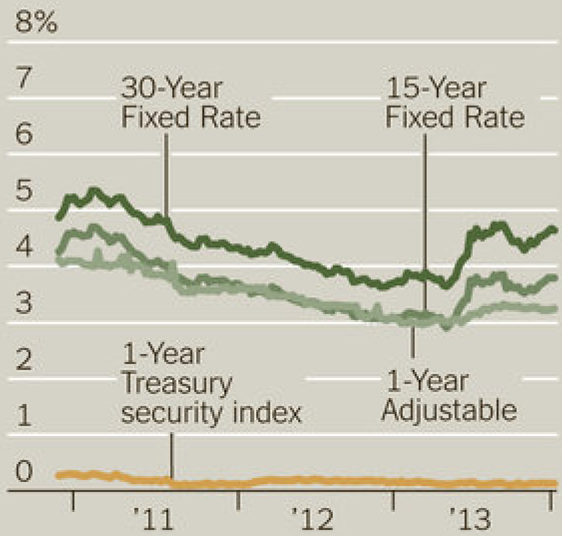
The New York Times

Real Estate

New Snags for the Self-Employed



Rates shown are for the New York region.

Source: HSH.com

	Week ended:	N.Y.	N.Y. CO-OPS	N.J.	CONN.
30-YEAR	**Jan. 10**	**4.64%**	**4.58%**	**4.56%**	**4.56%**
	Jan. 3	4.67	4.60	4.55	4.58
15-YEAR		**3.79%**	**3.77%**	**3.60%**	**3.66%**
		3.79	3.80	3.59	3.70
ADJUSTABLE		**3.25%**	**N.A.**	**2.99%**	**2.58%**
		3.24	N.A.	3.34	2.51

INDEX FOR ADJUSTABLE RATE MORTGAGES 1-year Treasury rate	*Week ended* **Jan. 10**	**0.13%**
	Jan. 3	0.13

Rates on most adjustable mortgages are set 2 or 3 percentage points above this index.

By LISA PREVOST JAN. 16, 2014

Borrowers who are self-employed may have a tougher time obtaining a mortgage under new federal regulations requiring lenders to verify applicants' ability to repay.

Effective this month, the rules, created by the Consumer Financial Protection Bureau as part of the Dodd-Frank lending reforms, set up standards for "qualified mortgages," or mortgages considered low-risk for both borrowers and lenders. Lenders who make loans within these parameters are protected from legal recourse should the loans go bad anyway.

One of the chief requirements is for lenders to verify borrowers' income, and confirm a debt-to-income ratio of no more than 43 percent (the percentage of monthly gross income used to pay monthly debts). Borrowers who own their own businesses or are otherwise self-employed are likely to find their incomes being analyzed in greater detail.

"What's changing is they're really trying to dig deeper to say, is this entity likely to continue safely deriving this income," said Peter Grabel, a loan originator at Luxury Mortgage, in Stamford, Conn.

In addition to two years of personal and business tax returns — the typical requirement and now the official standard — self-employed borrowers should also be prepared to produce a profit-and-loss statement and a balance sheet, he said.

A declining income trend will require explanation, because "we must establish the stability and continuity of the income source," Mr. Grabel said. And while capital losses and net-operating-loss carry-overs cited on a tax return could previously be added back to the income, their re-inclusion under the new rules will make the loan a nonqualified mortgage, he said. "The problem for self-employed people is that they want to minimize their tax liability, but some of the ways they do so impact their ability to borrow," he said.

Lenders are free to make loans outside of the qualified mortgages regulations — and therefore outside of the legal safe harbor. These loans can offer some flexibility.

But the guidelines for non-agency loans (mortgages sold to private investment entities rather than Fannie Mae or Freddie Mac) are also tight as investors seek to limit their exposure, said Matthew Hackett, the underwriting manager of Equity Now, a direct mortgage lender based in Manhattan. "I've seen investors lower their debt-to-income ratio from 45 to 43 to fit into the Q.M. box," he said.

When it comes to gauging business income, some investors are requiring a system that asks borrowers to use two methods of calculation. "You have to calculate both and use the lesser," Mr. Hackett said. Applicants might find they can borrow less than expected or must come up with a larger down payment.

Mr. Grabel says he does know of investors who will lend at a higher debt ratio. Such loans are conservative in their loan-to-value, however, and have higher reserve guidelines.

Borrowers who have been self-employed for less than two years will find it difficult if not impossible to obtain financing. Mr. Grabel said he knew of people who had left Wall Street to start hedge funds and were doing well, with millions in the bank, but couldn't get a loan because they didn't have two years of business tax returns.

The regulations have discarded the no-documentation loans once popular with self-employed borrowers. Michael Moskowitz, the president of Equity Now, says that decision is an overreaction to the previous decade's excesses, and one that will hurt the average self-employed person.

Those looking to borrow should start talking to a mortgage professional in advance, so that the underwriter can review their financial data, Mr. Grabel advised.

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