, or assumptions carried over from full-documentation lending that do not apply to deposit-based analysis.

Common issues and a more constructive way to approach each one.

| Mistake                                                                        | What to do instead                                                                                 |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Assuming total deposits equal qualifying income                                | Ask the lender to walk through exclusions and any expense factor before estimating your own figure |
| Submitting statements with missing months or pages                             | Request complete, consecutive statements directly from the bank in advance                         |
| Moving large sums between personal and business accounts right before applying | Keep account activity stable and document any necessary transfers clearly                          |
| Assuming one lender's expense factor applies everywhere                        | Compare expense-factor methodology and CPA-letter acceptance across more than one lender           |
| Depositing a large gift or loan without documentation                          | Prepare a gift letter or loan explanation, or avoid the deposit until after closing if possible    |
| Ignoring business continuance documentation                                    | Gather a business license or CPA letter confirming how long the business has operated              |
| Assuming reserves are the same as on a full-documentation loan                 | Ask specifically what reserve requirement applies to this documentation type                       |
| Waiting until underwriting to explain unusual deposits                         | Flag and explain unusual deposits proactively when submitting statements                           |

22

## A planning worksheet

The worksheet below is meant to be printed and used to organize your own scenario before speaking with an advisor. Nothing here is a program guideline; it is simply a structure for gathering your own facts. Once you have filled it in, the Mortgage Pathway tool at /mortgage-pathway can help translate this information into a more specific conversation with a licensed advisor.

### Inputs to gather before your worksheet conversation

- Twelve and twenty-four month totals of eligible deposits, personal and business, kept separate
- A rough list of transfers, one-time deposits, and unusual items to exclude
- Your business ownership percentage and, if applicable, each co-owner's share
- Whether a CPA or tax preparer can provide a documented expense ratio
- Estimated funds available for down payment, closing costs, and reserves
- A recent credit report or credit monitoring summary
- The property type and occupancy you are considering

Fill in your own figures. These are placeholders to illustrate the structure of the worksheet, not guidance on expected values.

| Line                                              | Your figure |
|---------------------------------------------------|-------------|
| Total deposits over your chosen review period     | _____       |
| Less: transfers, loans, gifts, and one-time items | _____       |
| Eligible gross deposits                           | _____       |

| Line                                                                 | Your figure |
|----------------------------------------------------------------------|-------------|
| Estimated expense factor or documented expense ratio (if applicable) | _____       |
| Estimated net income over the review period                          | _____       |
| Number of months in the review period                                | _____       |
| Estimated monthly qualifying income (net income divided by months)   | _____       |
| Estimated funds available for closing and reserves                   | _____       |

23

## Important disclosures

Statement periods, eligible deposit definitions, expense-factor methodologies, credit expectations, debt-to-income treatment, reserve requirements, loan-to-value limits, pricing, and closing timelines vary by lender, investor, program, property, occupancy, transaction type, and borrower profile, and they change over time. No figure, factor, ratio, or timeline described in this guide is universal, and every numeric example is hypothetical and provided for illustration only. Actual qualifying income, terms, and costs are determined by the lender underwriting your specific file. This guide is educational and is not a loan approval, a commitment to lend, an offer to extend credit, a Loan Estimate, or legal or tax advice. Consult a licensed mortgage advisor and, where appropriate, a CPA or tax professional about your specific situation.

Nothing in this guide should be relied upon as a statement of what a specific lender will offer. Speak with a licensed mortgage advisor to review your bank statements, business structure, and overall file against current program guidelines.

# Frequently asked questions

## **What is a bank statement loan?**

A bank statement loan is a mortgage that estimates qualifying income from eligible deposits shown on personal or business bank statements rather than relying primarily on tax returns. The exact methodology, eligible deposit types, and statement period vary by lender and program, so results can differ between lenders reviewing the same borrower.

## **Do I still need to provide tax returns?**

Many bank statement programs do not require full tax returns for income qualification, though some ask for a return to confirm business existence or filing status. Requirements vary by lender, and some programs request limited tax documentation even when income itself is not calculated from the returns.

## **How many months of bank statements are typically required?**

Statement periods vary by lender and program, with some using shorter windows and others using longer ones; there is no single required period across the industry. Ask each lender which options they offer and how the choice might affect your estimated income.

## **Can I use personal bank statements instead of business statements?**

Yes, many programs allow personal statements, particularly for sole proprietors whose business and personal funds are not clearly separated. Treatment of personal-account deposits varies by lender, and ownership of any underlying business still needs to be documented.

## **Can I use business bank statements instead of personal statements?**

Yes, business statements are commonly used and are often required when a borrower maintains a distinct business entity with a separate operating account. Business deposits are typically adjusted with an expense factor before being treated as income.

## **Are all deposits counted as income?**

No. Underwriters generally exclude transfers between the borrower's own accounts, loan proceeds, gifts, and other one-time or non-recurring items before calculating any income figure. Total deposits are not the same as qualifying income.

## **Why are transfers excluded from the calculation?**

A transfer between two accounts the borrower already owns does not represent new income; it is the same money appearing in more than one place. Including transfers would overstate actual cash flow, so lenders remove them before calculating eligible deposits.

## **What is an expense factor?**

An expense factor is a percentage applied to gross business deposits to estimate the operating costs a business incurs, leaving an estimated net income figure. Expense factors vary by lender, program, and sometimes by industry, and there is no universal percentage.

## **Can a CPA letter replace a standard expense factor?**

In many programs, yes. A CPA, enrolled agent, or qualified tax preparer can sometimes document a business's actual expense ratio, which a lender may use instead of a default expense-factor percentage. Availability and acceptance of this approach vary by lender.

## **Can 1099 income be used on a bank statement loan?**

Yes, recurring 1099 or contractor income deposited into a reviewed account is commonly treated as eligible, subject to documentation of consistency and expected continuance. Some programs offer dedicated 1099-only income documentation as an alternative to full bank statement review.

**Can gig-economy income qualify?**

It can, particularly when deposits show a consistent, recurring pattern over the review period. Highly irregular or thin gig income may require a longer review period or additional documentation to demonstrate stability and likely continuance.

**How is seasonal income handled?**

Seasonal businesses are generally reviewed over a period long enough to capture a representative annual cycle, with income averaged across the full period rather than only the strongest months. Underwriters may also request prior-year statements or a CPA letter for additional context.

**Can I combine income from multiple businesses?**

Yes, but each business is generally analyzed separately, with income prorated for ownership percentage where the borrower does not own one hundred percent of a business, before the resulting figures are combined into a single qualifying total.

**Can I use business funds for closing costs?**

Sometimes, subject to documentation that withdrawing the funds will not impair the business's ongoing operations, often including a CPA or borrower letter. Some programs limit how much of a business account balance can be used or require proof of ownership percentage.

**How much in reserves will I need?**

Reserve requirements vary by lender, loan amount, loan-to-value, occupancy, and property type, and bank statement programs frequently expect somewhat more significant reserves than a comparably qualified full-documentation loan. Ask your lender for the specific requirement that applies to your scenario.

**Can I use gift funds toward my down payment?**

Some bank statement programs allow gift funds under standard documentation practices, including a signed gift letter and evidence of the donor's ability to give the funds. Not every program permits gifts on this documentation type, so confirm before relying on gift funds in your plan.

**Is my credit report reviewed the same way as on other loans?**

Generally yes, credit score, payment history, utilization, and recent derogatory events are commonly reviewed using a similar framework used across mortgage lending. Some lenders place additional weight on credit strength given that the income figure itself is an underwriting estimate.

**How is debt-to-income calculated on a bank statement loan?**

The proposed housing payment and other monthly obligations are compared against the estimated monthly income derived from the deposit analysis. Because that income figure depends on the statement period and expense factor used, the resulting ratio can vary between lenders for the same borrower.

**Are bank statement loans more expensive than full documentation loans?**

Pricing and leverage can differ from full documentation loans, and the direction of that difference depends on the lender, the borrower's credit and reserves, and current market conditions. It is not accurate to assume this documentation type is always more or always less expensive.

**Can I use a bank statement loan for a primary residence?**

Yes, bank statement programs are commonly available for primary residences, subject to each lender's eligibility, down payment, and reserve requirements for that occupancy type.

**Can I use a bank statement loan for a second home?**

Yes, in many programs, though eligibility, down payment expectations, and reserve requirements can differ from primary-residence financing. Confirm specific second-home parameters with your lender.

**Can I use a bank statement loan for an investment property?**

Yes, many programs extend to investment properties, typically with somewhat more conservative down payment and reserve expectations than for a primary residence. Comparing this approach against DSCR financing, which qualifies from the property's own rental income, can also be worthwhile for investment purchases.

**Can an LLC or other entity hold title on a bank statement loan?**

Owner-occupied bank statement financing is generally made to individual borrowers, though some investment-focused programs permit entity vesting with personal guarantees. Requirements vary by lender and loan purpose.

**Can a first-time buyer use a bank statement loan?**

Yes, if they are self-employed or otherwise earn income that is difficult to document through traditional tax-return underwriting. First-time buyer status does not itself affect eligibility for this documentation type.

**Can a newer business owner qualify?**

It depends on the lender's business-history expectations, which vary and are not stated as a universal minimum in this guide. A newer business with clear documentation of establishment and consistent deposit activity may still qualify, while a very recently formed business may face additional scrutiny or restrictions.

**What happens if my deposits are declining over the review period?**

A declining trend is generally reviewed carefully, since underwriting is trying to estimate income likely to continue. Some lenders may use a shorter, more recent period, request an explanation, or apply a more conservative figure when deposits show a clear downward trajectory.

**Are cash deposits treated differently?**

Cash deposits can be harder to verify as recurring business income and may draw closer scrutiny or require additional documentation to establish their source and consistency. Treatment varies by lender.

**Can foreign deposits be used?**

Some lenders permit foreign-sourced deposits when they are documented, converted, and consistently deposited into a verified account, though many programs restrict or exclude them. Confirm early if this applies to your situation.

**Can I refinance using a bank statement loan?**

Yes, bank statement programs are commonly available for rate-and-term and cash-out refinancing, subject to the lender's standard eligibility, equity, and reserve requirements for the applicable transaction type and occupancy.

**Can I take cash out with a bank statement loan?**

Many programs offer cash-out refinancing on this documentation type, generally with somewhat more conservative leverage than rate-and-term refinancing. Specific limits vary by lender, property type, and occupancy.

**What documents should I prepare before applying?**

Complete, consecutive bank statements for the likely review period, business formation and ownership documents, a CPA letter if available, asset statements, and standard identity and credit documentation are commonly requested. Preparing these in advance can shorten the review timeline.

**How long does the review process take?**

Timelines vary with file complexity, including how quickly complete statements and business documentation are provided, whether a CPA letter is needed, and lender-specific turn times. Organized, complete documentation submitted early is the largest factor a borrower can control.

**Can W-2 income be combined with bank statement income?**

In some cases, when a borrower has both salaried employment and self-employment income, a lender may document the W-2 portion traditionally while analyzing the self-employment portion through deposit review. Whether and how this combination is permitted varies by lender.

# Tools, related pages, and next steps

A stronger plan begins before the application. Understand the loan, prepare the funds, estimate the payment, and take the next step with greater clarity.

## Calculators

- Debt To Income Calculator [vabasso.com/calculators/debt-to-income](https://vabasso.com/calculators/debt-to-income)
- Home Affordability Calculator [vabasso.com/calculators/home-affordability](https://vabasso.com/calculators/home-affordability)
- Mortgage Payment Calculator [vabasso.com/calculators/mortgage-payment](https://vabasso.com/calculators/mortgage-payment)
- Investment Property Calculator [vabasso.com/calculators/investment-property](https://vabasso.com/calculators/investment-property)
- Closing Costs Calculator [vabasso.com/calculators/closing-costs](https://vabasso.com/calculators/closing-costs)

## Loan programs

- Bank Statement Loans [vabasso.com/loan-programs/bank-statement](https://vabasso.com/loan-programs/bank-statement)
- Asset Qualifier Loans [vabasso.com/loan-programs/asset-qualifier](https://vabasso.com/loan-programs/asset-qualifier)
- Asset Depletion Loans [vabasso.com/loan-programs/asset-depletion](https://vabasso.com/loan-programs/asset-depletion)
- Dscr Loans [vabasso.com/loan-programs/dscr](https://vabasso.com/loan-programs/dscr)
- No Ratio Loans [vabasso.com/loan-programs/no-ratio](https://vabasso.com/loan-programs/no-ratio)
- Investment Loans [vabasso.com/loan-programs/investment](https://vabasso.com/loan-programs/investment)
- Conventional Loans [vabasso.com/loan-programs/conventional](https://vabasso.com/loan-programs/conventional)

## Related reading

- Self employed mortgage options [vabasso.com/resources/article/self-employed-mortgage-options](https://vabasso.com/resources/article/self-employed-mortgage-options)
- How the mortgage process works [vabasso.com/resources/article/how-the-mortgage-process-works](https://vabasso.com/resources/article/how-the-mortgage-process-works)
- Documents needed for a mortgage [vabasso.com/resources/article/documents-needed-for-a-mortgage](https://vabasso.com/resources/article/documents-needed-for-a-mortgage)
- Mortgage Glossary [vabasso.com/mortgage-glossary](https://vabasso.com/mortgage-glossary)
- Guide library [vabasso.com/resources/guides](https://vabasso.com/resources/guides)

## Next steps

- Explore bank statement loans [vabasso.com/loan-programs/bank-statement](https://vabasso.com/loan-programs/bank-statement)
- Analyze my mortgage pathway [vabasso.com/mortgage-pathway](https://vabasso.com/mortgage-pathway)
- Start the Mortgage Readiness Assessment [vabasso.com/pre-qualify](https://vabasso.com/pre-qualify)
- Speak with a mortgage advisor [vabasso.com/contact](https://vabasso.com/contact)
- Apply now [vabasso.com/apply](https://vabasso.com/apply)
- Mortgage Readiness Assessment [vabasso.com/pre-qualify](https://vabasso.com/pre-qualify)

## Sources

Program rules referenced in this guide are maintained by the applicable agency, investor, and lender. Confirm current requirements with your licensed mortgage advisor and official program guidance before making decisions. Source: HUD / FHA program guidance, agency and investor guidelines, and Vabasso Mortgage editorial review dated 2026-07-31.

## Disclosure

Statement periods, eligible deposit definitions, expense-factor methodologies, credit expectations, debt-to-income treatment, reserve requirements, loan-to-value limits, pricing, and closing timelines vary by lender, investor, program, property, occupancy, transaction

type, and borrower profile, and they change over time. No figure, factor, ratio, or timeline described in this guide is universal, and every numeric example is hypothetical and provided for illustration only. Actual qualifying income, terms, and costs are determined by the lender underwriting your specific file. This guide is educational and is not a loan approval, a commitment to lend, an offer to extend credit, a Loan Estimate, or legal or tax advice. Consult a licensed mortgage advisor and, where appropriate, a CPA or tax professional about your specific situation.

Vabasso Mortgage · NMLS #2864025 · Equal Housing Lender · <https://vabasso.com> · Version 1.0 · Last reviewed 2026-07-31