



Self Employed Job Aid

The purpose of this job aid is to provide guidance on required documentation, calculating income, and things to keep in mind for self-employed borrowers.

Required Documentation

- 2 years most recent Federal 1040's
 - include all schedules
- 2 years most recent Federal Business returns (1065's, 1120's and/or 1120S's)
- Signed and dated YTD Profit and Loss (P&L)
- Signed and dated YTD Balance Sheet
- Processed 4506 transcripts for years matching Federal 1040's provided
- Business Credit report for any Corporation or S-Corp



NOTE

Schedule C does not require either a Balance Sheet or business credit report.

Calculating Self-Employed Income

Use Lesser of:

Average adjusted gross income over the **past 2 years** OR over the **previous 1 year**.

In cases where the lender is made aware (i.e., funds sourcing, bank statements, LOE, etc) of previously undisclosed self-employed/business income, **then all of the self-employed income guidelines will apply to the newly discovered self-employed income**,



regardless if that income is being used for income qualification.

As such, the lender is required to determine the impact of the newly discovered self-employed income on the borrower's credit worthiness.

Keep This in Mind

Borrower must be self-employed for at least 2 years and own more than 25% interest in the company. If less than 25%, then borrower's income may still be considered effective based on standard income requirements instead of self-employed income.

If self-employed, tax returns will always be required even if not needed to qualify for the purpose of determining how gains/losses impact over-all income.

If mortgagor has been self-employed between 1-2 years, income can only be used if mortgagor was previously employed in the same line of work or in a related occupancy for at least 2 years.

If most recent tax filing year has not been filed, a year-end P&L and Balance sheet will be required.

If annual earnings are decreasing more than 20%, mortgagee must document that business income is now stable.