

You Write Everything Off. We Still Get You Approved.

The 2026 Insider's Guide to Mortgage Qualification for
Self-Employed Professionals & Real Estate Investors.

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The CPA's Mandate

- Minimize Taxable Income.
- Legally writes off business expenses, depreciation, and rental losses.

Creates a massive Paper Loss

The Mortgage Broker's Mandate

- Maximize Documented Income.
- Requires proof of strong, verifiable monthly cash flow.

Needs high Paper Income

The \$200K cash flow business that suddenly shows \$60K on paper.

Mortgage Underwriters Live in a World of Paper Income.

QM guidelines (FHA, VA, USDA, Fannie Mae, Freddie Mac) strictly govern conventional lending. They are legally bound to verify income using IRS tax returns, not your actual bank account balance.

The Two-Year Rule

If your income declined from 2024 to 2025, they use the lower year. If it increased, they average the two. A >25% decline often triggers an automatic red flag. 🚩

If you own $\geq 25\%$ of the business, you are strictly classified as self-employed. Even a W-2 from your own S-corp won't bypass the underwriter's review of your 1120-S business returns.

Real World Cash Flow

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graph TD; A[Real World Cash Flow] --> B[The Fannie Mae Filter]; B --> C[Paper Qualifying Income];
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The Fannie Mae Filter

- [Start] Net Profit from Schedule C
- [-] Large First-Year Write-Offs
- [-] Section 179 / Bonus Depreciation

Paper Qualifying Income

Accelerating depreciation saves real money on taxes today, but creates a paper loss that directly drains your borrowing power for the next 12-18 months.

Gross Rental Income



The Schedule E Holdback

- [-] PITI (Principal, Interest, Taxes, Insurance)
- [-] Repairs & Management Fees
- [-] **The 25% Vacancy Factor**



Net Rental Income
(Usually a Paper Loss)

The 25% Vacancy Factor

Fannie Mae requires underwriters to subtract 25% from your gross rents before expenses—even if your property has been 100% occupied for years.

If this creates a monthly loss on paper, that amount is added to your debt obligations, crushing your DTI.

ADDED BACK ✓

Depreciation

Both Schedule C business and Schedule E property depreciation are restored to qualifying income.

Amortization & Depletion

Non-cash deductions with no actual cash outflow are credited back.

Home Office & Vehicle

Sometimes added back depending on specific loan guidelines.

HELD BACK ✗

25% Vacancy Factor

Applied to gross rents regardless of actual historical occupancy.

Full Mortgage Interest (PITI)

Fully deducted, often wiping out rental income for qualifying purposes.

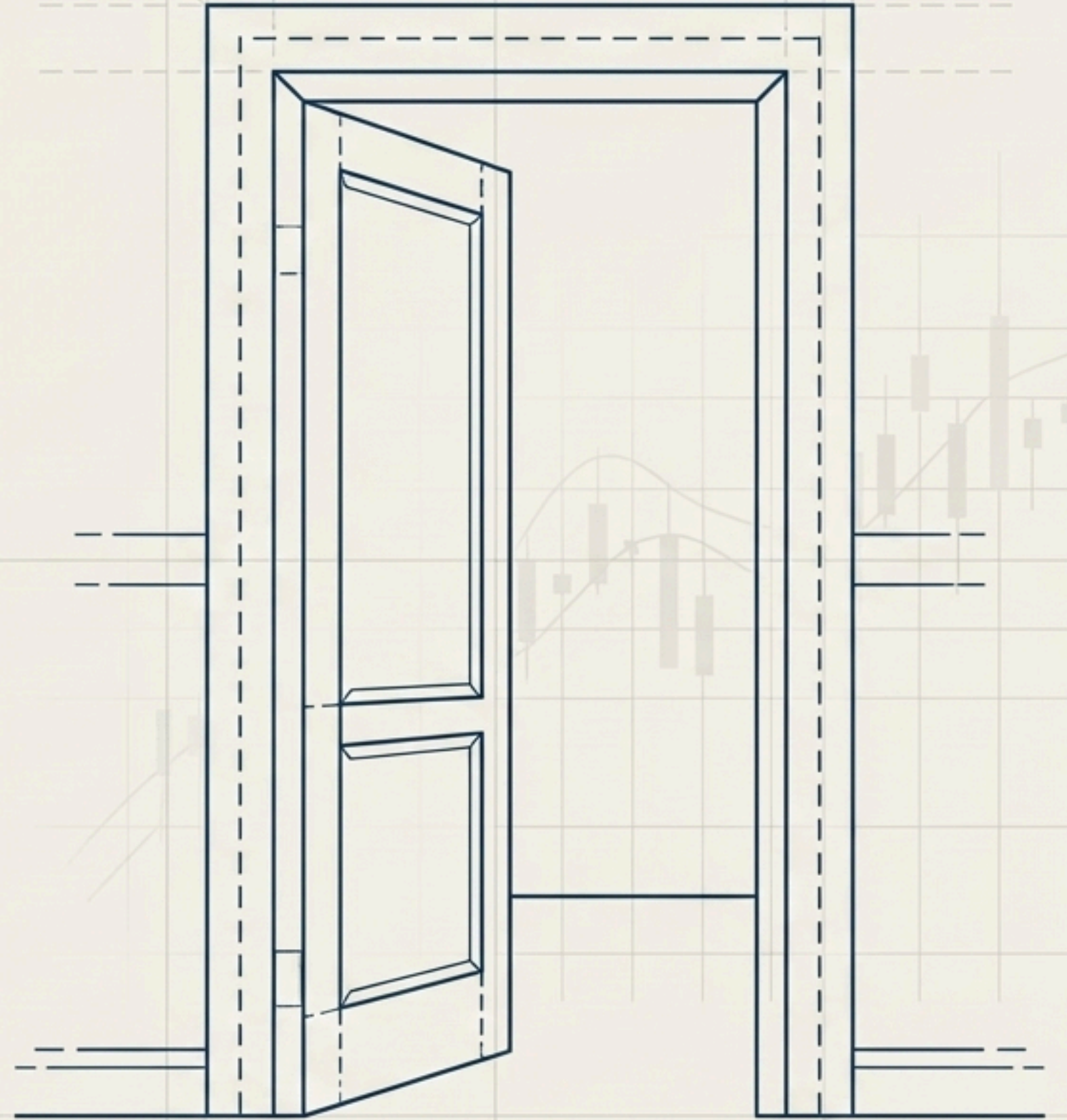
A skilled broker maps these variables before you apply, predicting exactly what the underwriter will see.

Traditional Loans Are Not the Only Path to Closing.

The mortgage market has evolved. When IRS tax returns fail to reflect your actual purchasing power, the Non-QM (Non-Qualified Mortgage) market bypasses paper losses entirely.

Non-QM loans qualify you based on actual business vitality, verifiable bank deposits, and real estate cash flow—ignoring the tax deductions designed to protect your wealth.

This is the playbook built specifically for entrepreneurs and portfolio investors.



Loan Path	Income Proof Required	Ideal Borrower	The Primary Trade-off
FHA/Conventional (QM)	2 yrs tax returns + P&L	Strong paper income, 620+ credit	Write-offs severely limit loan size.
Bank Statement (Non-QM)	12-24 mos bank deposits	Strong cash flow, low taxable income	0.5-1.25% higher rate; 10-20% down.
P&L Only (Non-QM)	CPA-prepared P&L	Recent, unfiled income growth	Stricter LTV; requires licensed CPA.
DSCR (Non-QM)	Property cash flow only	Rental portfolio investors	Primary residences strictly ineligible.
Asset Depletion (Non-QM)	Liquid assets ÷ loan term	High-net-worth, low paper income	Requires massive liquid assets (\$500K+).

The Bank Statement Bypass.



How it works	Replaces tax returns entirely. Uses 12 to 24 months of consecutive business or personal bank deposits to calculate monthly income.
The Expense Ratio	Underwriters typically apply a 50% expense ratio to business accounts, or a 100% ratio to personal accounts. (Example: \$20,000 monthly business deposits = \$10,000 qualifying monthly income—often 2-4x higher than Schedule C).
The Requirements	Minimum 660-680 credit score (better rates at 700+), 10-20% down payment, and 6-12 months set of cash reserves.
The Trade-off	A minor rate premium (0.5%-1.25%) to secure the home you actually want.

The DSCR Truth: Investors Only.

Primary
Residence



VS.



Investment
Property

Myth: I can use a DSCR loan to buy my own house without showing income.

Fact: DSCR loans are strictly prohibited for owner-occupied primary home purchases under federal guidelines.

The Mechanics

They qualify solely based on the **rental income** of the subject property relative to its mortgage payment. Personal income is completely ignored.

The Verdict

DSCR is the ultimate tool for expanding a rental or STR portfolio, but if you are buying your own home, you must pivot to **Bank Statement or P&L** programs.

Income Trending

Year-over-year growth.
(A 25%+ decline from 2024 to 2025 kills the deal).

IRS treatment of passive vs. active/material participation.

Rental Classification

Business Stability

Verifiable active licensing, operating accounts, and proof the business will survive 3+ years.

Ownership Structure

Precise verification of K-1 distributions and 1120-S corporate losses.

Access to Funds

2-3 months of business statements proving withdrawal won't bankrupt operations.

Core Question:

The underwriter is asking one question:
Will this borrower make this payment 5 years from now?

Document Ivory

The Weeks Before April 15

Path A: File Now
(If 2025 > 2024)

Logic: 2025 was a stronger income year. Filing by April 15 allows the underwriter to average two strong years or utilize the higher recent baseline for maximum borrowing power.

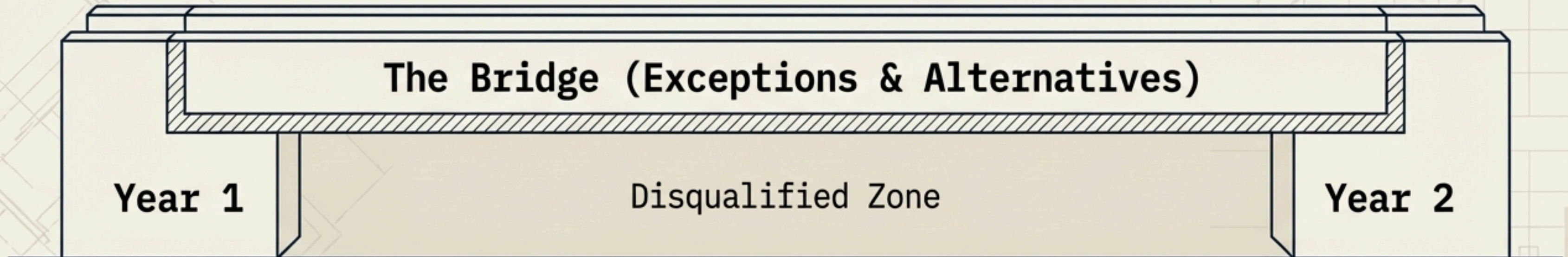
Path B: File an Extension
(If 2024 > 2025)

Logic: 2025 showed weaker revenue due to heavy investments. Extending buys time to purchase using only the stronger 2024 returns before the 2025 paper losses are formalized.

Warning: The numbers you submit to the IRS this month are locked in as your exact purchasing power for the next 12 to 18 months.

Bridging the Two-Year Rule

The Problem: Conventional Fannie/Freddie guidelines require **two full consecutive years of self-employment in the same industry**. If you went solo in 2024, your 2025 return is only "Year One." Under QM rules, you are disqualified.



W-2 Exemption

One year of self-employment returns can work if you previously held a W-2 position in the exact same field.

The Non-QM Fast Track

Specific 12-month Bank Statement programs exist that only require one full year of self-employment history.

Takeaway: Do not wait for 2027 to buy if you have 12 months of solid, documented cash flow right now.

The Pre-Filing Intervention



Your CPA's goal and your Mortgage Broker's goal are in direct tension.

A 15-minute coordination call before your CPA finalizes your return can mean the difference between qualifying for a \$450K loan or a \$320K loan.

The Strategy

Modest adjustments to how deductions are timed (like spreading out Section 179 depreciation) can meaningfully improve qualifying income without drastically increasing tax liability.

Talk to your broker before you hit submit.

The Dual-License Advantage.

Let's Build Your Approval Strategy.

As both your Realtor and Mortgage Broker, I see the full picture from day one. One conversation covers your tax returns, your loan program, and your purchase offer. Nothing falls through the cracks.

Book a free 30-minute Pre-Filing Strategy Call.

Get a clear picture of where you stand and what your path to closing looks like in 2026.

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Broker in Florida

Winter Park | Florida
Real Estate Broker

Equal Housing Lender