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Refinance Advice for the Self-Employed

Being self-employed brings many great benefits. You make your own schedule, you have a lot more flexibility and freedom, and you answer to yourself. Yet among the drawbacks of being self-employed is the fact that it is more difficult to acquire and refinance a home mortgage loan. Self-employment means that monthly income can fluctuate, sometimes by a large margin. This can sometimes provide a challenge when it comes to making monthly mortgage payments. In fact, some studies have indicated that self-employed homeowners are twice as likely to default on their mortgages as their non-self-employed counterparts. As mortgage lenders are in the business of risk management, self-employed borrowers make lender nervous.

The good news though is that while the process may require more paperwork and time, self-employed individuals can still get refinance loans. If you are already a homeowner and now want to refinance, you should consider the following tips and suggestions to help the process move more smoothly.

Be Prepared with Documentation
If you are going to refinance with a typical loan program, you should come to the application table with plenty of documentation proving your income and assets. Be sure to bring two years worth of tax returns, both company and personal. You should also gather up any accompanying W-2s and 1099 tax forms to show your lender. Similarly, you should have two years worth of bank and investment statements. The self-employed sometimes have understated incomes because their tax accountants have tried to get them the best possible tax breaks. So basically, the more proof you have that you have been making a good, solid income, the more likely a lender will be to approve your refinance loan request.

You should also provide your lender with a copy of your current homeowner insurance policy, as well as a Profit/Loss Statement for your business for the present year.

Some lenders will let you apply for refinance funding with little or no documentation, but you should realize that this will cost you in a higher interest rate and possibly more points.

Go for a Fixed Rate Mortgage Loan
If you had an adjustable rate mortgage (ARM) for your first home loan, you may want to consider refinancing into a fixed rate loan. While you get lower initial rates on ARM refinances loans, fixed rate loans will provide a consistent payment that may make it easier for you to budget. Especially since your income may change each month, you will probably appreciate the predictability of a stable mortgage payment.

Consider a Shorter Loan Term
Opting for say, a 15-year repayment period rather than a 30-year loan term may be a good decision for the self-employed. This will net you a nice, low interest rate and it will allow you to pay off your refinance loan much quicker, eliminating that monthly debt. The payments will be higher the shorter your repayment terms, but if you can afford them, you will likely benefit from being mortgage-debt free sooner.

If you are self-employed, do not despair when it comes to refinance home loans. If you could qualify for an original home mortgage, a refinance loan should definitely be within reach. Just be sure to do your homework and prepare the necessary documents to score yourself the best possible refinance deal!