Are you Self -Employed or Do You a Receive 1099?
How to Plan for Owning a Home When You Are!

It may seem impossible to obtain a mortgage when you are Self Employed or receive a 1099, like a commission only person. I may seem that the mortgage process was designed for W-2 employees only, but that is not true?

If you don't have paycheck stubs or if your income varies wildly, it can still happen. Self-employed or 1099 people can qualify for mortgages, also.

Continue reading for some tips to help self-employed/1099 people to qualify for a great Mortgage.

1: Look At Your Past Two Tax Returns

This is how most lenders will calculate your monthly income:

They will ask for two years tax return copies. of your tax returns. They'll look at your adjusted gross income (income after business expenses) on each form, add the two numbers together, and divide by 24. This will show the average monthly income from the past two years.

Some lenders are starting to base income off of Bank Statements using an average of the last two years.

The lender will decide your ability to repay the mortgage using this monthly income figure. It's easy to figure, so if you want to get an idea of how much of a mortgage you may qualify, run those numbers for yourself. In mortgage language, this would be your "monthly income."

2 Complete the Application

As mentioned, you need to prove the ability to repay the mortgage. This may mean making sure you have two years in the same line of work.

Lenders now will insist on looking at your tax form, and they'll need to collect this from the IRS directly. (After all, you could theoretically supply them with a form that carries made-up numbers).

You'll need to fill out an IRS Form 4506-T, that will give the lender permission to request your tax records from the IRS.

3: Debt-to-Income Ratio

We've mentioned that your mortgage qualification will be based on your income. But how does that role relate in your loan application?

Most mortgage lenders will only allow you to borrow a specific percentage of your income. This is called a "debt-to-income" ratio, or DTI, and lenders will look for two numbers:

- **Front-End:** Your housing-related debt payments should not be larger than 28 percent of your income.
- **Back-End:** Your total debt payments (including housing, student loans, credit cards, car loans, child support, alimony and more) should not be larger than 36 percent of your income.

To qualify for the largest mortgage possible, consider the following: reduce or eliminate your other debt payments, such as your car note or your student loans. This will improve your back-end DTI ratio, which will help you qualify for a larger mortgage and possibly a better.

4: Non-HOA Properties Will Increase the Amount Of The Possible Mortgage

You may opt for buying a house that doesn't have mandatory homeowner association fees because these fees are included in your total mortgage calculation.

For example: If you qualify for a $1,200 monthly mortgage payment, and you want to buy a house that has a $200 monthly HOA fee, then the principal, interest, taxes and insurance (PITI) portion of your mortgage can't exceed $1,000.

But by contrast, if you buy a home that doesn't have an HOA, the principle, interest, taxes and insurance portion of your mortgage can use all of the $1,200 per month.

5: Maintain a Good Credit Score

Hopefully this is obvious, but it is worth stating: A higher credit score will make your mortgage-qualification process easier. You'll be more likely to qualify for a mortgage, and you'll be more likely to receive a good interest rate.

By the way you can view your credit report for free, once a year, at annualcreditreport.com. This won't reflect your score, but it will give you a copy of your credit history. You should review your history and report any bad information immediately.

Keep your credit score high by paying all your bills on time, using as little debt as possible, and not opening too many new credit accounts, especially in the 6-12 months before you apply for a mortgage.

Suggestion: Do not let your revolving credit (like credit cards and equity lines) lines exceed 50 percent of the available credit.

6: Don't Take Too Many Deductions

One final tip for the self-employed: If you know you'll be applying for a mortgage in the next two years, reduce the number of tax deductions that you claim.

If you state that your business grosses $80,000 in revenue, but has expenses of $75,000, you'll have a rough time qualifying for a mortgage.

Depreciation is one thing that can be a major expense on the tax forms, but the lender should allow non-cash expenses to be added back.

It is appropriate to take tax-deductions such as contributions to a Solo 401k or IRA account. But be careful of expensing too many "working vacations". These business expenses will come back to haunt you in the form of a lower taxable income — which could result in a harder time in the qualifying for a loan.

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