

The New York  
Mortgage Coalition

# Mortgage Qualification Strategies

For Artists and Independent Workers

*We work  
independently  
and we're ready  
to buy a home.*

*What do we need  
to qualify  
for a mortgage?*



*Let's  
check out  
[nymc.org](http://nymc.org)*



**A home mortgage is just a loan.**

**Your lender provides cash for your purchase, and you agree to pay that cash back, with interest, over time.**

**But a home is likely the most expensive thing you'll ever buy.**

**So the process of getting a loan for that purchase is more involved than buying a car or applying for a credit card.**

**Qualifying for a loan can also be more complicated if you are an independent or freelance worker with low to moderate income.**

**But the steps are straightforward, and we'll walk you through them. And we'll show you how to get in touch with homeownership counselors who can help you navigate the system.**

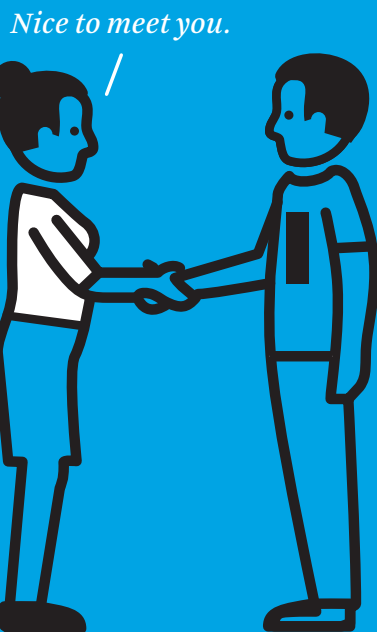
# Step 1: Contact a homeownership counselor

## **The counselor you select will assist you as you:**

- check your credit
- develop a plan to fix your credit and/or maintain a strong credit score
- document your income
- discuss your financial reality by looking at your credit history, income, and assets
- make your homebuying plan
- create a budget and determine how much you can afford.

## **Financial Assistance**

A qualified homeownership counselor will share up-to-date information on current programs and affordable-housing initiatives, explain your lending options, and determine your eligibility for programs that can make owning a home easier, particularly if you are a first-time homebuyer. If you qualify as a first-time homebuyer (meaning that you have not owned a principal residence over the last three years) you may be eligible for a lower down payment, closing cost assistance, and/or a more competitive interest rate.



# Step 2: Start saving

## **You'll need to save for your:**

- down payment
- home inspection
- title search
- legal fees
- closing costs
- mortgage recording tax and recording fees
- emergency reserves

Lenders like to see that you are responsible with money.

## **Indicate to lenders that you are responsible with money and credit:**

- Pay your bills on time
- Maintain a strong credit score
- Generate savings

These are the strongest indicators that you're able to use money and credit responsibly—which means you're likely to successfully repay a loan.

## **Document your savings:**

Keep records of each deposit. Remember, lenders are looking for evidence that you can maintain financial discipline—a strong, well-documented track record of voluntary savings is the best way to achieve this.



Independent workers may need to make larger down payments (20% or more) than workers with more conventional income. This larger down payment balances out the additional risk of lending to someone whose income fluctuates.

It's a safe bet that to qualify for conventional loans, you will need to make at least a 20% down payment.

There are other mortgage insurance options available through private mortgage insurance companies (PMI). For example, FHA and VA loans can require much less than

20% down, but your monthly income will need to support the cost of the added PMI insurance.

Fees and closing costs can add still more to the cash reserves you'll need to complete your home purchase.

If homeownership is your goal, you need to develop a realistic strategy for saving money. The sooner you start saving, the better.

*Hmmm, what can I cut from my budget?*



*Well, let's look at what you've been spending money on.*



# Saving strategies

Your counselor can help you formulate successful savings strategies for your specific needs. These are general tips to get you started.

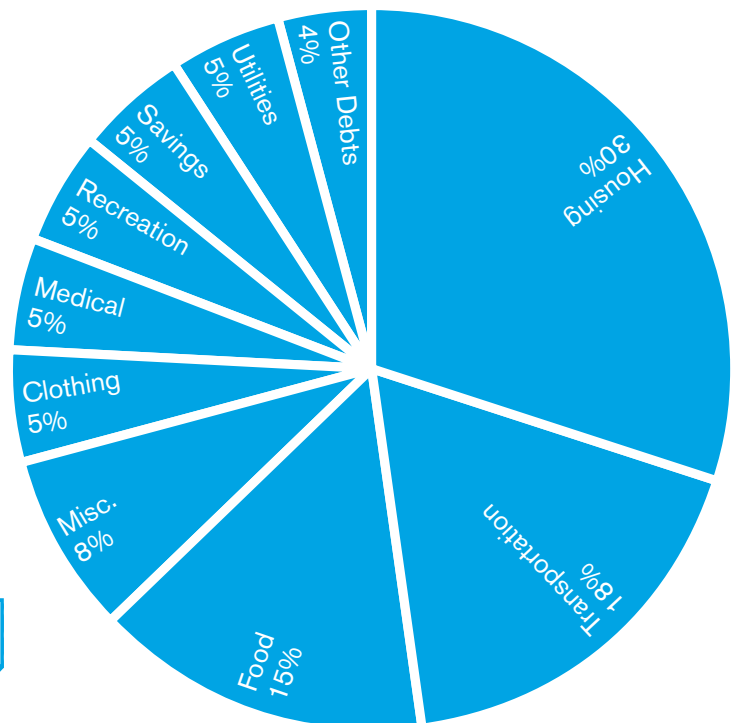
## Identify and eliminate wasteful spending

- Set your savings goals
- Rework your spending plan until your income, expenses, and savings goals balance

- If you don't already have a savings account, open one
- Determine your monthly net income
- Calculate your monthly expenses
- Subtract your regular expenses from your income
- Subtract any extra expenses
- Build in an emergency cushion for unexpected expenses

## Create a savings plan

## Sample spending plan





**Set a realistic goal for an amount you can deposit in your savings account, every month, come rain or shine.**

Whether it's \$50 or \$500, it has to be money you can keep separate from day-to-day needs. Treat the money you put in your savings account as sacred—the only time you'll make a withdrawal from this account is when you are ready to purchase your home.

**Realistically assess wants vs. needs**

- **Needs**  
Items you must have for basic survival
- **Wants**  
Things you desire but can live without

**Some efficient savings tricks are:**

**A “Homeownership Tax”**

Every time you get paid impose a “tax” and put 5% or 10% of that money into your homebuyer savings.

**The “Imaginary Rent Increase”**

Each month, when you pay your rent, add 5% or 10% to your actual rent (you can even match this amount to your projected future house payments to prove that you can afford them). Then write a check or make a transfer for the additional amount to your savings account.

# Step 3: Get your credit in order

Get current on credit card and other debt payments.

Work to pay down any existing debt.

Keeping your balance below 30% of your credit limit on each credit line is a good target, the lower the better.

Get your credit report (you're entitled to a free one every year) from [www.annualcreditreport.com](http://www.annualcreditreport.com). If you disagree with any of the information in your report, your counselor can help you file a credit dispute with the agency—removing incorrect information improves your credit score. Better scores mean lower borrowing rates. And certain loan options are only available if you meet credit score thresholds.

*Paying my bills.  
No points off my credit  
score this month!*

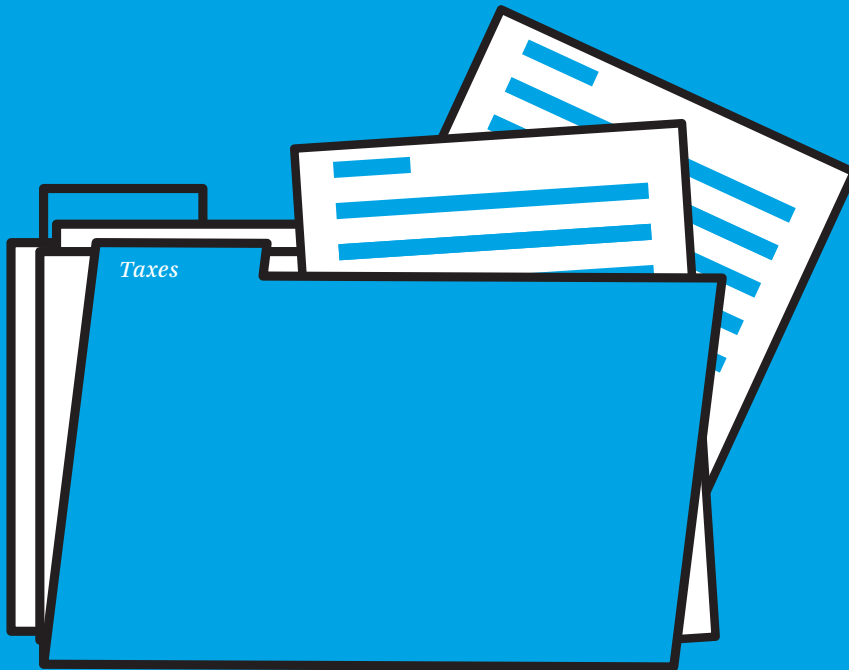


# Step 4: Document your income

In order to qualify for a loan you will need to demonstrate your income. A lender will review this information, a process called income verification.

## **Document Your Income**

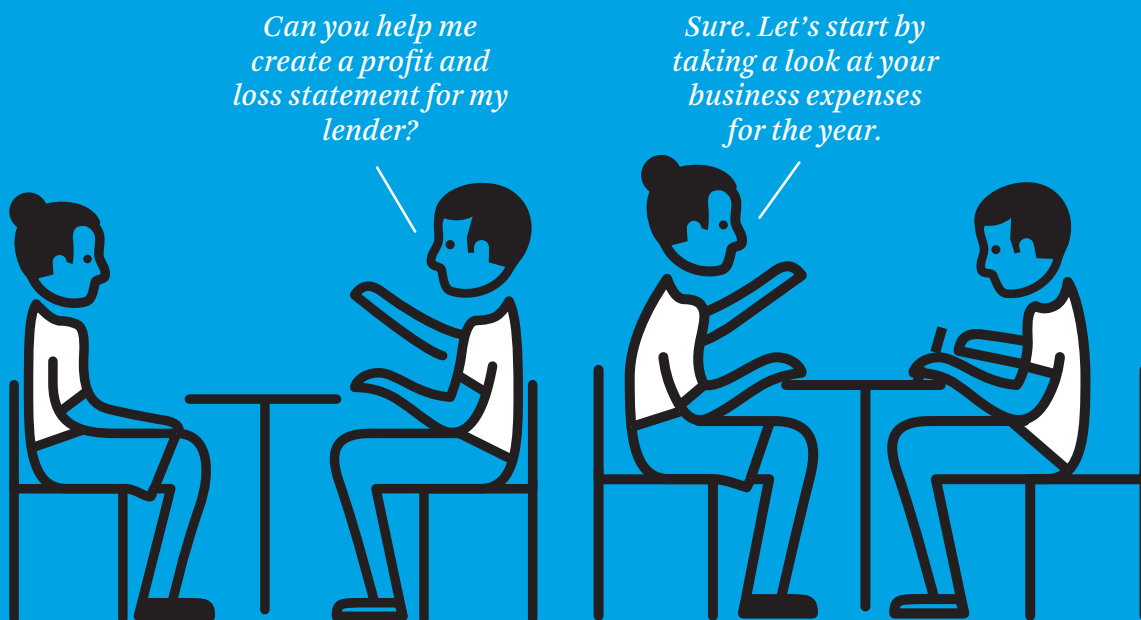
For workers with variable income (income that fluctuates weekly, monthly or annually)—lenders need to have confidence in your income sources. One of the ways you can build confidence is to show ongoing proof of income through income verification.



**Separate your business expenses/income**

Make a clear separation between personal and business transactions. Where possible maintain separate business and personal accounts. Keep clear records and clear separation.

Distinctly documenting business credit transactions (e.g. car payments) is especially important, since they might otherwise impact a lender's view of your personal credit.



## **Prepare a Profit and Loss Statement**

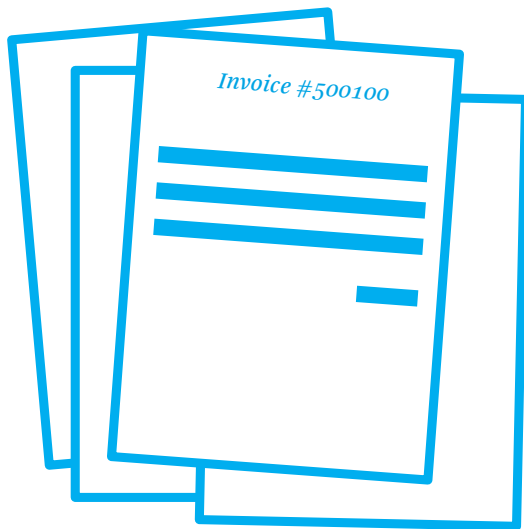
A profit-and-loss (P&L) statement is an easy way to demonstrate business income and expenses. Some lenders may want to see your finances documented this way, especially if your tax return for the current year has not yet been filed.

A P&L statement is a very simple document that your accountant can easily help you prepare if your lender requests it.

*OK, let's see ... this receipt was for dinner with clients ...*



# Documentation strategies



Lenders make decisions largely on the basis of information from your tax returns. You will need to show a prospective lender at least your last 2 years of Federal IRS tax returns.

## Tip 1: Think ahead

## Tip 2: If you don't declare it, it can't be counted as income

As independent workers, we're used to trying to keep declared income low. The less we pay in taxes, the more we have left to cover necessities. But to a lender, the income you report to the IRS is your income.

If it's not on your tax return, it doesn't count. And that can make a huge difference in what loan (if any) you can qualify for.

Your returns should show your lender that:

- you have over 2 years of experience managing variable income and self employment
- you have an income level that qualifies you to purchase a home in your desired price range

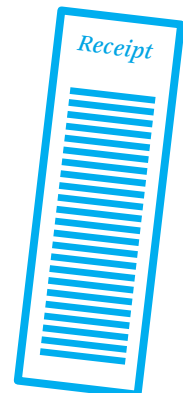
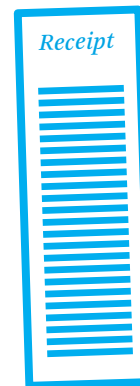
## Other documentation tips

In the year or two leading up to your purchase:

- **Separate your income deposits** from other deposits
- **Make each income deposit individually** to clearly document multiple sources. Do this even if you are depositing on the same day/same time. Five minutes at the bank can save five hours trying to decipher your deposits at tax time

- **Explain to your accountant that you want to purchase a home** as far ahead as you can (remembering that you need 2 years of proof of income)
- **Work with your accountant** to strike a balance between lowering tax payments and showing maximum income for loan qualification
- **Declaring more income doesn't always mean paying more taxes**—a good accountant can help you claim all applicable deductions, and still show enough income to look good to a lender. This will help you qualify for the best loans

Maximizing your declared income in the years leading up to your home purchase will show your lender that you have historically made (and are likely to keep making) enough money to cover your housing expenses and other financial obligations.

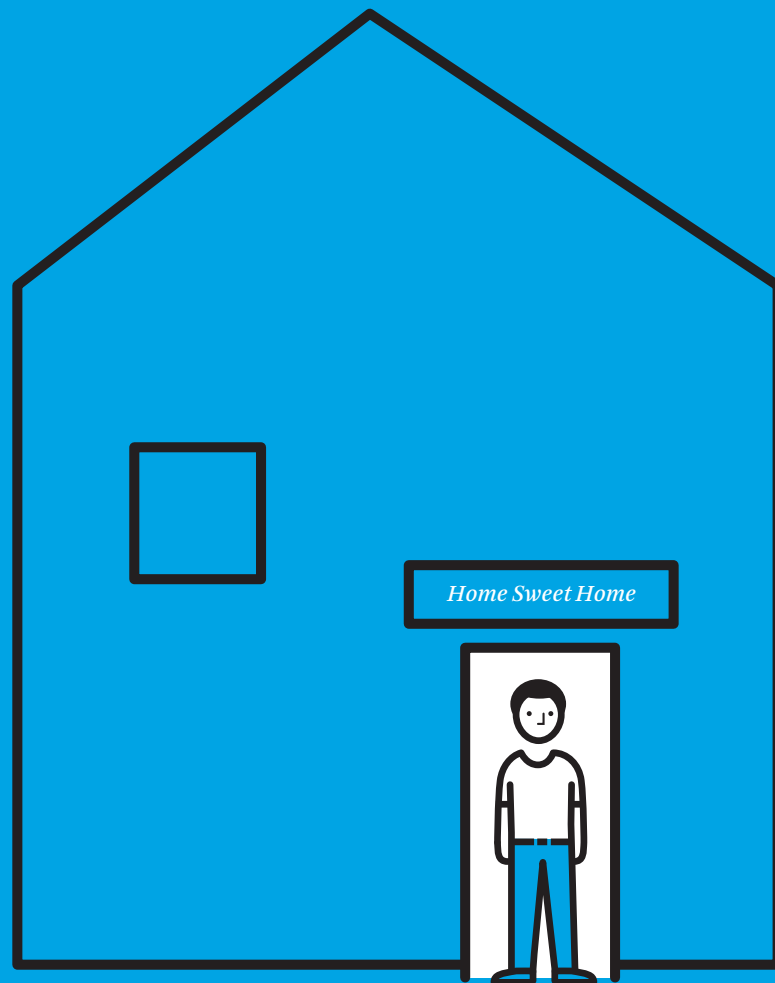


## Step 5: Prequalify

When prequalifying you for a loan, a lender will consider your credit, income, expenses, and debts to calculate a potential loan amount with an estimate of your borrowing power and what you can afford in terms of monthly mortgage payments.

## Step 6: Get your loan

Your counselor will work with your lenders to find the right loan.





## **What you'll need:**

**The back of  
this page is a  
checklist.**

**Be sure to  
bring it to your  
meeting with  
your counselor  
so that you can  
go over what  
you have and  
what you are  
still gathering.**

# What you'll need:

## General Documents

- Social Security card and driver's license or other picture ID

## Documents to Support Income

- The name, address, phone number, and fax number of every employer you have had in the last two years
- Most recent two months' pay stubs
- Income tax returns for the last two years, including W-2s, 1099s and all attached schedules

## Evidence of All Other Income, Including

- Child support payments
- Pension payments
- Seasonal employment income
- Government assistance
- Disability benefits
- Social Security benefits
- Statements of stock dividends

## Documents to Support Consistent Payment of Housing Expenses

- Letters from landlords stating where you lived for the last two years, dates you lived there, rent per month and how many times you were late with your rent payment. If you cannot get a letter from the landlord, you should provide your monthly rent payments, and rent receipts or canceled checks for the past two years.

## Documents to Support Savings and Recent Bank Activity

- Most recent savings account statement(s)
- Most recent checking account statement(s)
- Most recent brokerage statements showing stocks and bonds balances and recent transactions

## Documents to Support Current Debts

- For each creditor (bank, credit card, or person) with whom you have an outstanding debt: name, address, account number, balance, monthly payment

## Documents to Explain Irregularities

- Letter of explanation for any negative credit items
- Letter of explanation for any gap in employment
- Chapter 7 or Chapter 13 bankruptcy discharge papers and list of creditors

## Other

- Veteran's certificate of eligibility
- Certified copies of divorce decree/separation agreement

# Contact NYMC to get started.



## Participating Lenders



## Contact these neighborhood-based members of the New York Mortgage Coalition.

### NY Metro Area

AAFE Community Development Fund  
111 Division Street, New York, NY 10002  
212 964-2288  
AAFECD.org  
*Chinese, Korean and Spanish Language Access*

### Harlem & The Bronx

Harlem Congregations for Community Improvement  
2854 Frederick Douglass Blvd.,  
New York, NY 10039  
212 281-4887  
hcci.org  
*Spanish Language Access*

### Dutchess, North Bronx, Orange, Putnam, Rockland, & Westchester

Housing Action Council  
55 South Broadway, 2nd Floor,  
Tarrytown, NY 10591  
914 332-4144  
housingactioncouncil.org  
*Spanish Language Access*

### Brooklyn (South & West)

Neighbors Helping Neighbors  
An affiliate of Fifth Avenue Committee  
621 DeGraw Street  
Brooklyn, NY 11217  
718-237-2017  
www.fifthave.org

AAFE Community Development Fund  
807 48th Street, 2nd Floor, Brooklyn, NY 11220  
718 686-8223  
AAFECD.org  
*Chinese, Korean, and Spanish Language Access*

### Brooklyn (South & Central)

Pratt Area Community Council  
1224 Bedford Avenue, Brooklyn, NY 11216  
718 783-3549  
prattarea.org

### Brooklyn (North & East)

Cypress Hills Local Development Corporation  
3214 Fulton Street, Brooklyn, NY 11208  
718 647-8100  
cypresshills.org  
*Spanish Language Access*

### Queens

AAFE Community Development Fund  
133-04 39th Avenue, Flushing, Queens, NY 11354  
718 961-0888  
AAFECD.org  
*Chinese, Korean, and Spanish Language Access*

Chhaya CDC  
37-43 77th Street, 2nd Floor,  
Jackson Heights, Queens, NY 11372  
718 478-3848  
chhayacdc.org  
*Bangla, Nepali, Hindi/Urdu Language Access*

### Nassau and Suffolk

Long Island Housing Partnership  
180 Oser Avenue, Suite 800,  
Hauppauge, NY 11788  
631 435-4710  
lih.org  
*Spanish Language Access*

### Staten Island

Northfield Community LDC  
160 Heberton Avenue, Staten Island, NY 10302  
718 442-7351  
portrichmond.net/nldc



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