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Tips for Getting a Mortgage Loan as Self-Employed Borrower

The mortgage market has taken some serious hits during the past year, as home sales have slowed and foreclosure rates have risen among subprime or poor credit borrowers. No longer is mortgage money easy and limitless as it seemed to be during the recently-ended housing boom. Poor credit borrowers have probably seen the worst of the credit crunch, but other mortgage borrower segments have also felt the pinch. The self-employed bunch is now finding themselves facing stricter standards and higher interest rates on mortgage loans.

The self-employed have typically taken advantage of stated-income loans in order to qualify for mortgage funding. Since most business owners cannot provide traditional income documents like W-2s and pay stubs, lenders created stated-income loans that made use of things like tax returns as proof of income. Now that the mortgage market has faltered, these loans have been categorized as risky by many investors and lenders have tightened their standards in order to provide safer mortgages for the secondary market.

So if you are a potential homeowner and you are self-employed you will have to be extra prepared when it comes time to apply for a mortgage loan. First, be prepared to pay a higher interest rate than you would get with a traditional mortgage. This is the penalty lenders impose for funding a so-called “risky” loan. That is just the name of the game in today’s market.

Second, do all you can to provide as much income documentation as possible. Not only should you have at least two years of tax returns on hand, but you should also be able to produce bank statements from your various accounts. Additionally you should come up with a profit-and-loss statemtent and provide a copy of your business license, proving you have been in business for more than two years.

Another tip is to supply your lender with a larger down payment to play down the risk of the loan. Don’t assume you can still get a “zero down” mortgage in today’s market. Most lenders will require at least five percent down, and they would have a much easier time funding your loan if you have even more to contribute.

Finally, make sure your credit is in tip-top shape. Lenders have to be very caution in the current market conditions to make loans as sound as possible. It will be very difficult for you to find a self-employed loan if you have poor credit. Improving your score may take several months to a year, but it may be necessary before you can get a home loan. Obtain a copy of your credit score from one of the three major credit reporting agencies and find out if there is anything you can do to improve it. Scores of 720 or higher will give you a good chance of being approved and will net you the best interest rates.

Don’t get discouraged if you are self-employed. There is still funding available, but you are just going to have to jump through a few more hoops to get it!