



## **How to Qualify for a Mortgage While Self-Employed: Holiday Edition**

Are you self-employed and struggling to obtain a mortgage? If so, you aren't alone. Countless entrepreneurs and self-employed individuals face challenges when applying for a mortgage, especially during the holiday season when income might vary.

This doesn't mean that your dreams of owning a home are impossible. However, there are some extra steps you might need to take to properly position your finances and borrowing abilities as a self-employed individual.

In this article, we'll cover how being self-employed impacts the mortgage process, how seasonality factors into lending decisions, and the steps you can take to qualify for a mortgage.

### **How Being Self-Employed Impacts the Mortgage Process**

The main difference between being self-employed and an employee of a company is guaranteed income. When you are a salaried employee, you can expect the same pay every few weeks. However, as a self-employed individual, your income can vary from week to week. This increases the risk associated with lending. As a result, your lender might request additional documentation, such as bank statements, 1099s, tax returns, and financial statements to verify your income and cash flow.

## **Factoring In Seasonality**

Depending on your industry, you may experience lower income at the end of the year when everyone is consumed with the holidays. Although you might have saved up enough cash to get you through slow months, it can impact your mortgage amount, especially if your lender requests recent bank statements. How can you navigate seasonality?

First, you need to make your lender aware of your lower income. Most lenders can adjust the qualification process to factor in a full year of income rather than basing your loan amount off of the past few months. Next, understand that most lenders take around two years of average income when determining your income base. Cutting costs in the years leading up to your approval can be beneficial.

## **Steps You Can Take to Qualify for a Mortgage While Self-Employed**

Being self-employed shouldn't preclude you from owning a home. There are a few different strategies you can utilize to qualify for a mortgage, even if you face seasonality, including:

- Increase Your Downpayment – Putting down only 3% for your first home is standard. However, if you can increase your downpayment, you reduce the risk on your lender's part, boosting your potential loan amount.
- Verify Income and Expenses – Some lenders will request verification letters from a CPA, such as confirmation that expenses are only a certain percentage of income. These letters can improve lender confidence surrounding repayment ability.
- Work on Your Credit Score – Your credit score is an important factor when applying for a mortgage. If you have a low credit score, try to improve it before applying for a mortgage.
- Submit Documents Timely – The mortgage process involves many moving parts. If a lender requests information, you want to respond promptly to keep the process moving.
- Work with a Qualified Lender – A qualified lender can infuse flexibility into the mortgage approval process, especially if you face seasonal demand. Take the time to find a lender that can work with your situation.

These are a few of the steps you can take to qualify for a mortgage while being self-employed. If you are looking for the right lender to help you navigate seasonality, reach out to our team at Texas Republic Bank. Not only do we offer low interest rate mortgages, but we can also customize the approval process to fit your unique needs. Schedule your free consultation today.