

## Mortgage Fundamentals: Self-Employed Buyers

Brought to you by Rachel Porter with Red Diamond Home Loans

1. Why are self-employed buyers so different?
2. How do Fannie Mae guidelines calculate income for self-employed buyers for conventional loans?
3. How does FHA analyze self-employed income?
4. What are options for self-employed individuals that do not qualify for a conventional loan but have a successful business?
5. Qualified Mortgage vs. Non-Qualified Mortgage
6. Real world examples

What is the difference between a self-employed buyer and a W2 buyer?

- Reliability of income. Expenses. Risk.

What are we going to look at to qualify a self-employed buyer for a conventional Fannie Mae loan?

- Tax Returns
- Year to date profit & loss statement
- Cash Flow
- Stability
- Nature of the business is important
- Must have solid history (24 months)
- Must verify the income
  - Two years of tax returns & tax transcripts from IRS
  - The most recent returns MUST BE FILED
  - Verbal verification which must come from a third party (ex. CPA, regulatory agency, licensing bureau)

What is the definition of a self-employed buyers?

- Any individual who has 25% or greater ownership interest in a business
- This can be any of the following:
  - Sole Proprietorships
  - Partnerships
  - Limited Partnerships
  - Corporations
  - LLC's
  - Non-Profits
  - Co-Ops

What are some common challenges with self-employed buyers?

- Large write-offs, low AGI (adjusted gross income)
- Business return losses
- Lack of ability to verify employment with a CPA or licensing bureau

### How does a Non-QM loan work?

- These are brokered loans that we do not close and fund them ourselves. We would work as the middle man with a company that buys and services these loans.
- The lender (who will fund & service the loan) has full control of underwriting, the appraisal, and the terms of the loan.
- This will be the case for nearly every loan originator you come across. No banks or traditional lending organizations are going to close and fund non-QM loans.
- One exception to this could be a bank that does portfolio loan products. If the bank underwrites the loan and keeps it, they can create their own guidelines essentially.

### Advantages of a non-QM loan:

- Can get buyers qualified that would otherwise not qualify for a loan
- Flexible terms – 40 year notes, ARMs, fixed rates, flexible loan amounts, flexible DTI limits
- Will do non-warrantable condos that would not get approved for a conventional Fannie Mae loan

### Disadvantages of a non-QM loan:

- Higher interest rates (5% to 7%, possibly 8%)
- Higher down payment requirements. Most programs start at 15-20% or higher
- Generally take significantly longer to close than traditional loans. This is largely due to lack of control in issuing documents, conditions, etc. that all must be done by the lender that will fund and service the loan.
- Unique guidelines depending on the specific loan, guidelines set by the company that is buying the loan rather than Fannie Mae
- Case by case and subject in large part to underwriter discretion (example: last minute BPO)
- Lots of overlays – examples: down payment, length of self-employment, loan amount, debt to income ratio, reserve requirements, loan term, credit score, lack of NSFs, and more must all line up depending on loan type.

### Firsthand examples with non-QM mortgages:

- Rural lake property on multiple parcels
- One-month bank statement stated asset loan closed in Little Elm
- Bank statement loan closed in Colleyville
- Southlake Town Square Townhome
- Refinance

Please feel free to contact me with questions about any loan type anytime!



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