



Bank Statement Loans Explained

A guide for self-employed professionals

What is a Bank Statement Loan?

A bank statement loan is a mortgage option that allows self-employed individuals to qualify for a home loan using their bank statements instead of traditional income verification methods like tax returns. This is particularly helpful for those who may have significant deductions or write-offs that reduce their taxable income.

Who is it For?

Bank statement loans are designed for self-employed individuals, freelancers, and entrepreneurs who may find it challenging to qualify for a traditional mortgage due to the nature of their income. This includes:

- **Business Owners:** Individuals who own and operate their own businesses.
- **Freelancers:** Professionals who work on a contract basis.
- **Entrepreneurs:** Individuals with varying income streams.
- **Those with significant deductions:** Self-employed individuals who utilize legal tax deductions.

Documents Needed

To apply for a bank statement loan, you'll typically need:

- **Personal Bank Statements:** Typically, 12-24 months of personal bank statements.
- **Business Bank Statements:** Typically, 12-24 months of business bank statements (if applicable).
- **Identification:** Driver's license or passport.
- **Credit Report:** Lenders will review your credit history.
- **Asset Verification:** Statements for savings, investment, and retirement accounts.
- **Business Licenses:** Relevant business licenses and registrations.
- **Other Documentation:** May include articles of incorporation and other business-related documents.

How Income is Calculated

Lenders will average your deposits over the specified period (usually 12-24 months) to determine your average monthly income. A percentage of this average is then used to qualify you for the loan. The percentage depends on the lender and the strength of your overall financial profile. They may also look at consistent deposits, trends in your income, and other factors to get a clear picture of your financial situation.

Basic Requirements

While requirements can vary by lender, here are some common ones:

- **Credit Score:** A minimum credit score is generally required, though it can be lower than traditional mortgages.
- **Down Payment:** A down payment is typically required, and it may be higher than traditional mortgages.
- **Reserves:** Lenders want to see that you have sufficient cash reserves to cover several months of mortgage payments.
- **Property Type:** Some lenders may have restrictions on the types of properties they will finance with bank statement loans.
- **Loan Purpose:** Bank statement loans can be used for purchase, refinance, or cash-out refinance.

Key Benefits

- **Easier Qualification:** Easier qualification for self-employed individuals compared to traditional mortgages.
- **Utilize Business Deductions:** Allows you to utilize legitimate business deductions without hindering your ability to buy a home.
- **Flexibility:** Greater flexibility in income verification.

Common Myths Debunked

Myth: Only for risky borrowers.

Reality: Bank statement loans cater to self-employed individuals with complex income situations; and have become a mainstream product in the lending industry.

Myth: Extremely high interest rates.

Reality: While rates *may* be slightly higher than traditional mortgages, they are competitive and reflect the risk assessment. Many programs offer very competitive rates.

Ready to Explore Your Options?

Interested in learning more about bank statement loans and how they can help you achieve your homeownership goals? Book a call with Chaim today for a personalized consultation!