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# Self-Employed Mortgage Guide

TAX RETURNS • BANK STATEMENTS • ASSET QUALIFICATION


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# Self-Employed Mortgage Guide

How business income is actually reviewed — tax returns, bank statements, assets, profit-and-loss programs, and the documentation that moves a file forward.

Self-employment does not prevent mortgage qualification. It changes how income is documented and analyzed. Traditional underwriting starts with tax returns and business filings, calculates a usable income figure after adjustments, and reviews stability and continuance. When tax-return income does not represent the household's real earning capacity, alternative documentation paths — bank statement, profit-and-loss, 1099, asset qualifier, asset depletion, and no-ratio programs — may be available. Each has its own documentation, pricing, and eligibility profile.

## Key takeaways

— Underwriters analyze stability, continuance, ownership percentage, and business health — not just a number on a tax return.

— Legitimate deductions reduce taxable income, which can reduce qualifying income. Not every deduction can be added back.

— Bank statement programs analyze deposits, apply an expense factor, and exclude transfers and non-business deposits.

— Asset qualifier and asset depletion are different mechanisms; both depend on verified, eligible, accessible assets.

— No-ratio does not mean no underwriting. Credit, equity, reserves, and the property still carry the file.

— Preparation matters more here than for any other borrower type: clean books, separated accounts, and explainable deposits.

## Who this guide is for

- Sole proprietors, LLC owners, S corporation owners, and partners
- Independent contractors and 1099 professionals
- Commission-based and gig-economy earners
- Real estate, medical, and legal professionals
- Entrepreneurs with complex or multi-entity tax returns
- Business owners who have been told 'your income does not qualify'

# Contents

# 1. How self-employed income is evaluated

Every mortgage income analysis is trying to answer one question: how much money can this household reliably be expected to have available each month, going forward. For a salaried borrower, a pay statement answers it. For a business owner, the answer has to be constructed.

Underwriters generally look at four things. Stability: has income been consistent, and is the pattern explainable? Continuance: is there a reasonable expectation the income continues? Business health: does the business itself appear viable, liquid, and not carrying obligations that will drain the owner? And ownership: what percentage of the business do you own, because that determines which returns are reviewed and how income flows to you.

Ownership percentage is a bigger deal than most borrowers expect. Above a certain threshold, a borrower is typically treated as self-employed and business returns come into scope. Below it, the treatment may be closer to that of a wage earner. The threshold and treatment vary by program.

Year-to-date performance is reviewed against prior years. A business tracking meaningfully below last year raises questions that need a documented answer — a lost contract that has been replaced, a one-time expense, a deliberate investment year. Silence is treated as risk.

Business liquidity and business debt also matter. If the business carries obligations that the owner personally guarantees, or if withdrawing the qualifying income would impair the business, an underwriter will notice.

**What an underwriter is assessing**

- ☐ Length of self-employment history and industry experience
- ☐ Ownership percentage and business structure
- ☐ Two-year trend in income, and the direction of that trend
- ☐ Year-to-date performance against the prior full year
- ☐ Business liquidity and whether distributions are sustainable
- ☐ Business debt and personally guaranteed obligations
- ☐ Non-recurring items on both the income and expense side
- ☐ Whether income has a reasonable expectation of continuance

# 2. Traditional documentation

Full-documentation underwriting is the default path and often the least expensive. When a business owner's tax returns support the payment, it is usually the right answer.

The document list is longer than a wage earner's, but it is predictable. Providing it completely on the first request is the single most effective thing a self-employed borrower can do to shorten a loan timeline.

**Commonly requested for full-documentation review**

- ☐ Personal federal tax returns with all schedules, typically two years
- ☐ Business federal tax returns with all schedules, where the ownership percentage requires them
- ☐ K-1s for partnerships and S corporations
- ☐ Schedule C for sole proprietors
- ☐ 1099s for contract income
- ☐ W-2 income received from a business you own
- ☐ Year-to-date profit-and-loss statement
- ☐ Balance sheet, where requested
- ☐ Business bank statements
- ☐ Personal bank statements
- ☐ Business license, articles of organization, or operating agreement
- ☐ Evidence of ownership percentage
- ☐ CPA or tax-preparer contact information, and a letter where the program requires it
- ☐ A debt schedule for business obligations

*Not every item is required on every file. The list is scoped to the program, the ownership structure, and the findings of the automated or manual underwriting review.*

# 3. Why taxable income may look lower than your real income

Tax filing and mortgage qualification pull in opposite directions. A good tax outcome minimizes taxable income. A good mortgage outcome maximizes documentable qualifying income. The same set of accurate returns can serve one goal well and the other poorly.

Some deductions reduce taxable income without reducing the cash in your pocket. Depreciation is the clearest example: it is a non-cash expense, and underwriting guidelines commonly allow it to be added back. Amortization of intangibles and depletion often work similarly.

Other deductions reduce actual cash. Rent, payroll, materials, and most operating costs genuinely leave the business. Those are not added back, and no amount of explanation changes that.

In between sit the ambiguous items: business use of home, vehicle deductions, meals and travel, and one-time or non-recurring expenses. Treatment varies by program and by how well the item is documented as non-recurring. A borrower who assumes all of these will be added back is frequently disappointed.

Retained earnings and pass-through income raise a different question: whether income left in the business can be counted for a borrower who does not actually take it. Some programs allow consideration where liquidity and ownership support it; many do not.

The honest summary is that add-backs are program-specific and evidence-driven. Ask your loan officer to run the actual calculation from your actual returns before you assume a result in either direction.

**How different expense types are commonly treated (general illustration only)**

| Item | Cash leaves the business? | Typical treatment in qualifying income |
|---|---|---|
| Depreciation | No | Commonly added back |
| Amortization of intangibles | No | Commonly added back |
| Depletion | No | Commonly added back |
| Business use of home | Partially | Varies by program and documentation |
| Vehicle expense | Partially | Varies; mileage-based portions may be treated differently |
| Meals and travel | Yes | Generally not added back |
| Payroll, rent, materials | Yes | Not added back |
| Documented one-time expense | Yes, once | May be added back with strong documentation |

*This table is a general illustration of common practice, not a guideline citation. Actual add-backs depend on the program, the investor, and the documentation in your file.*

# 4. How the numbers are actually calculated

Once adjustments are made, the underwriter produces a monthly qualifying income figure. Two mechanics drive the result: averaging and trending.

Averaging typically uses two years of income to smooth normal fluctuation. A strong year and a weaker year become a middle number, which usually serves the borrower well when the business is stable.

Trending is what happens when the two years are not similar. Rising income is generally averaged conservatively rather than projected forward. Declining income is treated more cautiously still: many programs will use the lower, more recent figure rather than the average, and a steep decline can require a documented explanation before any income is used.

Year-to-date figures act as a check on both. A P&L that tracks consistent with the prior year supports the calculation. A P&L that diverges significantly invites questions.

Business cash-flow analysis sits alongside income. If distributions exceed what the business can sustain, or if the business shows negative working capital, an underwriter may question continuance even when the historical income figure looks strong.

Finally, personal and business obligations are separated. Business debts paid by the business, with evidence that the business has made the payments from business funds for an acceptable period, may sometimes be excluded from personal DTI. Documentation requirements for that exclusion are specific.

# 5. Bank statement loans

Bank statement programs qualify income from deposit activity rather than from tax returns. They exist for the very common situation where a business generates strong revenue and the owner takes legitimate deductions that leave taxable income too low to support the payment.

The mechanics are consistent across most programs even though the details vary. The lender reviews a defined period of statements — commonly twelve or twenty-four months of business or personal accounts. Eligible deposits are identified. An expense factor is applied to business accounts to approximate the cost of running the business, and the result is converted to a monthly income figure.

Not every deposit counts. Transfers between your own accounts, loan proceeds, tax refunds, one-time asset sales, gifts, and deposits unrelated to the business are typically excluded. Attempting to inflate deposits before applying is both visible and counterproductive.

The expense factor is where programs differ most. Some use a fixed percentage. Some vary it by industry. Some will accept a CPA-prepared expense statement supporting a lower factor. A borrower in a low-overhead service business and a borrower running a business with heavy materials costs should not be treated identically, and better programs recognize that.

Seasonality is handled by using a long enough review period. A landscaping business or a coastal short-term rental management company will show uneven months; twelve or twenty-four months of statements normalize that.

Business existence and ownership still get verified, credit and reserves still matter, and the property still has to appraise. Bank statement documentation replaces the income proof, not the underwriting.

**Preparing for a bank statement review**

- ☐ Identify which accounts genuinely receive business revenue
- ☐ Keep business and personal funds in separate accounts
- ☐ Be able to explain any unusually large or irregular deposit
- ☐ Avoid moving money between accounts in ways that look like revenue
- ☐ Retain complete statements — all pages, including intentionally blank ones
- ☐ Have business license or entity documentation ready for verification
- ☐ Ask what expense factor the program applies and whether a CPA statement can adjust it

*Deposit eligibility rules, review periods, and expense factors are program-specific. No program treats all deposits as qualifying income.*

# 6. Asset qualifier programs

An asset qualifier program bases qualification on verified, eligible assets rather than on documented monthly income. It is built for borrowers whose balance sheet is strong even when their income statement is complicated or intentionally modest.

Eligibility turns on the character of the assets. Liquidity is the first test: cash, marketable securities, and readily accessible accounts are treated most favorably. Restricted, encumbered, illiquid, or business-operating funds may be limited or excluded.

Ownership matters too. Assets must generally be owned by the borrower, and jointly held or business-held accounts may require additional documentation or may be counted only in part.

Some asset qualifier structures still expect a source of income to exist, even if it is not the qualifying basis. Others do not. This varies enough between programs that it should be asked directly rather than assumed.

Reserves are usually treated separately from qualifying assets — meaning the assets used to qualify may not be the same dollars counted as post-closing reserves. Clarify the treatment early so the required balance is not a surprise.

# 7. Asset depletion

Asset depletion converts eligible assets into a hypothetical monthly income stream for qualifying purposes. It answers the question: if this borrower drew down these assets over a defined period, what monthly income would that represent?

Three variables drive the outcome. First, which assets are eligible. Second, whether a haircut is applied — many programs discount volatile assets such as equities, and may discount retirement accounts further. Third, the depletion period, which is the number of months across which the assets are spread.

Retirement accounts add a wrinkle. Age and access rules can affect whether and how the balance is counted, since assets a borrower cannot reach without penalty are not equivalent to cash. Tax consequences of actual withdrawals are a separate matter to raise with your tax professional.

Importantly, asset depletion is a qualifying calculation, not a requirement to liquidate. Borrowers generally retain ownership of the assets; nothing forces a drawdown. The calculation is simply the underwriter's way of expressing balance-sheet strength as monthly income.

There is no single universal formula. Haircuts and depletion periods differ meaningfully between programs, and the same borrower can qualify for noticeably different amounts at two lenders.

**Asset qualifier compared with asset depletion**

| | Asset qualifier | Asset depletion |
|---|---|---|
| Basic idea | Qualify against a verified asset balance | Convert assets into a monthly income figure |
| Output | An eligibility determination | A qualifying monthly income |
| Haircuts | Often applied to volatile assets | Commonly applied, and program-specific |
| Depletion period | Not always used | Central to the calculation |
| Retirement accounts | Access and age considerations apply | Access, age, and discount considerations apply |
| Must you spend the assets? | No | No — it is a calculation, not a withdrawal |

*Eligible asset types, discount rates, depletion periods, and reserve treatment vary by program and investor. Ask for the specific calculation applied to your file.*

# 8. No-ratio loans

A no-ratio program does not use a traditional personal debt-to-income ratio to qualify the borrower. That is the entire distinction, and it is narrower than the name suggests.

Everything else still applies. Credit history, equity or down payment, reserves, the property and its appraised value, title, and the purpose of the transaction all carry weight — and because income is not part of the analysis, those factors typically carry more weight, not less.

No-ratio structures are most commonly used for investment and business-purpose transactions rather than owner-occupied consumer financing. Availability for a primary residence is limited and program-dependent.

Expect the trade-off to appear in pricing and structure: lower documentation generally comes with higher cost, lower leverage, larger reserve expectations, or prepayment provisions. That is not a flaw in the product; it is how risk is priced.

No ratio does not mean no underwriting, and it does not mean no documentation. Identity, assets, credit, entity documents, and property documentation are still reviewed.

# 9. Profit-and-loss programs

P&L programs qualify from a profit-and-loss statement covering a defined recent period, sometimes prepared by a CPA, enrolled agent, or licensed tax preparer, and sometimes prepared by the borrower depending on the program.

Where a third party prepares the statement, the lender may verify the preparer's license and may contact them. Where the borrower prepares it, supporting bank statements are usually required to corroborate the figures.

The review focuses on plausibility and consistency: does the P&L align with deposit activity, with the prior year's returns where available, and with the nature of the business? A P&L showing margins that do not match the industry invites scrutiny.

Business stability, time in business, and industry are all part of the assessment. P&L programs are not a shortcut around a young or volatile business.

# 10. 1099 income

Contractors paid on 1099 sit between wage earners and business owners. The gross figure on the 1099 is not qualifying income, because business expenses attach to it — but for many contractors, real expenses are far lower than the deductions taken.

Traditional review starts with tax returns and nets expenses against the 1099 gross. That is straightforward and often works well for contractors with genuinely low overhead who do not aggressively deduct.

Dedicated 1099 programs exist that qualify from the 1099 gross with a defined expense factor applied, similar in spirit to bank statement analysis. They can produce a much higher qualifying income for a contractor whose returns show heavy deductions.

Length of history and contract continuity matter in both cases. A two-year record with the same or similar payers reads very differently from a first-year 1099 with a single contract.

Bank statements remain a useful alternative where the 1099 record is incomplete or where income is split across many payers.

# 11. New business owners

Fewer than two years of self-employment is the most common obstacle for otherwise strong borrowers, and it is a real one. It is not always fatal.

What tends to help: documented experience in the same industry immediately before launching, prior W-2 employment doing substantially similar work, acquiring an established business with a verifiable operating history, contracts that establish forward revenue, strong reserves, and a co-borrower with qualifying income.

What tends not to help: a new venture in an unrelated industry, a business with no operating history and no contracts, or an argument that projected revenue should be counted. Projections are not documentation.

Alternative documentation programs sometimes have shorter seasoning expectations than traditional underwriting, which is one reason a borrower turned down at a bank may still have a path.

The honest framing: an exception may exist, but no one should plan a purchase on the assumption that one will be granted.

*Minimum time-in-business requirements and exception paths vary by program, lender, and investor. Nothing in this section should be read as a commitment that a shorter history will be accepted.*

# 12. Comparing the documentation paths

The right program is the one that documents your actual financial reality most accurately at the lowest total cost. That is not always the one with the easiest paperwork.

### Self-employed documentation paths compared

| Path | Primary qualification method | Typical borrower | Income documentation | Asset requirements | Occupancy | Property type | Key considerations |
|---|---|---|---|---|---|---|---|
| Full documentation | Tax-return income after adjustments | Owner whose returns support the payment | Personal and business returns, K-1s, P&L | Down payment plus reserves | Primary, second home, or investment | Broad | Usually the lowest cost when it fits |
| Bank statement | Deposit analysis with expense factor | Owner with strong revenue, low taxable income | 12 or 24 months of statements | Down payment plus reserves, often larger | Primary, second home, or investment | Broad | Expense factor drives the result |
| Profit and loss | P&L for a defined period | Owner with clean books and a preparer | P&L, often with supporting statements | Down payment plus reserves | Typically primary or second home | Broad | Preparer credentials may be verified |
| 1099 | 1099 gross with expense factor | Contractor with heavy deductions | 1099s, sometimes statements | Down payment plus reserves | Typically primary or second home | Broad | Contract continuity matters |
| Asset qualifier | Verified eligible assets | Asset-rich, income-light borrower | Asset statements | Substantial verified assets | Varies by program | Broad | Liquidity and ownership are decisive |
| Asset depletion | Assets converted to monthly income | Retiree or high-net-worth borrower | Asset statements | Substantial verified assets | Varies by program | Broad | Haircuts and depletion period vary widely |
| No ratio | Credit, equity, collateral, reserves | Investor or business-purpose borrower | None used for DTI | Down payment plus reserves | Usually investment or business purpose | Often investment | Pricing and structure reflect the risk |

# 13. Self-employed documentation checklist

Assemble what applies to your structure before you apply. Files that arrive complete tend to close faster and generate fewer conditions.

**Income and business documents**

- ☐ Two years of personal federal tax returns with all schedules, where required
- ☐ Two years of business federal tax returns with all schedules, where required
- ☐ K-1s for each entity in which you hold an interest
- ☐ Year-to-date profit-and-loss statement
- ☐ Balance sheet, where requested
- ☐ Twelve to twenty-four months of business bank statements
- ☐ Twelve to twenty-four months of personal bank statements
- ☐ 1099s for contract income
- ☐ W-2s issued to you by your own business
- ☐ Executed contracts supporting forward revenue, where relevant

**Entity and supporting documents**

- ☐ Business license or professional license
- ☐ Articles of organization or incorporation
- ☐ Operating agreement or partnership agreement
- ☐ Evidence of ownership percentage
- ☐ CPA or tax preparer name and contact information
- ☐ Debt schedule for business obligations
- ☐ Written explanation for any large or irregular deposit
- ☐ Explanation for any year-over-year income decline

# 14. How to prepare before you apply

Most self-employed loan problems are preparation problems, and the fixes are unglamorous.

**Preparation plan**

- ☐ File tax returns on time; extensions can complicate or delay a file
- ☐ Keep business and personal accounts fully separated
- ☐ Avoid unexplained deposits, and document the ones that occur
- ☐ Maintain liquidity — reserves carry real weight in alternative-documentation files
- ☐ Reduce unnecessary business debt where it does not harm operations

- ☐ Keep books current so a year-to-date P&L can be produced quickly
- ☐ Avoid changing your business structure or ownership in the months before applying
- ☐ Avoid new personal credit accounts and large purchases
- ☐ Understand how your deduction strategy affects qualifying income before you file
- ☐ Discuss any tax-filing decision with your CPA — do not amend returns solely to qualify for a mortgage without professional advice

*Nothing in this guide is tax or accounting advice. Tax-filing decisions should be made with your CPA or tax professional based on your complete situation, not on mortgage qualification alone.*

## 15. Important disclosure

Income analysis methods, document requirements, eligibility, rates, costs, and loan terms vary by mortgage program, lender, investor, property, transaction type, and borrower profile. This guide is educational and is not a loan approval, a commitment to lend, a Loan Estimate, or legal, accounting, or tax advice. Consult your CPA or tax professional before making tax-filing decisions.

# Frequently asked questions

**Can self-employed borrowers get a mortgage?**

Yes. Self-employment changes how income is documented and analyzed, not whether financing is available. Both traditional and alternative documentation paths exist.

**How many years of self-employment are required?**

Two years is the common expectation for traditional underwriting, but requirements vary by program, and some paths consider shorter histories with same-industry experience, acquired businesses, or contracts.

**Are tax returns always required?**

No. Bank statement, P&L, 1099, asset qualifier, asset depletion, and no-ratio programs exist specifically because tax returns do not always represent a borrower's capacity. Full documentation is still often the least expensive option when it works.

**Can bank statements replace tax returns?**

Under a bank statement program, yes — deposits over a defined period become the income basis. The program still verifies business existence, credit, assets, and the property.

**How is Schedule C income calculated?**

Generally by starting with net profit and adjusting for items such as depreciation and other non-cash expenses, then averaging or trending across the review period. The specific adjustments depend on the program.

**Can depreciation be added back?**

Depreciation is a non-cash expense and is commonly added back under standard guidelines. Not all deductions receive that treatment.

**What happens if my income declined year over year?**

Declining income is reviewed carefully. Many programs use the lower, more recent figure rather than an average, and a significant decline usually requires a documented explanation before income is used.

**Can I use business funds for the down payment or closing?**

It may be possible where ownership is documented and the withdrawal does not impair the business. Some programs require evidence that the business can sustain the withdrawal.

**Do I need a CPA letter?**

Some programs request one, often to verify business existence, ownership percentage, or preparation of a P&L. Others do not. It depends on the program and the file.

**Can I qualify with only one year in business?**

Possibly, under certain programs and with supporting factors such as prior same-industry employment, an acquired business, contracts, reserves, or a co-borrower. It is never guaranteed.

**How are K-1 distributions treated?**

K-1 income and distributions are reviewed alongside the business returns, ownership percentage, and whether the distributions are consistent and sustainable. Treatment varies by program.

**Does income retained in the business count?**

Sometimes, where ownership, liquidity, and program guidelines support it. Many programs will only count income actually distributed to the borrower.

**Can I use 1099 income?**

Yes. It can be reviewed traditionally by netting expenses through tax returns, or through a dedicated 1099 program that applies an expense factor to gross receipts.

**What is an expense factor?**

A percentage applied to business deposits or gross receipts to approximate business operating costs, producing a net figure used as qualifying income. Factors vary by program and sometimes by industry.

**What is an asset qualifier loan?**

A program that bases qualification on verified eligible assets rather than documented monthly income. Liquidity, ownership, and account type determine what counts.

**What is asset depletion?**

A method that converts eligible assets into a hypothetical monthly income figure over a defined period for qualifying purposes. You are not required to liquidate the assets.

**Can retirement assets be used?**

Often, subject to age, access restrictions, and program-specific discounts. Assets you cannot access without penalty are not treated the same as liquid cash.

**What is a no-ratio loan?**

A program that does not use a traditional personal DTI. Credit, equity, reserves, collateral, and transaction purpose carry the file instead. It is most common for investment and business-purpose transactions.

**Can self-employed borrowers get FHA or VA loans?**

Yes, where they meet the applicable eligibility and documentation requirements. Self-employment income is documented under those programs' own rules.

**Can I use a co-borrower?**

Yes. A co-borrower's income, credit, and assets are considered alongside yours, and their obligations are as well.

**How are business debts treated?**

Business debts paid by the business may sometimes be excluded from personal DTI where there is documented evidence the business has made the payments from business funds for an acceptable period.

**Do large deposits matter?**

Yes. Large or irregular deposits are typically flagged and must be sourced. Undocumented deposits are commonly excluded from qualifying income and from usable assets.

**Can I buy an investment property as a self-employed borrower?**

Yes. Options include conventional investor financing, DSCR, bank statement, asset-based, no-ratio, and private-money structures depending on the property and your profile.

**Can I qualify after changing my business structure?**

It is possible, but a recent change from, for example, sole proprietor to S corporation can complicate the two-year history. Documenting continuity of the same business and clients helps.

**Which documents should I gather first?**

Two years of personal and business returns, K-1s, a year-to-date P&L, twelve to twenty-four months of business and personal bank statements, entity documents, and evidence of ownership percentage.

**Are alternative documentation loans more expensive?**

Generally the pricing reflects the documentation and risk profile, so alternative paths often cost more than full documentation. Compare total cost, not just qualification.

**Should I amend my tax returns to qualify?**

Not as a mortgage strategy. Tax-filing decisions should be made with your CPA based on your full situation. Amended returns can also create their own documentation and timing issues.

# Keep going

- → Read this guide online
- → Debt-to-Income Calculator
- → Home Affordability Calculator
- → Mortgage Payment Calculator
- → Closing Cost Calculator
- → Bank Statement Loan
- → Asset Qualifier Mortgage
- → Asset Depletion Mortgage
- → No Ratio Loan
- → Conventional Loan
- → Jumbo Loan
- → Mortgage Readiness Assessment
- → Speak with an advisor

## Sources


- Consumer Financial Protection Bureau — What to know before applying
- IRS — Self-employed individuals tax center


## Disclosures

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