A GUIDE FOR SELF-EMPLOYED BORROWERS

1 YR

ONE YEAR. ONE RETURN.

If last year was your best, let's use it.

How a 1-year tax return loan works, how self-employed income is calculated, how to show your best year wasn't a fluke, and how to plan before you file.



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START HERE

YOUR BUSINESS FINALLY TOOK OFF. WHY WAIT ANOTHER YEAR?

Most loans for self-employed borrowers **average your last two tax returns**. That's fine when income is steady. But if last year was your breakout year, averaging it with a slower year can cut your buying power significantly.

A 1-year tax return program looks at **just your most recent return**. If that return shows what your business actually earns now, it can get you into a home a full year sooner.

I've been helping families into homes since 1993, first as a Realtor and now as a mortgage lender. Read this, then call me, ideally **before you file your next return**. The decisions you make with your CPA affect what you can qualify for.

Brian

INSIDE THIS GUIDE

03 What a 1-year loan is

04 Who it fits

05 1-year vs. 2-year programs

06 Reading your return by business type

07 How your income is calculated

08 Proving it wasn't a fluke

09 Common mistakes that delay approval

10 Credit, down payment & reserves

11 Plan before you file

12 Document checklist

WHAT A 1-YEAR TAX RETURN LOAN IS

Qualify on the year that reflects what you earn now.

Standard self-employed loans usually take your last two years of income and **average them**. A 1-year program uses your **most recent year only**. When income is growing, that difference can be big.



EXAMPLE ONLY. THE 1-YEAR PROGRAM HERE QUALIFIES ON $25,000 MORE ANNUAL INCOME.

SAME PAPERWORK

It's still based on your tax return, so it's familiar and straightforward.

LESS TO REVIEW

One year of returns usually means fewer documents and faster underwriting.

WHERE IT LIVES

Usually a **Non-QM** program. Some agency loans also allow one year in certain cases.

WHO A 1-YEAR LOAN FITS

Built for growing businesses with a strong most recent year.

A 1-year program works best when your **latest return is your strongest**, and you can show the business is still performing at that level. Here's who it usually fits, and what to expect.

USUALLY A GOOD FIT

- You're self-employed with a strong most recent year
- You've been in business at least two years
- Your income grew significantly last year
- This year is on pace to match or beat last year
- You're buying a primary home, second home or investment
- You want a faster, simpler qualifying path

KNOW GOING IN

- Non-QM rates are usually **higher** than conventional
- Down payment requirements may be **larger**
- You'll need to show **this year is on track**
- A one-time spike may not be accepted
- Expect to show **reserves**
- Guidelines vary a lot from lender to lender

REAL TALK: If your two-year average already qualifies you for what you want, a standard loan will likely have a better rate. I'll run it both ways before we pick a direction.

1-YEAR VS. 2-YEAR PROGRAMS

Same business, two ways to count the income.

Both programs use your tax returns. The difference is **how many years** the lender looks at, and what you trade for the flexibility.

	1-YEAR PROGRAM	STANDARD 2-YEAR
RETURNS USED	Most recent year only	Last two years, usually averaged
GROWING INCOME	Counts your new, higher level	Pulled down by the slower year
FALLING INCOME	Not a fit, since the latest year is lower	The lower year may be used
RATE	Usually higher than agency	Usually the best pricing
PAPERWORK	One year of returns, plus year-to-date proof	Two years of personal and business returns

RUN THE NUMBERS BOTH WAYS

Sometimes the extra buying power from a 1-year program is worth a slightly higher rate. Sometimes it isn't. I'll show you both side by side so you can decide.

READING YOUR RETURN BY BUSINESS TYPE

Where your income shows up depends on how your business is set up.

Underwriters look at different parts of your tax return depending on your **business structure**. Knowing which applies to you helps you and your CPA understand what lenders will see.

SOLE PROPRIETOR

Schedule C on your personal return. Net profit is the starting point.

PARTNERSHIP OR LLC

K-1 from the business return, plus the business return itself in some cases.

S CORPORATION

The **W-2 wages** you pay yourself plus your share of profit from the **K-1**.

C CORPORATION

Your W-2 wages, and in some cases business income if you own enough of the company.

GOOD TO KNOW: If you own 25% or more of a business, lenders generally treat you as self-employed, even if you're paid on a W-2 from that business.

HOW YOUR INCOME IS CALCULATED

From your tax return to a monthly qualifying number.

Here's how one year of a sole proprietor's return can turn into qualifying income. Your numbers and program rules will be different. This just shows how the steps work.

Schedule C net profit	**$95,000**
Add back: depreciation	**+$12,000**
Add back: business use of home	**+$3,000**
Adjusted annual income	**$110,000**
MONTHLY QUALIFYING INCOME (÷ 12)	**$9,167**

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

PAPER EXPENSES

Depreciation and similar non-cash deductions are often added back.

ONE-TIME ITEMS

Non-recurring income may be removed, and documented one-time losses may be added back.

OWNERSHIP SHARE

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

PROVING IT WASN'T A FLUKE

Lenders want to know last year is the new normal.

The biggest question an underwriter has on a 1-year file is simple: **will this income continue?** The more clearly you can show that your business is still performing at last year's level, the stronger your file.

YEAR-TO-DATE P&L

A profit and loss statement for this year showing you're **on pace** with last year.

RECENT BANK STATEMENTS

Business deposits for recent months that line up with your P&L.

WHY INCOME GREW

New contracts, more clients, a price increase or an expansion. A short **letter of explanation** helps.

BUSINESS HISTORY

Most programs want at least two years in business, even though only one year is used for income.

REAL TALK: A big one-time project or a windfall year usually won't qualify on its own. Steady growth with a clear reason almost always tells a better story.

COMMON MISTAKES THAT DELAY APPROVAL

Most of these are easy to fix ahead of time.

1 FILING ON EXTENSION
If your latest return isn't filed yet, the year can't be used.

2 BIG WRITE-OFFS IN YOUR BEST YEAR
Large deductions can erase the strong income you want to qualify on.

3 AMENDED RETURNS
Amending right before applying raises questions. Talk to me first.

4 UNPAID TAXES
A balance owed to the IRS may need a payment plan or to be paid off.

5 SLOW START THIS YEAR
Year-to-date income below last year's pace weakens the file.

6 CHANGING BUSINESS STRUCTURE
Switching from sole proprietor to an S corp mid-process can complicate things.

7 TRANSCRIPTS DON'T MATCH
Your filed return and IRS transcripts need to agree.

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

A strong year still has to fit the program's credit rules.

Every 1-year 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 or income are on the edge, I send your file to our **scenario desk** with your return, year-to-date P&L and bank statements. They look across programs to find the one that fits.

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

PLAN BEFORE YOU FILE

The best time to talk to me is before your CPA files.

Every deduction lowers your tax bill, and it also lowers the income a lender can use. If you're planning to buy in the next year, a conversation **between you, your CPA and me** before you file can make a real difference.

BEFORE YOU FILE	ON EXTENSION	AFTER YOU FILE
Talk through which deductions you need and how they affect qualifying. Your CPA makes the tax call.	Until it's filed, last year can't be used. If buying soon, filing earlier may help.	Send me the return right away. We'll know quickly what you qualify for.

I'M NOT YOUR TAX ADVISOR

Your CPA should always decide what's right for your taxes. My job is to show you how those choices affect your mortgage, so you can make the decision with both sides in view.

REAL TALK: Saving a few thousand in taxes can cost you tens of thousands in buying power. Sometimes it's worth it. Just make that choice on purpose.

12 · GET ORGANIZED

DOCUMENT CHECKLIST

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

- [ ] Most recent personal tax return, all schedules
- [ ] Most recent business return, if applicable
- [ ] K-1s and W-2s from your business, if applicable
- [ ] Signed IRS transcript request form
- [ ] Year-to-date P&L statement
- [ ] Recent business bank statements
- [ ] Proof of at least two years in business
- [ ] Letter explaining your income growth
- [ ] Statements for down payment and reserve funds
- [ ] Government-issued photo ID

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



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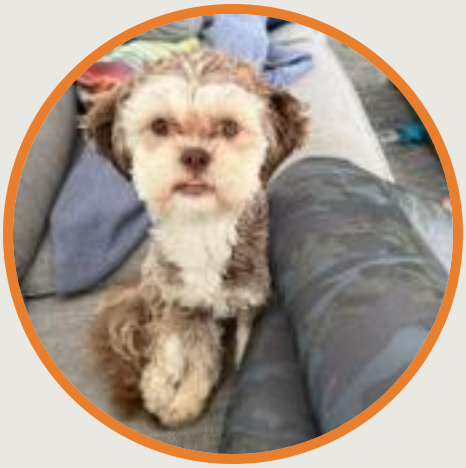
BOOK 15 MINUTES

EQUAL HOUSING OPPORTUNITY

This guide is for educational purposes only and is not a loan commitment or guarantee of approval. All loans are subject to credit, income, asset, property and appraisal approval; not all applicants will qualify. Self-employed income calculations, allowable add-backs, business history requirements, year-to-date documentation, credit score minimums and loan-to-value limits vary by program and are determined at underwriting. Examples are illustrations only. 1-year tax return and other Non-QM loans may carry higher interest rates, larger down payment requirements and different terms than agency or QM financing. Program availability and guidelines are subject to change without notice. Brian Marchand and New American Funding do not provide tax or legal advice; consult your CPA or tax professional before making tax filing decisions. © 2026 New American Funding, LLC. NMLS #6606 (nmlsconsumeraccess.org). 1 MacArthur Place, Suite 800, Santa Ana, CA 92707 · newamericanfunding.com · (800) 450-2010. Licensed Mortgage Banker, NYS Department of Financial Services. Equal Housing Lender. October 2026.

PENNY'S CORNER

A few words from our Chief Belly-Rub Officer.



PENNY SAYS

CHIEF BELLY-RUB OFFICER

Dad had a client whose business finally took off last year, and the two-year average kept dragging him back down. One year, one return, and he was in. If last year was your best year, let's use it. I'll be under the desk cheering.

Tip from me: call Dad before you file. I don't understand taxes, but I understand timing. Dinner is at 5.

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Tips, updates and plenty of Penny.

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