A GUIDE FOR SELF-EMPLOYED BORROWERS

BANK

QUALIFY ON YOUR DEPOSITS, NOT YOUR TAX RETURNS

Your bank account tells the real story.

How bank statement loans work, personal vs. business accounts, how your deposits turn into qualifying income, and how to put together a file an underwriter can approve.



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START HERE

BUSINESS IS GOOD. YOUR TAX RETURN SAYS OTHERWISE.

If you're self-employed, you already know the problem. Your accountant does a great job **lowering your taxable income**, and then a lender looks at that same tax return and says you don't make enough to buy a home.

A bank statement loan skips the tax return. It looks at **what actually comes into your accounts** over 12 or 24 months and uses those deposits to calculate your income.

I've been helping families into homes since 1993, first as a Realtor and now as a mortgage lender, and I work with self-employed buyers every week. Read this, then call me before you move money between accounts. How your deposits look matters.

Brian

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WHAT A BANK STATEMENT LOAN IS

Your deposits, turned into a monthly income figure.

Instead of tax returns, the lender reviews **12 or 24 months** of your bank statements. Deposits are added up, anything that isn't really income is taken out, and what's left is averaged into a **monthly qualifying income**.

+	**TOTAL DEPOSITS**	Everything that came into the account over the period
−	**TRANSFERS**	Money moved between your own accounts
−	**NON-INCOME DEPOSITS**	Loans, refunds and one-time items
=	**ELIGIBLE DEPOSITS**	What the underwriter counts as income
×	**EXPENSE FACTOR**	Business accounts only. Accounts for the cost of running the business
÷	**MONTHS**	12 or 24, which gives your monthly qualifying income

GOOD TO KNOW: Bank statement loans are part of a category called **Non-QM**: loans that follow their own guidelines instead of standard Fannie Mae, Freddie Mac or FHA rules. They're a real mortgage, with the same protections as any other.

WHO BANK STATEMENT LOANS FIT

Built for business owners whose deposits outrun their tax returns.

Bank statement loans work best when **money is clearly coming in**, but write-offs make your taxable income look small. Here's who they usually fit, and what to expect.

USUALLY A GOOD FIT

- You're self-employed or own your business
- You've been in business at least two years
- Your write-offs make your tax returns look thin
- You're a contractor, gig worker or 1099 earner
- Your deposits are steady, or growing
- You have a down payment and some reserves saved

KNOW GOING IN

- Rates are usually **higher** than conventional loans
- Down payment requirements are often **larger**
- Expect to show **reserves**, meaning months of payments saved
- Every page of every statement gets reviewed
- Large deposits may need a **paper trail**
- Guidelines vary a lot from lender to lender

REAL TALK: Sometimes your tax returns qualify you for a better rate than you'd expect. I'll run it both ways, tax returns and bank statements, before we pick a direction.

PERSONAL VS. BUSINESS STATEMENTS

Which account you use changes how the math works.

Many programs let you qualify using either your **personal** or your **business** bank account. Each one is calculated differently, and the better choice depends on how money moves through your business.

	PERSONAL STATEMENTS	BUSINESS STATEMENTS
WHAT'S COUNTED	Deposits into your personal account, usually what the business pays you	Deposits into the business account, before business expenses
EXPENSE FACTOR	Usually not applied, since expenses are already paid	Applied, to account for the cost of running the business
BEST WHEN	You pay yourself regularly from the business	Business revenue is strong and expenses are reasonable
WATCH OUT FOR	Personal deposits that aren't business income, like gifts or refunds	Mixing personal spending into the business account

DON'T SWITCH ACCOUNTS MID-STREAM

If you're thinking about opening a new account or changing how you pay yourself, talk to me first. Underwriters need a consistent history, and a sudden change can make your best months harder to count.

THE EXPENSE FACTOR

Not every dollar into your business is a dollar you keep.

When business statements are used, the lender assumes part of your deposits went to **running the business**: materials, payroll, rent, fuel and so on. That share is called the **expense factor**, and it's taken out before your income is calculated.

PROGRAM STANDARD

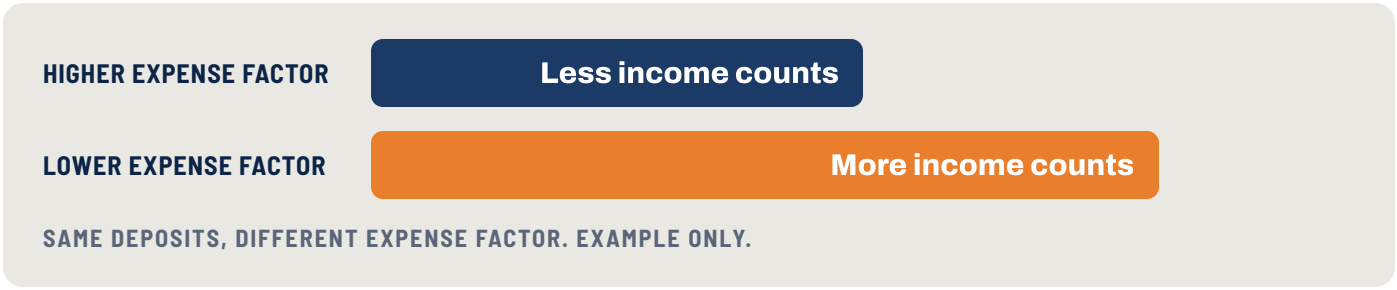
Many programs use a **set percentage**, often based on your type of business.

PREPARER LETTER

A CPA or tax preparer can confirm your **actual expense ratio**, which may be lower than the standard.

P&L STATEMENT

Some programs use a **P&L** alongside your statements to show your real expenses.



SAME DEPOSITS, DIFFERENT EXPENSE FACTOR. EXAMPLE ONLY.

REAL TALK: A service business with low overhead, like consulting, can be hurt by a standard expense factor built for businesses with high costs. If your real expenses are lower, a preparer letter is often worth getting.

HOW YOUR INCOME IS CALCULATED

From your deposits to a monthly qualifying number.

Here's how 12 months of business bank statements can turn into qualifying income. Your deposits, expense factor and program rules will be different. This just shows how the steps work.

Total deposits, 12 months	**$310,000**
Less: transfers from your other accounts	**($6,000)**
Less: one-time equipment sale	**($4,000)**
Eligible deposits	**$300,000**
Less: expense factor (example: 50%)	**($150,000)**
Adjusted annual income	**$150,000**
× Your ownership share	**100%**
MONTHLY QUALIFYING INCOME (÷ 12)	**$12,500**

EXAMPLE ONLY. NOT AN OFFER OR A GUARANTEE OF QUALIFYING INCOME.

12 VS. 24 MONTHS

12 months can help if business has grown. 24 months smooths out a slow stretch.

OWNERSHIP SHARE

If you own 50% of the business, you generally qualify on 50% of the income.

THE TREND

Steady or rising deposits help. A sharp drop in recent months needs an explanation.

WHAT GETS EXCLUDED OR QUESTIONED

Not every deposit is income. Underwriters sort them out.

An underwriter goes through **every deposit** on every statement. Most are fine. A few kinds get taken out of the total, and a few get a closer look before they count.

USUALLY EXCLUDED

- Transfers between your own accounts
- Loan proceeds and credit line advances
- Refunds, returns and chargebacks
- Sale of equipment, vehicles or property
- Gifts and personal reimbursements
- Tax refunds

LOOKED AT CLOSELY

- **Large deposits** that are out of pattern for your business
- **Cash deposits** without a clear source
- Overdrafts and NSF fees
- Months with a big drop in deposits
- Deposits from a business you don't own
- Multiple accounts that pass money back and forth

REAL TALK: A large deposit isn't a problem if you can show where it came from. An invoice, a contract or a payment record is usually all it takes. Keep that paperwork as you go.

COMMON MISTAKES THAT DELAY APPROVAL

Most of these are easy to fix ahead of time.

1 MISSING STATEMENT PAGES
Every page of every month is needed, including blank pages.

2 MIXING PERSONAL & BUSINESS
Personal spending in the business account makes income hard to read.

3 MOVING MONEY AROUND
Shuffling money between accounts creates transfers that get backed out.

4 UNEXPLAINED LARGE DEPOSITS
Without paperwork, a big deposit may not count toward your income.

5 FREQUENT OVERDRAFTS
NSFs and negative balances can be a red flag, even with strong deposits.

6 OPENING A NEW ACCOUNT
A brand-new account doesn't have the history underwriters need.

7 TAKING CASH AND NOT DEPOSITING IT
Income that never hits the bank can't be counted.

8 STARTING TOO LATE
Waiting until you're under contract leaves no time to fix anything.

REAL TALK: Almost every one of these is avoidable with a 15-minute conversation before you apply. That's the cheapest time to fix a problem.

YOUR SCORE AND DOWN PAYMENT WORK TOGETHER

Strong deposits still have to fit the program's credit rules.

Every bank statement program sets limits based on your **credit score** and your **loan-to-value (LTV)**, meaning how much you borrow compared to the home's value. In general, a lower score means a larger down payment, more reserves or fewer programs to choose from.

STRONG CREDIT, SOLID DOWN PAYMENT	The most program choices and the best pricing. Usually the smoothest path.
MIDDLE OF THE RANGE	Still plenty of options. Rate, down payment and reserves vary more from program to program.
SCORES ON THE EDGE	Fewer programs fit, and the down payment carries more weight. This is where shopping the file matters most.

WHEN YOUR FILE IS CLOSE, I DON'T GUESS

If your scores are a little low for some bank statement programs, I send your file to our **scenario desk** with your statements and business narrative. They look across programs to find the one that fits your score, down payment and income.

GOOD TO KNOW: Minimum scores, expense factors and maximum LTVs change often and vary by program, so they aren't listed here. Ask me for current guidelines on your scenario.

YOUR BUSINESS NARRATIVE

One page that helps the underwriter understand your deposits.

A business narrative is a short letter explaining what your business does and how it gets paid. It gives the underwriter context the statements can't. A clear narrative can make the difference on a file that's close.

WHAT TO INCLUDE

- What the business does, and how long you've run it
- Your ownership share
- How you get paid: invoices, cards, checks, cash
- Number of employees or contractors
- Why deposits went up or down, if they did
- Any seasonal patterns in your business

KEEP IT

- **Short.** One page is plenty.
- **Factual.** It's an explanation, not a sales pitch.
- **Consistent** with your bank statements
- **Signed and dated**

A SIMPLE OUTLINE

1. "I own 100% of [Business Name], a [type of business] I started in [year]."
2. "We serve [who your customers are] and are paid by [how you get paid]."
3. "We have [number] employees and operate from [location]."
4. "Deposits are typically [higher/lower] in [months] because [reason]."

12 · GET ORGANIZED

DOCUMENT CHECKLIST

Have these ready, and the process moves a lot faster.

- [ ] 12 or 24 months of bank statements, every page
- [ ] Business license, registration or preparer letter
- [ ] P&L statement, if your program asks for one
- [ ] Business narrative, signed and dated
- [ ] Government-issued photo ID
- [ ] Proof of business ownership and percentage
- [ ] Expense ratio letter from your CPA or preparer, if using one
- [ ] Paperwork for any large or unusual deposits
- [ ] Statements for down payment and reserve funds
- [ ] Letters of explanation for any overdrafts or gaps

Every program is a little different. I'll give you the exact list for your scenario before you gather anything.



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BOOK 15 MINUTES

EQUAL HOUSING OPPORTUNITY

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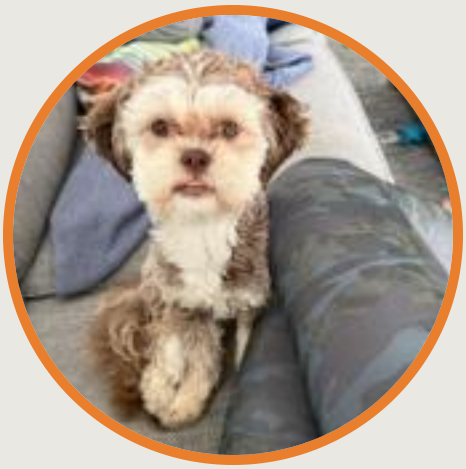
PENNY'S CORNER

A few words from our Chief Belly-Rub Officer.



PENNY SAYS

CHIEF BELLY-RUB OFFICER

If you work for yourself, your bank account tells the real story. Dad reads every page, and I nap on the ones he's finished.

One thing I've learned: keep business and personal money in separate accounts. Like my food bowl and my water bowl. Mixing them just makes a mess.

CONNECT WITH PENNY ON FACEBOOK

Tips, updates and plenty of Penny.

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