

Chasm grows between home lenders and self-employed

By Sandra Block, USA TODAY

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Self-employed borrowers can usually still get a mortgage, says Bill McNamee, president of Pinnacle Home Mortgage in Lombard, Ill. But, "The rates they're paying a lot of times are higher, because (lenders) have decided the risk level is higher." Most self-employed people can't provide the types of documents that lenders typically rely on for proof of income, such as W-2s and pay stubs. To address that problem, the mortgage industry created "stated-income" loans, which don't require as much documentation. During the real estate boom, though, some borrowers used stated-income loans to inflate their incomes, enabling them to qualify for mortgages they couldn't otherwise afford, says Marc Savitt, president of the National Association of Mortgage Brokers. The increased scrutiny of these loans, Savitt says, "is part of the shakeout" of the subprime collapse.

Here's what self-employed borrowers need to qualify for a mortgage in this new environment:

•**More documentation.** Along with two years of tax returns, self-employed borrowers might be asked to provide a profit-and-loss statement, bank statements and proof that they've been in business for at least two years. In the past, self-employed borrowers could provide a letter from their accountant, verifying that they'd been in business for at least two years, says Lisa Alley, a mortgage broker at Five Star Capital in Huntington Beach, Calif. But now, Alley says, many lenders require further verification, such as a business license. Gathering all this information takes time. Self-employed workers who are considering buying or refinancing in the next few months should "start working on getting your paperwork and financial house in order," says Gene Tricozzi, a mortgage broker at Northern Funding in Clifton Park, N.Y.

•**Fewer tax deductions.** Shane Backer, a broker in New York, says one of his clients, a self-employed taxi driver, is having a hard time getting a loan to refinance his home mortgage, even though he earns about \$85,000 a year. The problem: The taxi driver claimed a lot of tax deductions on his tax return last year, and his business shows a loss. Self-employed taxpayers are eligible for a long list of tax deductions and write-offs. They can deduct the cost of computers and other equipment, home-office costs and transportation, among other things. From a tax standpoint, it makes sense to claim as many as the law allows. But it can also make it harder to get a mortgage, Savitt points out, because deductions reduce the amount of income on a self-employed borrower's tax return. Savitt says self-employed workers who plan to buy a home in the next year or two might want to forgo some deductions. "Make sure you can show as much income as possible," he says.

•**Larger down payments.** With the market for stated-income loans shrinking, lenders that still offer them are demanding more cash on the table. Stated-income loans that accept zero down payment have pretty much disappeared, Tricozzi says.

He says he's still finding loans for self-employed borrowers who can put down 10% of the value. A few lenders, he says, are offering loans with a 5% down payment — but only to self-employed borrowers with higher-than-average credit scores.

Tricozzi suggests that self-employed workers check their credit scores several months before applying for a mortgage. "If the credit score is low, then you may need to save more money for your down payment," he says.

•**Excellent credit.** Mark Livingstone, a mortgage broker at Cornerstone First Financial in Washington, D.C., says good credit has never been more important for self-employed borrowers. He's been able to find stated-income loans with the same interest rates as for full-documentation loans — as long as the borrower has a credit score of 720 or higher. But, "If you have less-than-perfect credit, there are no more lenders out there," he says. Warren Prescott, 34, owner of Rent A Frog Valet, a valet parking service in Fort Worth, was afraid he'd have trouble getting a mortgage after he and his wife decided to buy a home closer to their jobs. Instead, he was pleasantly surprised to receive competing bids from lenders. He decided to go with his

local bank, which offered him a 6% fixed-rate, 30-year mortgage. Working in Prescott's favor: a 780 credit score and an old-fashioned 20% down payment.

•Patience. McNamee says lenders that are still catering to the self-employed have been flooded with business, which means it might take longer to process a loan. That can be difficult for some successful self-employed borrowers to accept. "When you're talking about CEOs of companies, they want an answer, and they want it now," McNamee says. While the rate difference between jumbo and non jumbo used to be only .25% for most lenders it has now risen to 1% or greater. At Pinnacle Home Mortgage, we are fortunate to have Jumbo and Super Jumbo sources who have not reacted to the liquidity crisis by raising their rates. But hurrying the process, he says, could increase the cost of the loan. Even for well-off business owners, qualifying for a mortgage is "not as smooth and easy as it used to be. If you want it to be quick, you're paying a higher price."