

The Self-Employed Borrower's Guide to Mortgages in California



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INTRODUCTION



Being your own boss comes with freedom — setting your own schedule, choosing your clients, growing your business your way.

But when it comes to qualifying for a mortgage? That freedom can suddenly feel like a roadblock.

Many self-employed Californians have told me things like:

- “My tax returns don’t show my real income.”
- “I write off so much that lenders say I don’t qualify.”
- “I was turned down before — maybe I’ll never get approved.”

Here’s the good news: you can get approved. Every day, self-employed people close on homes. The key is knowing which loan programs work for your unique situation and how to present your finances the right way.

This short guide will give you the inside scoop — so you’ll know what to expect, how to prepare, and where your opportunities really are.

Every borrower has a story — and every loan has a purpose. For many, that means buying a new home, refinancing, or adding a home equity line. And for self-employed business owners, it may also mean exploring financing options to support your business. Whatever your goals, I start by listening to your story and then design a plan to move you forward.

WHY TRADITIONAL LENDERS OFTEN SAY 'NO'

Most mortgage guidelines were written decades ago with one type of borrower in mind: the W-2 employee with a steady paycheck. That doesn't reflect today's reality, especially in California where self-employment is booming.

Here's why traditional banks hesitate when they see self-employed applicants:

- **W-2 Focus:** Banks want to see at least two years of stable W-2 income. If you don't have that, they struggle to fit you into their box.

- **Tax Write-Offs:** Good for your accountant, tough for your mortgage file. Deducting expenses lowers taxable income, but on paper it can make it look like you earn less than you really do.

- **Variable Income:** A strong year followed by a quieter one can raise red flags, even if your business is healthy overall.

- **Misunderstood Business Models:** Many underwriters just aren't familiar with industries like creative services, consulting, or gig-based work.

The takeaway? It's not you. It's the system. And the system isn't built for the way you work.

The better news: there are mortgage programs designed specifically for situations like yours. In fact, there are even mortgages that are only offered to borrowers who are self-employed.



MORTGAGE OPTIONS

01

BANK STATEMENT LOANS

Income is determined using the average of deposits over a 12 or 24 month period.

A percentage is deducted for expenses, depending on the type of business.

02

1099 INCOME LOANS

Using the 1099 income you receive may qualify you for a loan. If you report too many expenses, you can revert to a *bank statement* loan.



03

ASSET DEPLETION LOANS

For borrowers who have substantial financial assets (including retirement accounts) a formula converting the assets to income can determine monthly income. This can be combined with other loan types.

04

DSCR LOANS (for investors)

For experienced real estate investors, these loans are based on the cash flow of the rental property being mortgaged (1-4 units).

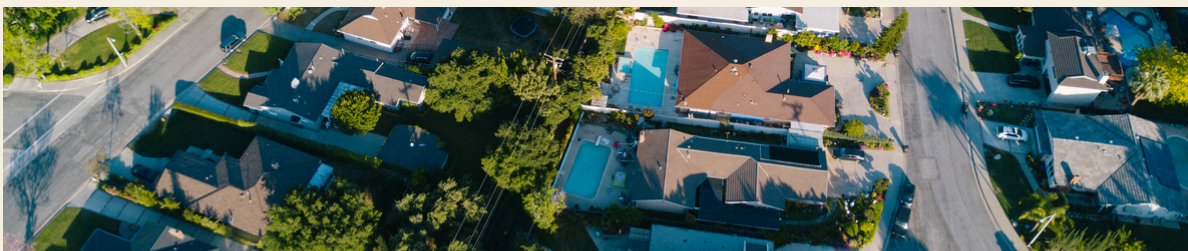
The borrower's personal income is not taken into consideration.

05

CONVENTIONAL LOANS

Even though self-employed, some borrowers qualify based on their tax returns.

Depending on the borrowers method of tax reporting, business tax returns may be required.



05

HOW TO PREPARE AS A SELF-EMPLOYED BORROWER

Even with flexible programs, preparation makes a huge difference. Here are some ways to strengthen your file:

- **Separate Finances:** Keep personal and business accounts separate. Lenders love clarity. This is especially important for Bank Statement loans.
- **Track Deposits:** Consistent deposits look better than big, random chunks of money; however, depending on your type of business, this may not be possible.

Be prepared to explain unusual deposit patterns and provide proof of their origin if they are not clearly defined on your bank statements.

- **Mind Your Credit:** A higher score often equals better terms. Pay bills on time, keep balances low.
- **Limit New Debt:** Avoid new loans or credit card debt just before applying. If you use credit cards extensively to fund or support your business, disclose that fact to your loan broker before applying.
- **Work With the Right Broker:** Many loan officers only know “one size fits all” programs. A broker who specializes in self-employed borrowers can open more doors.



CASE STUDY #1

Mai-Li's business slowed down when she was unexpectedly hospitalized. Although she recovered well, she had to work hard to rebuild her business and had overextended her credit cards to keep her employees paid.

She had lived in her home for many years and had built up a lot of equity.

Using the cash flow from her business, we remortgaged her home to give her the cash she needed to pay off all her debt. We also added an equity line for ongoing medical expenses so she was free to focus on rebuilding her business, not worry about money.



CASE STUDY #2

A photographer purchased his home at the height of interest rates. He came to me to see if it was possible to refinance to lower his rate and access additional cash to support his photography gallery.

In order to get him the lowest possible interest rate, we refinanced his home without making it a "cash'out" loan. A cash-out loan carries a higher interest rate.

He had owned his gallery for 3.5 years. It made more sense to apply a business revolving line of credit for his photo acquisitions. This way he was not only able to keep his personal and business separated, but he was able to save on income tax.

It was a win-win!



BONUS: PREPARING FOR YOUR MORTGAGE

1

Pull your own credit by going to [ANNUALCREDITREPORT.COM](https://annualcreditreport.com). This lets you access your credit directly from the credit bureaus. It's free. You don't need to get your credit score (for which there is a charge). Review carefully for errors.

2

If your credit report is "frozen", be sure to unfreeze it before applying for your loan.

3

If you need a new car, hold off. Both leases and purchases can dramatically affect the amount you qualify for.

4

Gather 12 months of bank statements, either business or personal (whichever account you use for business deposits).

5

Review bank statements for overdraft fees or any other potentially questionable transactions. Be sure you can back up unusually large deposits with proof of origin.

6

The less you owe on your credit cards, the better. Aim to use less than a third of your limit. The higher your credit score, the lower your interest rate.

Q & A

Here are a few common questions I hear all the time:

Q: Do I really need to have been in business for two full years?

A: Lenders want to see a history of your business earnings. Some programs will accept just one year of income to qualify you, but almost all lenders require that the business has been operating for at least 2 years.

Q: What if my income went down last year?

A: It doesn't necessarily disqualify you. Depending on how much your income decreased in the most recent year, the lender may only use that recent year rather than averaging the past two years, which is standard for a conventional loan.

Q: What if I've been denied before?

A: That doesn't mean anything. We've placed hundreds of loans that have been previously denied. If the lender doesn't specialize in your type of income or if they don't understand it, they will say no rather than make the extra effort. It all depends on the lender.

Here is a secret lenders don't want you to know. All lenders, big or small, rely on their "loan originators," or basically, clerks, to take your application. Since loans are now initially reviewed by computer programs, more often than not, if it doesn't fit the basic guidelines of a W-2 employee, they will decline the loan rather than spend the time to understand what they are looking at.

Additionally, banks offer a limited selection of loan "types". They are not geared toward the self-employed borrower.

NEXT STEPS

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If you're self-employed and thinking about buying a home, or refinancing to better your financial position, the first step is simple: find out which programs are a fit for your situation.

That's what I help my clients do every day.

There's no cost, no obligation — just clarity.

Schedule a free 30-minute call with me here:



[Schedule Here](#)