INCOME GUIDE

Self-Employed and 1099 Borrower Guide

How lenders figure income for business owners and 1099 earners, why deposits, gross receipts and qualifying income are different numbers, and which loan options fit different situations.

Reviewed November 18, 2026 against the sources listed at the end of this guide.

Who this guide is for

You own all or part of a business, work as an independent contractor paid on 1099s, or earn a mix of W-2 and self-employment income. Lenders treat this income differently from a salary, and the number they use is often lower than what you think of as your income. Knowing why helps you choose the right loan and avoid surprises.

How lenders define self-employed

Under Fannie Mae's rules, you are considered self-employed if you own **25% or more** of a business. Independent contractors paid on 1099s are generally treated as self-employed as well, because their income is reported as business income on Schedule C.

Deposits, gross receipts and qualifying income are different numbers

This is the most common source of confusion for self-employed borrowers.

Number	What it is	Why it isn't your qualifying income
Deposits	Everything that landed in your accounts	Includes transfers between your own accounts, refunds, loans, sales tax collected and other money that isn't earnings
Gross receipts	What your business billed or was paid, such as the total on your 1099s	Before business expenses like rent, payroll, supplies, mileage and software
Qualifying income	What the lender counts toward your payment	The figure after expenses and adjustments, using the lender's method

A 1099 doesn't establish qualifying income by itself

A 1099 reports what a client **paid** you. It doesn't show your expenses, so it can't show what you actually **earned**. Lenders therefore look at your tax returns, where you report expenses against those payments, or at a lender-approved alternative such as bank statements with an expense factor. A borrower with $200,000 in 1099s and $120,000 in expenses has $80,000 of business income, not $200,000.

Full-documentation loans (conforming and many jumbo loans)

For conventional loans, lenders generally use your **federal tax returns**:

- **Two years** of signed personal returns (and business returns for some business types) is the general standard.
- **One year** may be allowed in some cases when the automated underwriting system permits it, for example when you have owned the business for at least five years.

- **Less than two years** of self-employment can sometimes work if your most recent returns show at least 12 months of income from the current business and you have a history in the same line of work.
- The lender typically **averages** income over two years. If income declined, it may use the lower, more recent year or decide the income isn't stable.
- Certain non-cash deductions, such as depreciation, may be added back to your income.

The lender must document its analysis in writing and may use IRS transcripts to confirm your returns.

Alternative-documentation loans (non-QM)

If your tax returns show low income because of legitimate write-offs, a non-QM loan may count your income differently. Each lender sets its own rules, but common options include:

Option	How income is figured (common practice)
Bank statement loan	12 or 24 months of business or personal statements; eligible deposits, minus an expense factor or a CPA-supported expense ratio
Profit-and-loss loan	A P&L prepared or reviewed by a CPA or tax preparer, sometimes with bank statements to support it
1099-only loan	One or two years of 1099s, minus an expense factor set by the lender
Asset-based loan	Income calculated from your liquid assets; see our Asset Depletion Guide

Expect a larger down payment and a higher rate than a conventional loan, with terms that vary by lender.

> **Hypothetical example: three numbers for one borrower.** Sofia is a self-employed designer.
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> - Her business account shows **$300,000** in deposits last year. Of that, $20,000 was a transfer from savings and $5,000 was a client refund she later returned, so eligible deposits are **$275,000**.
> - Her 1099s total **$270,000** in gross receipts.
> - Her tax return shows **$90,000** in net business income after expenses, plus $6,000 in depreciation a lender may add back, for **$96,000**, or $8,000 a month, on a full-documentation loan.
> - A bank statement lender using a hypothetical 50% expense factor would count $275,000 × 50% = **$137,500**, or about $11,458 a month.
>
> The bank statement loan might let her qualify for more, at a higher rate and with more down. The figures, including the expense factor, are illustrations only.

Tips for self-employed borrowers

- **Talk to us before you file your taxes.** Deductions lower your taxes but also your qualifying income. Your tax professional can help you weigh both.
- **Keep business and personal money separate.** A dedicated business account makes any loan easier to document.
- **Document unusual deposits.** Large or irregular deposits need a paper trail.
- **Keep your business license and CPA contact handy.** Lenders often verify that your business is active.

What to gather

- [ ] Two years of signed personal federal tax returns, with all schedules
- [ ] Two years of business returns (1065 or 1120S with K-1s, or 1120), if applicable
- [ ] Year-to-date profit-and-loss statement, if we are past the first quarter

- [ ] 1099s for the last two years
- [ ] 12 to 24 months of business and personal bank statements, for bank statement loans
- [ ] Business license, CPA letter or other proof the business is active
- [ ] Two months of statements for accounts used for down payment and reserves

Questions to ask

- Which of my numbers will you use: tax returns, bank statements, a P&L or 1099s?
- How will you calculate my qualifying income, and what expenses or add-backs apply?
- Would a full-documentation loan or a non-QM loan give me a better overall result?
- If my income dropped last year, how will that be treated?
- Should I talk with my tax preparer before filing this year's return?

Your next step

Tell us what you are trying to do and we will tell you, plainly, which options fit and what to gather. There is no cost to talk it through.

Start a free loan evaluation: journeymac.com/evaluation

Call: (626) 716-0585 **Email:** info@journeymac.com

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This guide is general education, not a loan offer, a rate quote or legal, tax or financial advice. Program rules change and lenders add their own requirements; confirm details for your situation before you act. Examples marked "hypothetical" are illustrations only.

Sources

Reviewed November 18, 2026. Program rules change; check the current version of each source.

1. Fannie Mae Selling Guide B3-3.2-01: Underwriting factors and documentation for a self-employed borrower
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4. CFPB: What is the ability-to-repay rule?
   www.consumerfinance.gov/ask-cfpb/what-is-an-ability-to-repay-rule-en-1787/
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