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LIVING & LENDING

Your monthly key to smart living and lending

IN THIS ISSUE

MORTGAGE ARCHITECTS®
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Hello July!

As summer approaches, this month dives deep into self-employed mortgage solutions - from strategic income planning to overcoming common lending hurdles. Whether you're an entrepreneur, freelancer, or contractor, we explore practical approaches that actually work.

This issue also celebrates Canadian summer with our Ultimate Bucket List, featuring natural wonders and adventures from coast to coast.

Self-Employed Mortgage Solutions

Being your own boss comes with incredible freedom and flexibility, but when it comes to securing a mortgage, self-employed borrowers often face unique challenges that traditional employees don't encounter. The good news? With proper planning and the right approach, homeownership is absolutely achievable for entrepreneurs, freelancers, contractors, and other self-employed professionals.

Understanding the Self-Employment Challenge

Traditional mortgage applications rely heavily on predictable employment income verified through pay stubs and employer letters. Self-employed individuals, however, present a different financial picture. Your income may fluctuate seasonally, you likely claim legitimate business expenses that reduce your taxable income, and your financial documentation tells a more complex story than a simple salary statement. This complexity isn't necessarily a disadvantage—it just requires a different approach and more strategic preparation.

The Two-Year Income Strategy That Changes Everything

One of the most powerful moves you can make as a self-employed borrower is thinking ahead about your tax strategy. Here's why this matters:

The Trade-Off: As a business owner, you enjoy the privilege of writing off expenses to reduce your tax burden. But here's what many don't realize—every dollar you write off is a dollar that doesn't count toward your mortgage-qualifying income.

The Solution: Consider reducing your business deductions in the two years leading up to your home purchase. While you'll pay more in taxes temporarily, your reported income will be higher, significantly boosting your borrowing power.

Comparing Income

Debt-to-Income Ratio 43%
Interest Rate 6.5%
30-year Amortization
Zero Debts Owing

this example calculation is meant for illustration purposes only and does not reflect current rates

$75,000	Annual Income	$100,000
$75,000 ÷ 12 = **$6,250**	**Monthly Income**	$100,000 ÷ 12 = **$8,333**
$6,250 × 43% = **$2,687.50**	**Maximum Monthly Payment**	$8,333 × 43% = **$3,583**
$425,190	**Maximum Borrowing Power**	**$566,921**

Working With Your Accountant: Successfully implementing the two-year income strategy requires professional guidance. A certified accountant who understands both tax implications and mortgage requirements can help you identify which deductions to minimize without harming your business operations. They can also time major expenses strategically and ensure you're still maximizing legitimate tax benefits where possible. Most importantly, they can model different scenarios to show you exactly how various deduction levels will impact both your tax burden and borrowing capacity, helping you make informed decisions about the trade-offs.

Documentation Alternatives That Actually Work

When traditional pay stubs aren't an option, lenders evaluate alternative proof of your earning power. Here's exactly what they're looking for:

Bank Statement Programs

Lenders analyze 6-12 months of your business bank statements, using deposit patterns to calculate your qualifying income. They typically use 50-75% of your average monthly deposits as qualifying income.

What You Need:

- 6-12 months of business bank statements
- 6-12 months of personal bank statements
- Explanation for any large, irregular deposits
- CPA-prepared profit and loss statements

Who Benefits:

This works particularly well if your bank deposits significantly exceed your tax return income due to business expense write-offs.

Stated Income Programs

You declare your actual income based on your real earnings, not just tax return figures. The lender verifies this through supporting documentation rather than relying solely on tax returns.

Requirements:

- Minimum two years of self-employment
- Bank statements showing consistent deposits matching your stated income
- CPA letter confirming income calculations

- Strong credit score (typically 700+)
- Larger down payment (often 20-25% minimum)

Documentation Package:
- Business bank statements (6-12 months)
- Personal bank statements (6-12 months)
- Business license and registration documents
- Contracts or agreements showing ongoing work

Professional Financial Preparation
Most lenders strongly prefer (and some require) that self-employed borrowers' financial documents be prepared by certified accountants rather than self-prepared. This adds credibility and demonstrates professional financial management.

What Lenders Look For:
- CPA-prepared tax returns
- Professional profit and loss statements
- Accountant verification letter
- Consistent financial reporting year over year

How Lenders Actually Evaluate Your Application
Understanding the lender's perspective helps you present your strongest case:

Income Averaging: Most lenders average your income over two years. If Year 1 shows $80,000 and Year 2 shows $100,000, they'll qualify you at $90,000. This is why strategic planning for both years matters.

Trend Analysis: Lenders want to see stable or increasing income trends. A pattern of $60,000, $80,000, $100,000 over three years is much stronger than $100,000, $80,000, $60,000.

Debt Service Coverage: Self-employed borrowers often need to show stronger debt-to-income ratios than employed borrowers. Where an employee might qualify at 43% debt-to-income, you might need to be at 38% or lower.

Reserve Requirements: Expect to show 2-6 months of mortgage payments in liquid reserves, depending on the lender and loan program.

When Traditional Lenders Say No
If conventional "A-lenders" can't accommodate your situation, specialized programs exist:

Alternative Lenders (Alt-A): These lenders specialize in non-traditional scenarios and often have programs designed specifically for self-employed borrowers. Interest rates might be 0.25-0.75% higher, but they offer approval flexibility.

Portfolio Lenders: Community banks and credit unions that keep loans in-house often have more flexibility in underwriting guidelines. In most cases, experienced mortgage brokers have established relationships with these institutions and can help navigate their specific requirements and processes.

Asset-Based Programs: Some lenders will qualify you based on liquid assets rather than income, though these typically require substantial reserves.

Remember: Your entrepreneurial journey shouldn't prevent homeownership. With strategic preparation and the right approach, self-employed borrowers can successfully secure competitive mortgage financing. The key is understanding what lenders need and positioning your application accordingly.

Common Mortgage Hurdles for Self-Employed Applicants

Self-employed borrowers face unique obstacles that traditional employees rarely encounter. Here are the most common challenges and practical solutions that actually work.

You're New to Self-Employment (Less Than Two Years)

Most lenders want two full years of tax returns to prove income stability.

- **Bridge your employment history:** If you transitioned to self-employment in the same field, some lenders will combine your employment history with one year of self-employment
- **Strengthen your financial position:** Show larger reserves (6-12 months of payments), higher credit scores (740+), and bigger down payments (25-30%)
- **Add an employed co-borrower:** Their stable income can provide the security lenders need while you build your track record

Your Income is Seasonal or Irregular

A landscaper earning $150,000 annually but only $15,000 in winter months looks unstable to lenders who don't understand seasonal businesses.

- **Focus on annual consistency:** Show three years of similar annual totals, even if monthly income varies dramatically
- **Educate the lender:** Provide a letter explaining your industry's normal seasonal patterns
- **Show cash reserves:** Demonstrate you maintain funds during slow periods to cover expenses year-round

Complex Business Structures Create Documentation Headaches

Partnerships, corporations, and multi-member businesses require different documentation that can confuse lenders about what counts as "your" income.

- **Use a certified accountant:** Complex structures absolutely require professional preparation and documentation
- **Document ownership clearly:** Show exactly what percentage you own and how profits are distributed
- **Maintain clean separation:** Keep business and personal finances completely separate to avoid documentation nightmares

Remember, *self-employed mortgage challenges are common and solvable. Working with mortgage professionals like Karen who specialize in self-employed lending ensures you're not navigating these complexities alone—we work to find the solutions that work best for your specific situation.*

The Ultimate Canadian Summer Bucket List

Summer in Canada is pure magic. From coast to coast to coast, our incredible country offers endless opportunities for adventure, relaxation, and discovery. As we celebrate Canada Day this weekend, there's no better time to start dreaming about your ultimate Canadian summer experiences!

Natural Wonders Await

Canada's landscapes are legendary for good reason. Whether you're drawn to towering mountain peaks, pristine lakes, rugged coastlines, or rolling prairie vistas, there's a natural wonder calling your name. Summer is the perfect time to explore national and provincial parks, chase waterfalls, spot wildlife, or simply find a quiet spot to watch the sunset paint the sky in brilliant colors.

Embrace Our Culture

Summer brings Canada's communities to life with festivals, markets, and celebrations. From music festivals to cultural events, farmers markets to street fairs, every corner of our country offers unique ways to connect with local traditions and meet fellow Canadians. There's something special about experiencing the warmth of Canadian hospitality during our all-too-brief summer season.

Adventure at Every Level

The beauty of Canadian summers is that adventure comes in all shapes and sizes. Maybe your perfect day involves hiking a scenic trail, paddling a peaceful lake, or cycling through charming small towns. Perhaps you're drawn to urban exploration, discovering hidden gems in Canada's vibrant cities. Or maybe your ideal adventure is as simple as a picnic in a local park or a backyard barbecue with friends and family.

Water, Water Everywhere

With more lakes than the rest of the world combined, Canada offers incredible opportunities to get out on the water. Whether it's swimming, boating, fishing, or just relaxing on a dock with a good book, our pristine waters provide the perfect backdrop for summer memories.

Road Trip Dreams
Some of the world's most scenic drives wind through our beautiful country. Summer road trips offer the freedom to explore at your own pace, discover unexpected treasures, and create spontaneous adventures. From short day trips to epic cross-country journeys, the open road beckons.

Making Memories Close to Home
Sometimes the best adventures happen in your own backyard. Summer is the perfect time to rediscover your local area, try new activities, or revisit childhood favorites. Whether it's a new hiking trail, a local festival you've never attended, or simply spending more time outdoors with loved ones, adventure doesn't always require a passport or plane ticket.

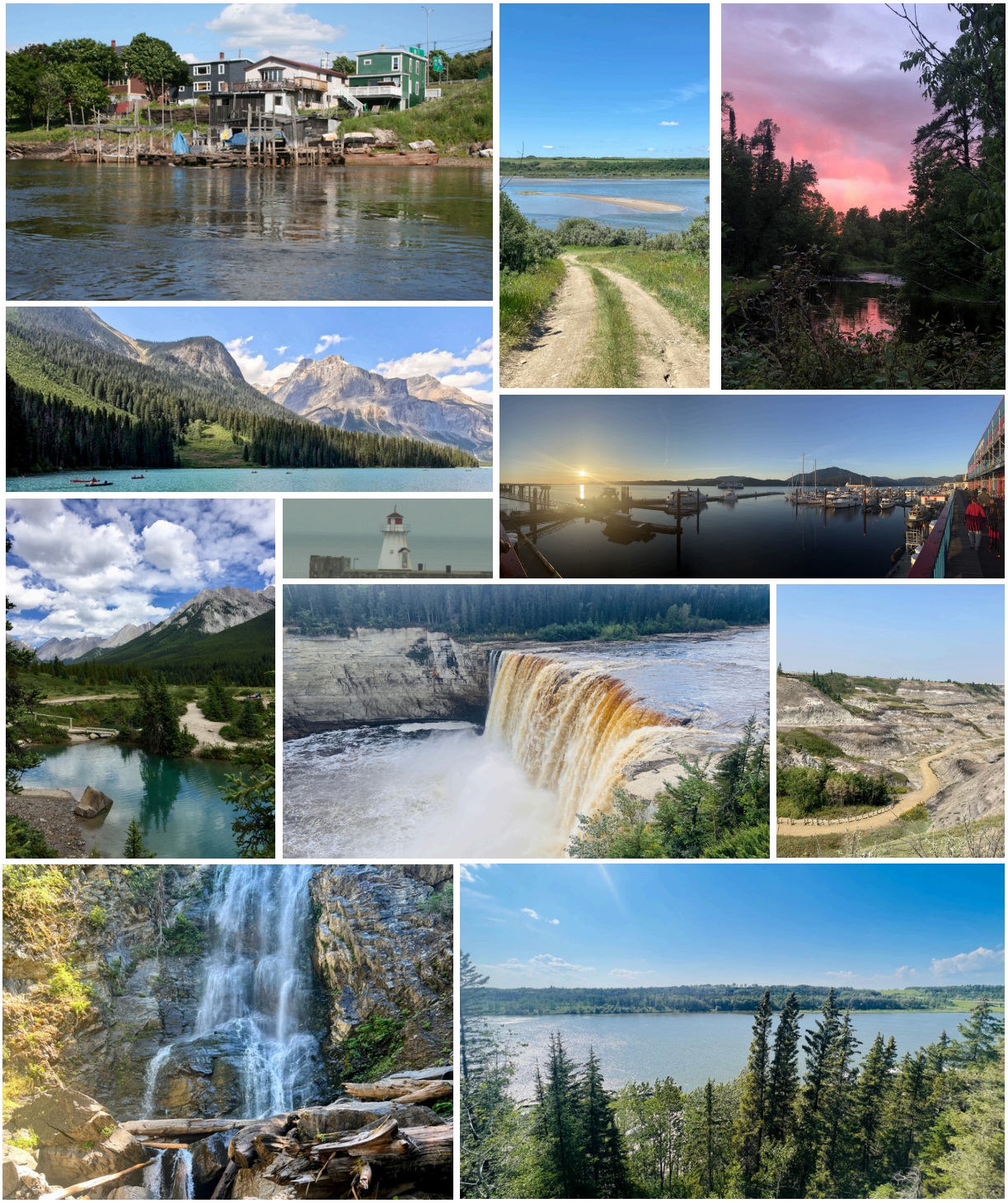
Start Your List Today
The key to a perfect Canadian summer is to dream big while staying true to what brings you joy. Maybe your list includes conquering a fear, trying something completely new, or simply slowing down to appreciate the beauty around you.

This Canada Day weekend, take a moment to appreciate this incredible country we call home. Then start planning your own Canadian summer adventure – whether it's a grand expedition or a simple day trip, the memories you create will last a lifetime.

What's on your Canadian summer bucket list? The adventure starts now!

Beyond The Desk

A glimpse into our team's lives outside the office



Whether hiking hidden trails, chasing waterfalls, or discovering scenic routes off the beaten path, each journey reminds us of the incredible beauty that surrounds us in this amazing country. These pictures capture some of our favorite adventures.

Your Voice Matters: Ask Karen or Share Your Story!

Do you have burning questions about mortgages, homeownership, or the real estate market? Or maybe you've had an experience with mortgage pre-approval that could help others on their journey? I want to hear from you!

Submit Your Questions

Got a question you've been pondering? Text or email me and I might answer it in one of my upcoming live videos! Whether it's about the current market conditions, mortgage tips, or anything related to home buying, no question is too small.

Share Your Experience

Have you recently gone through the mortgage pre-approval process? Share your story with us! Your experience could provide valuable insights for others and might be featured in a future newsletter or video.

How to Participate

Head over to our website & use the contact form to send in your questions or stories. I can't wait to hear from you and continue the conversation!

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