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Self-employed guide

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A short guide for self-employed borrowers and business owners

Will my tax returns qualify me for a mortgage?

If you work for yourself, you've probably heard this one: "Your tax returns don't show enough income." Sometimes that's true. Often it's more complicated. Here's how lenders actually read your returns.

01 How lenders read your returns	02 Common add-backs, like depreciation	03 How much history lenders want
04 When a bank statement or DSCR loan may be worth discussing	05 What to gather before we talk	06 Let's talk Book a 15-minute call

01 · HOW LENDERS READ YOUR RETURNS

Lenders go by what you report, not what you bring in.

A W-2 employee shows a pay stub. You show tax returns.

Lenders usually start with your net income after expenses. Not your gross sales. Not what hits your bank account.

So the write-offs that lower your tax bill can also lower the income a lender counts. Most business owners don't hear about that tradeoff until they apply. I'd rather you hear it from me first.

Side by side

What each borrower shows

- **W-2 employee:** recent pay stubs and W-2s.
- **You:** personal tax returns with all schedules, business returns if you file them, K-1s, and a year-to-date profit and loss statement.

The short version. Write-offs save you money at tax time. They can also shrink the income a lender counts. That's normal, and it's often more fixable than people think.



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02 · COMMON ADD-BACKS

Some expenses get added back.

Not every deduction is cash out the door. Lenders know that. Certain items can be added back to your income. Here's what that looks like on a Schedule C.

Schedule C

(Form 1040)

Profit or Loss From Business

Sole proprietorship

Sample

Part I Income

1 Gross receipts or sales 1

2-7 Returns, cost of goods sold, gross income

Part II Expenses

8-11 Advertising, car, contract labor...

12 Depletion 2

13 Depreciation and section 179 2

14-24a Insurance, rent, supplies, travel...

24b Deductible meals 3

28 Total expenses

30 Business use of your home 4

31 Net profit or (loss) 5

Sample for illustration. No real numbers. Lender and program rules vary. Not tax advice.

1 Line 1 · Gross receipts

Not what a lender uses

Lenders start from the bottom of the form, not the top.

2 Lines 12 and 13 · Depletion, depreciation

Paper expenses

No cash left your account, so lenders can often add these back.

3 Line 24b · Meals

Real money out the door

This one usually stays deducted.

4 Line 30 · Business use of home

Your home office

Often added back, too.

5 Line 31 · Net profit

Where most lenders start

Then come the add-backs. Lenders usually average your income over two years.

Items lenders commonly add back

- **Depreciation.** You wrote off equipment or property over time, but you didn't spend that money this year.
- **Depletion and amortization.** Same idea, different kinds of assets.
- **Business use of your home,** in some cases.
- **The depreciation part of your mileage deduction.**
- **One-time losses or expenses** that won't happen again, in some cases.

It depends on how you're set up

What counts depends on the loan program and your business structure: sole proprietor, S corp, or partnership. S-corp and partnership returns work much the same way. Depreciation and similar items on the business return can often be added back, and the lender also looks at how the business itself is doing.

One caution: don't change how you file just to qualify. Talk to your tax preparer first. I can join that call if it helps.



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03 · SELF-EMPLOYMENT HISTORY

Two years is the usual standard.

Most lenders want two years of self-employment history, shown on your tax returns. They look at the trend, not just one year.

Steady or rising**Easier to document**

Income that holds steady or grows from one year to the next is the simplest story to tell.

A drop**Gets a closer look**

A dip from one year to the next isn't automatically a problem. Expect questions, and be ready to explain it.

Less than two years**Not always a dead end**

If you did the same kind of work before you went out on your own, a shorter history can sometimes work. Worth a conversation.

04 · OTHER OPTIONS

When tax returns aren't the right fit.

Sometimes your returns just don't tell the whole story. Then it may be worth talking about other options. Here's how the three paths compare.

Start here**Full-doc, read carefully**

A standard loan based on your tax returns. Your returns may work better than you think once items like depreciation are added back. That's the first thing I check.

Deposits**Bank statement loan**

Income is based on your bank deposits over a set period, instead of your tax returns. It can help when write-offs make your returns look thin.

Rentals**DSCR loan**

For investment property. The lender looks mainly at whether the property's rental income covers its costs, not your personal income.

Bank statement and DSCR loans have different terms and requirements than a standard loan. They aren't right for everyone. But you should know they exist. Programs and availability vary by lender, and not all borrowers will qualify.

Readiness checker

Four questions, a list built for your business. On my website, answer four questions and get a document list for how your business is set up. Educational only. No numbers, no credit check, and no qualification decision.



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05 · WHAT TO GATHER

What to gather before we talk.

You don't need to send me anything for a first call. Having these handy makes it more useful.

- | | |
|---|--|
| ☐ Your last two years of personal tax returns, with all schedules | ☐ Recent personal and business bank statements |
| ☐ Your last two years of business tax returns, if you file them (1120S, 1065, or 1120) | ☐ Your 1099s, if you're paid as a contractor |
| ☐ K-1s, if you own part of a business | ☐ A quick list of your current debts |
| ☐ A year-to-date profit and loss statement | ☐ Your CPA or tax preparer's contact info, if you'd like me to talk with them |

Please don't email any of these. Just have them handy. When it's time, you'll upload documents through Edge Home Finance, LLC's secure application.

06 · LET'S TALK



Hi, I'm Aaron.

I'm a Mortgage Loan Originator with Edge Home Finance, LLC. Before this, I spent more than ten years in accounting, reading and preparing the tax returns that lenders now ask you for. Now I go through your returns with you before you apply, and I tell you plainly what a lender is likely to see.

I work by phone and video call. Edge Home Finance, LLC is a mortgage broker, so I can compare programs from many wholesale lenders.

One more thing: I don't give tax or accounting advice. For tax questions, talk to your own tax preparer.

Next step

Let's look at your numbers together.

On a 15-minute call, you tell me what you're trying to do, I ask how you earn and how you file, and you leave knowing which options are worth a look and what to gather next. Phone or video call. No documents yet, no commitment.

Book a call

Apply online

BOOK A CALL

calendly.com/aaron-silverman-edgehomefinance/30min

CALL

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READY TO APPLY?

edge.my1003app.com/957533/register



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