DETROIT NATIVE SUN

How to get a mortgage when you're self employed

(StatePoint) If you're self-employed or own a business, you may be wondering if it's possible to get a mortgage.

The short answer is yes, you can, but the process will look different. You'll need to provide documentation verifying your employment and lenders will be analyzing your financial situation and the financial situation of your business to see how likely you are to pay back your loans in a timely manner.

To help you put your best foot forward, Wells Fargo is offering guidance on navigating the home loan process.

What does it mean to be self-employed?

Typically, lenders consider an applicant self-employed if they meet any of the following:

- They own at least 25% of a business
- The ownership of a business is their major source of income
- They complete a 1099 tax form during tax filing instead of a W-2
- They're an entrepreneur or sole proprietor whose income is filed under Schedule C of their tax returns
- They're an independent contractor or service provider

If you fit into these categories, you'll also need to show lenders verified employment records or proof of self-employment during the past two years. Lenders are ideally looking for your business to have been active for at least 12 consecutive months. They review the overall health of the business, looking at both net income and expenses.

What employment documentation is needed?

When lenders review your application, they're analyzing items like how stable your income is, if your business has strong finances, and what the future may look like for you and your business. Any of the following forms of documentation can help lenders show proof of your employee verification:

- Business licenses and/or DBA certificates
- Proof of correspondence with CPAs and/or clients
- Proof of business insurance
- Profit/loss statements or balance sheets reflecting your business's performance
- Lenders' requirements vary. Check with yours for what will be required for your situation.

What tax return requirements are needed?

Personal tax returns under IRS Form 1040 include various schedules. Commonly used schedules are:

- Schedule B (Form 1040) - Interest and ordinary dividends
- Schedule C (Form 1040) - Profit or Loss from Business (Sole proprietorship)
- Schedule D (Form 1040) - Capital Gains and Losses
- Schedule E (Form 1040) - Supplemental Income and Loss
- Schedule F (Form 1040) - Profit or Loss from Farming

For business tax returns, a business may choose to report taxable income either on a calendar year or fiscal year basis. Commonly used forms include:

- IRS Form 1065 - U.S. Return of Partnership Income
- IRS Form 1120S - U.S. Income Tax Return for an S Corporation
- IRS Form 1120 - U.S. Corporation Income Tax Return

What factors show the strength of your borrowing ability?

Having a favorable debt-to-income ratio and credit score. A strong credit history shows lenders your ability to repay debts and utilize credit responsibly.

Staying organized. Keep expenses separate if you have multiple income sources, and separate business and personal accounts so that lenders can more easily tell which assets are which.

How to prepare for closing costs for a smoother home-buying experience

(StatePoint) Buying a home? Don't forget to account for closing costs. These settlement fees are among the last expenses you pay before officially taking ownership of your new home. Here's what to know:

What are closing costs? Closing costs are fees charged by your lender, real estate agent and other third parties involved in the homebuying transaction. They include various charges related to property expenses, the mortgage application process and other paperwork. Closing costs include a combination of one-time fees, which may include the loan origination fee, appraisal fee, and initial installments of recurring costs — such as your homeowners insurance and escrow payment.

Why do closing costs matter? Although closing costs can vary based on the location, size and cost of the property you're buying, they are important to budget for. Typically amounting to 2% to 5% of the total loan amount, these fees are due at closing — and can add up to thousands of dollars.

Is it possible to save on closing costs? While these fees may feel like they are set in stone, there are actually key ways you can save on closing costs:

- Research multiple lenders. Comparison shopping can help ensure you are getting the best interest rate and terms available. Freddie Mac's latest research shows you may be able to save up to $1,200 annually by applying to loans from multiple lenders. However, when you're reviewing loan estimates, you should also pay close attention to the fee structures and any other items that you will need to pay on closing day.
- Negotiate fees. As part of choosing your lender, you should approach them about negotiating the fees included in your loan estimate, such as origination fees and processing fees. In many cases, financing charges are open for discussion and you may be able to get your lender to reduce or waive certain fees.
- Shop around for closing services. In addition to fees from your lender, you should expect to pay for additional closing services, possibly including title insurance, home inspections and appraisals. Even though your homebuying team may have a set of professionals they prefer to work with for these services, you can shop around for more cost-effective options to help lower your closing costs.
- Take advantage of financial aid programs. There are many programs designed to help homebuyers cover down payments and closing costs, especially if you are a first-time homebuyer. Talk to your homebuying team to determine if you qualify for any financial assistance.
- Request seller concessions. When it comes time to negotiate your offer with the seller, you may be able to ask them for some relief on closing costs. For example, the seller may agree to cover some or all of the closing costs as an incentive to get the deal done. However, this is more likely to happen in a buyer's market.

How can I prepare now? Access resources that can help you plan ahead for closing day, like the Closing Cost Calculator available through My Home by Freddie Mac, a guide to homebuying and homeownership that offers free online tools. Having an accurate estimate of your closing costs can help you have a smooth closing day.

The right tools and knowledge can simplify homebuying and make it more affordable than you might expect. By understanding what fees are included in your closing costs and how to negotiate or reduce these costs, you can feel more empowered and in control of your purchase.