

719 LENDING · A FREE GUIDE

# The Colorado **Self-Employed** Mortgage Guide

How business owners, 1099 earners, and investors qualify when tax returns don't tell the full income story.

[Free Self-Employed Mortgage Guide](#)

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Educational only · Not a commitment to lend · Not all applicants qualify

## START HERE — THE 60-SECOND VERSION

### You may not be unqualified. You may just be using the wrong documentation method.

- ▶ **The problem:** Smart write-offs lower your taxable income. Traditional underwriting leans on that written-down number, so a profitable business can look underqualified on paper.
- ▶ **The first move:** Check a conventional loan first, with full add-backs. When it works, it's the cheapest path.
- ▶ **When conventional won't work:** Fully-documented programs verify income a smarter way — bank statements, a CPA-prepared P&L, 1099s, or (for investors) the property's own rent. These are **not** "no-doc" loans and **not** 2008-style subprime.
- ▶ **What decides it:** Matching your income story to the right program — and cleaning up your file before you apply.
- ▶ **Your next step:** Have your situation reviewed against many lenders' guidelines at once, instead of one bank's rulebook.

## 1. The self-employed income paradox

You may earn plenty. Your tax return may not show it.

Most self-employed people do exactly what a good accountant tells them to: use every legitimate deduction to lower taxable income. That's smart for taxes. It can create a mortgage problem — because traditional underwriting focuses on the income left after all those deductions.

**\$180,000** in annual business deposits  
— minus business write-offs —  
**\$70,000** taxable income  
**= a conventional lender sees a \$70,000 earner**

A few more real-world shapes of the same problem:

A contractor grosses **~\$220,000** but shows **~\$68,000** taxable. A marketing-agency owner runs **~\$180,000** through the business and shows **~\$95,000**.

**Bottom line:** Your tax return is built to minimize taxes, not to qualify you for a mortgage. The right loan can document your actual business cash flow — not just the number left after write-offs — and there are several ways to do it.

**Note:** Figures above are illustrative examples to show how the math works. Your numbers will differ.

## 2. Who this guide is for

This guide is for self-employed and non-traditional earners, including business owners and LLC owners, sole proprietors, 1099 contractors, Realtors and other commission earners, gig workers and freelancers, real-estate investors, military spouses running side businesses, and anyone whose tax returns understate their actual cash flow.

**What you'll get:** the loan programs that document self-employed income different ways, which one tends to fit which situation, what you need to qualify, and the mistakes that slow a file down — so you know what to fix before you apply.

## 3. Why the bank said no

A retail bank's "no" is rarely the whole lending market talking. It's usually that one institution's rulebook.

**Most loan programs are built as boxes.** Government-backed loans — FHA, VA, and USDA — exist mainly to help people buy a primary residence and raise homeownership rates, so they're built around very specific boxes every borrower has to fit. Conventional loans through Fannie Mae and Freddie Mac work much the same way — they do allow second homes and investment properties, but on traditional income they're often even stricter. None of this means anything is wrong with you or your business. It means these programs were designed around standardized, documented income — and if yours doesn't fit neatly inside the box, the answer isn't "no," it's a different kind of loan.

**What can trip up a self-employed file.** Heavy write-offs, a short self-employment history, money moving between accounts, income that dipped year-over-year, or a complex business structure.

**What an "overlay" is.** An overlay is an extra rule a bank stacks on top of a loan program's official guidelines. Two lenders can offer "the same" program and still say different things, because their overlays differ. So a decline often reflects that bank's appetite — not your actual ability to qualify somewhere else.

**What a broker does about it.** Instead of forcing every borrower into one bank's box, a broker compares many lenders' guideline sets and looks for the one whose rules fit your income, credit, down payment, reserves, and property type.

**The honest first step — try conventional.** Before anything else, a good loan officer checks whether a conventional loan works using full add-backs: depreciation, depletion, amortization, business-use-of-home, and certain one-time expenses can be added back to your qualifying income. When conventional works, it's almost always the cheapest path. The programs in this guide are the answer when it genuinely doesn't.

**When conventional may still be your best loan:** If your tax returns show enough stable income, your credit is solid, and your debt ratio works, a conventional loan is usually the cleaner, cheaper option. Alternative documentation isn't the goal — the right loan is. We check this first.

## 4. What "non-QM" means — and what it does not

Most of the loans in this guide are **non-QM**. The name scares people for no reason, so here's the plain version.

**QM** stands for Qualified Mortgage — a category defined by federal Ability-to-Repay rules that set specific standards a loan has to meet. In everyday mortgage-market language, the standard, agency-style loans Fannie Mae and Freddie Mac buy are what people mean by "QM," and **non-QM** is the shorthand for loans that fall outside that standard box.

Here's the part that matters to you: **non-QM does not mean no documentation, and it does not mean a worse loan or a low-quality borrower.** It means the loan is underwritten under different guidelines — usually with a different way of documenting income, and different pricing — than a standard conventional loan.

### WHAT NON-QM IS

- ✓ Fully documented and fully underwritten
- ✓ A loan that verifies income a smarter way — bank deposits, a CPA-prepared P&L, 1099s, assets, or a rental's cash flow

### WHAT NON-QM IS NOT

- × No documentation
- × Guaranteed approval
- × A lender ignoring risk
- × "Subprime" lending from 2008

**Still not the wild west.** Because these loans aren't sold to Fannie and Freddie, they don't have to meet the agencies' exact rules — but they still have to be underwritten fairly and equitably, and they have to satisfy the standards of the investor who does fund them. On a home you'll live in, the lender also still has to make a good-faith determination that you can repay. "Different guidelines" is not the same as "no guidelines."

**One distinction for investors.** For loans on a home you'll live in (bank-statement, P&L, 1099), the consumer ability-to-repay standard applies. **DSCR loans for investment property are business-purpose loans and generally fall outside that consumer framework** — they're qualified on the property, not on your personal income. If you're an investor, that difference matters.

## 5. Which path fits you?

Find the row that sounds like you. This is a starting point for a conversation, not a final determination — but it's the fastest way to see where you'd likely begin.

Your situation	Path to explore
Strong business deposits, low taxable income	<b>Bank-statement</b>
Clean books + CPA/EA-prepared financials	<b>P&amp;L-based</b>
1099 contractor or commission income	<b>1099 or bank-statement</b>
Buying an investment property	<b>DSCR</b>
High assets, low taxable income	<b>Asset-depletion</b>
Valid ITIN, no Social Security number	<b>ITIN</b>
Tax returns already show enough income	<b>Conventional — likely cheaper</b>
Recently declined by one bank	Broker review across <b>multiple lenders'</b> guidelines

## 6. Your loan options at a glance

Non-QM isn't one product — it's a menu. Here's the full set and the practical trade-off that comes with each.

Loan type	How income is reviewed	Best fit	Common trade-off
<b>Bank-statement</b>	12–24 months of deposits	Heavy write-offs / strong cash flow	An expense factor is applied; rate premium vs. conventional
<b>P&amp;L-based</b>	Third-party (CPA/EA) profit & loss	Established business, clean books	CPA/EA documentation required
<b>1099</b>	1099 forms + related docs	Contractors, gig, commission earners	Income history still matters
<b>DSCR</b>	The property's rent vs. its payment	Real-estate investors	Larger down payment; may include a prepayment penalty
<b>Asset-depletion</b>	Liquid assets converted to income	High assets / low taxable income	Strong asset requirement
<b>ITIN</b>	Standard docs, qualified on an ITIN	Borrowers without an SSN	Program-specific requirements

**Please note:** General examples only — not an offer of credit. Program guidelines, pricing, credit, down-payment, reserve, and documentation requirements vary by lender and can change. Not all applicants qualify. Confirm current options before relying on any figure in this guide.

## 7. Deep dive: bank-statement loans

### When your deposits tell a better story than your tax returns.

This is the workhorse program for self-employed borrowers who write off heavily. Instead of tax returns, the lender reviews **12 or 24 months of bank statements** and qualifies you on your deposit activity.

**Personal vs. business statements.** Which one the lender uses depends on your business structure and where your income actually lands. Some programs use business statements, some personal, some a blend.

**12 months vs. 24 months.** A 12-month review can capture recent growth. A 24-month review smooths out a seasonal or lumpy business. The right window depends on your numbers.

**The expense factor — read this carefully.** Lenders don't count 100% of your deposits as income. They count a **percentage of your deposits as qualifying income** — the rest is assumed to be business expenses. As a common default, that qualifying percentage is around **50%**. For low-overhead businesses, it can be much higher — often **80–90%** — when a CPA or EA provides a statement of your actual expense ratio. In short: the lower your real business expenses (documented), the more of your deposits count.

$$\begin{aligned} & \$50,000 \text{ monthly business deposits} \\ & \quad \times 50\% \text{ qualifying factor} \\ & \quad \quad \quad \mathbf{\$25,000 / month} \\ & \mathbf{= \sim\$300,000 / year qualifying income} \end{aligned}$$

**Illustrative example only.** Actual calculations vary by lender, business type, and documentation. This is an example, not a quote.

**How to keep your file clean:** keep business and personal deposits separate, avoid unnecessary transfers between accounts, and be ready to source (explain and document) any large or unusual deposit. Underwriters will ask.

## 8. Deep dive: P&L-based and 1099 loans

**P&L-based loans** (sometimes searched as "P&L-only")

For an established business with clean books, you may be able to qualify on a **profit & loss statement prepared by a third party** — a CPA or EA. The lender generally uses your net profit times your ownership percentage as qualifying income. Two things to know: the P&L must be **third-party prepared** (a self-prepared P&L is usually rejected), and "P&L-based" does **not** mean nothing else is checked. Additional documentation (such as a short look at business statements or entity documents) may still be required. Alternative documentation is not the same as no documentation.

### 1099 loans

If most of your income shows up on 1099s — common for commission salespeople, real-estate agents, contractors, and gig workers — a 1099 program can qualify you using those forms directly, instead of full tax returns. Your income history still matters, but this can be a far better fit than being forced through W-2-style underwriting.

## 9. Other paths: DSCR, asset-depletion, and ITIN

**DSCR (for investors).** A DSCR loan qualifies the property, not you. The lender compares the property's expected rent to its monthly payment (principal, interest, taxes, insurance, and any HOA). Your personal income generally isn't the deciding factor. Two things to flag: DSCR loans are **business-purpose** (see the ability-to-repay note in Section 4), and many can include a **prepayment penalty** — understand the trade-off (see Section 11).

**Asset-depletion.** If you're asset-rich but show low taxable income — retirees and high-net-worth borrowers often are — an asset-depletion program converts a portion of your liquid and retirement assets into a qualifying monthly income figure.

**ITIN.** Borrowers without a Social Security number can still pursue financing using a valid ITIN, with standard documentation. Requirements are program-specific.

## 10. What you usually need to qualify

Every lender and program is different, but here's what underwriters generally look at:

Factor	What lenders review
<b>Credit</b>	Score, history, derogatory events, payment pattern
<b>Down payment</b>	Source, seasoning, and gift rules if applicable
<b>Reserves</b>	Months of payments available after closing
<b>Income</b>	Stability, documentation, and business history (about 2 years is typical)
<b>Property</b>	Occupancy, value, and rent potential if it's an investment
<b>Debt load</b>	Monthly obligations compared to qualifying income

**As a general orientation** (not an offer, and subject to change by lender): credit minimums often land around **620–660+**, with **700+** generally earning the best pricing, and debt-to-income often allowed up to roughly **43–50%**. Expect a **rate premium** versus conventional — that's the trade for flexible income documentation.

**Planning to use business funds for your down payment or reserves?** Tell your loan officer early. Pulling money out of the business can require extra documentation, because the lender may need to confirm the withdrawal won't hurt the business's ability to operate. It's usually fine — it just needs to be handled the right way.

**Please note:** General examples only — not an offer of credit. Requirements vary by lender and can change. Not all applicants qualify. Confirm current options before relying on any figure here.

## 11. The trade-offs: rate, reserves, and prepayment penalties

Flexible documentation isn't free. Compared to a conventional loan, non-QM programs often come with some mix of a higher rate, a larger down payment, more reserves, or stricter pricing adjustments.

So the smart question isn't "What's the lowest rate?" It's "**Which loan can I actually qualify for, and what's the plan after closing?**"

**Why your rate is what it is: risk.** Pricing on these loans is risk-based — the more risk the lender takes on, the higher the rate. A few factors move that risk up or down: a lower credit score is riskier than a high one; a smaller down payment (higher loan-to-value) is riskier than a larger one; an investment property is riskier than a primary residence you live in. Improve those and the rate improves. This is also why a rate you see advertised online rarely matches your real quote — your rate is built from your file, not a billboard.

**Prepayment penalties — understand the trade-off before you choose one.** Some programs (DSCR and certain other non-QM loans) can include a prepayment penalty: a fee if you pay the loan off early, often

structured as a step-down over the first few years. On some programs, accepting one can earn you better pricing; on others you'll want to avoid it. Which way to go depends on how soon you expect to refinance or sell — so know the terms before you sign, and weigh it against your exit plan (Section 15).

## 12. Documents to start gathering

Getting these together early speeds everything up.

Loan path	Documents to gather
Bank-statement	12–24 months of statements (business and/or personal), ID, business documents, possibly a CPA letter
P&L-based	CPA/EA-prepared P&L (typically dated within ~90 days), business statements, entity documents
1099	1–2 years of 1099s, plus year-to-date income support
DSCR	Lease / rent schedule, property information, insurance and tax estimates
Asset-depletion	Investment, retirement, and bank statements
All borrowers	ID, credit authorization, and documentation for your down payment and reserves

## 13. Five mistakes that slow down — or sink — a file

- 1 **Mixing business and personal funds** (and lots of inter-account transfers). → **Keep them separate, and keep a clear paper trail.**
- 2 **Large unexplained deposits right before applying.** → **Source everything; assume an underwriter will ask where it came from.**
- 3 **Moving down-payment money around without a paper trail.** → **Talk to a broker before you transfer down-payment funds.**
- 4 **Self-preparing your P&L when a third party is required.** → **Use a CPA or EA.**
- 5 **Assuming one bank's "no" is final.** → **It's often just that bank's overlays. Have your file reviewed against other lenders' guidelines.**

**Two habits that protect your file:** Don't change your deductions, payroll, entity structure, or owner distributions just to qualify for a mortgage without talking to both your CPA and your loan officer first — the timing of what you file right before applying can help you or hurt you. And be ready to explain any revenue spike or seasonal swing.

## 14. Real-world scenarios

See yourself in any of these?

Borrower	Why traditional underwriting struggles	Possible path
Realtor — high commissions, low taxable income	Tax returns understate cash flow	Bank-statement or 1099
LLC owner — strong deposits, heavy deductions, shows a paper loss	Net income looks too low	Bank-statement
Business that doubled revenue this year	A two-year average lags current reality	12-month bank-statement
Seasonal contractor with big swings	Income is lumpy and hard to average	24-month bank-statement
Established owner who works with a CPA	Write-downs hide real income	P&L-based
Investor buying a rental	Personal income isn't the real issue	DSCR
W-2 employee with full documentation	Conventional may already work	<b>Conventional — honestly, it's cheaper</b>

## 15. The smart exit: the first loan doesn't have to be forever

A non-QM loan is often a bridge, not a destination.

Many self-employed buyers purchase with a non-QM loan now, then **refinance into a conventional loan later** — once their tax returns, equity, credit, income history, seasoning, or market rates line up.

The key is to **map the exit before you close**. Understand any prepayment penalty, the realistic timing of a refinance, and what that refinance will cost. A loan that's right for today should still fit the plan for tomorrow.

## **| 16. Why this matters in Colorado Springs & El Paso County**

A lot of Colorado Springs and El Paso County buyers don't fit the standard W-2 mold: contractors, Realtors and loan officers, restaurant and salon owners, HVAC and remodeling pros, freelancers and gig workers, small LLC owners, real-estate investors, and military spouses near Fort Carson and Peterson SFB running side businesses.

In a market where the down payment, reserves, and monthly payment are all meaningful numbers, how your income is documented can be the difference between qualifying and not. The right documentation method — matched to your situation — is what opens the door.

## **| 17. Frequently asked questions**

### **Do bank-statement loans have higher rates?**

Usually, yes. That's the non-QM premium — the trade for more flexible income documentation.

### **Are these no-doc loans?**

No. They're fully documented and fully underwritten. They just verify income differently than a standard agency loan.

### **Should I use personal or business statements?**

It depends on your business structure, where your income is deposited, and the specific lender's guidelines.

### **Can I prepare my own P&L?**

Usually not. Most lenders require a P&L prepared by a third party, like a CPA or EA.

### **Is a DSCR loan for my primary home?**

No. DSCR is generally for investment property — it qualifies the property's cash flow, not your personal income.

### **Should I still try a conventional loan first?**

Yes — if your tax returns support enough qualifying income, conventional is typically the cheaper path. It's worth checking before anything else.

### **My business does well — why didn't I qualify for a regular loan?**

Regular loans are built around standardized, documented income. If your tax strategy lowers your reportable income, you can run a healthy business and still look small on paper. It's a fit problem, not a you problem — and it's usually solvable with a different loan.

### **What's the difference between QM and non-QM?**

A QM ("qualified mortgage") meets the federal Ability-to-Repay standards behind standard agency-style loans — the kind Fannie Mae and Freddie Mac buy. Non-QM simply means the loan falls outside that box — not that it's a bad loan. A whole part of the market exists to fund solid loans that aren't sold to the agencies.

## Why is my interest rate higher than the rate I saw advertised?

Rates are based on risk. Credit score, down payment size, and whether the home is a primary residence or an investment all move your rate. Advertised rates assume a near-perfect borrower; your quote reflects your actual file.

## 18. Plain-English glossary

**W-2** — The tax form an employer gives an employee showing wages and taxes withheld. "W-2 income" is steady paycheck income — the easiest kind for a lender to verify.

**1099** — The tax form that reports money paid to someone who isn't an employee: contractors, freelancers, gig workers, commission earners. "1099 income" is self-employed-style income.

**DSCR (Debt Service Coverage Ratio)** — Compares a rental property's income to its mortgage payment. A ratio of 1.0 means the rent exactly covers the payment; higher is better. It's how investment properties get qualified on the property's own cash flow instead of your personal income.

**PITIA** — Your full monthly housing payment: **P**rincipal, **I**nterest, **T**axes, **I**nsurance, and **A**ssociation dues (HOA). It's the real number lenders use — not just principal and interest.

**LTV (Loan-to-Value)** — How much you're borrowing compared to the home's value. Put 20% down and your LTV is 80%. A lower LTV (bigger down payment) is less risky to a lender.

**DTI (Debt-to-Income)** — Your monthly debt payments divided by your monthly qualifying income. Lenders use it to see how much room you have for a mortgage.

**Reserves** — Money left in your accounts after closing, measured in months of house payments. Lenders like to see a cushion.

**Seasoning** — How long money has been sitting in your account (or how long you've owned something). "Seasoned" funds have been in place long enough that the lender isn't worried about where they came from.

**Add-backs** — Expenses on your tax return — like depreciation — that aren't actual cash leaving your pocket. An underwriter can "add them back" to raise your qualifying income.

**Overlay** — An extra rule a lender adds on top of a loan program's official guidelines. It's why one bank can say no while another says yes on the very same program.

**Expense factor** — On a bank-statement loan, the share of your deposits the lender assumes went to business expenses. Whatever's left counts as your qualifying income.

# Find the loan path that fits your income.

Self-employed mortgage files are not one-size-fits-all. 719 Lending compares bank-statement, P&L-based, 1099, DSCR, asset-depletion, ITIN, and conventional options to help identify the path that best fits your file.

## To get started, you usually don't need everything — just enough to look at your file:

- Last 2 years of tax returns, if you have them
- 12 months of business or personal bank statements
- Your most recent year-to-date P&L, if available
- A rough sense of your down payment and reserves
- Target purchase price (or your current loan details, if refinancing)
- Property type: primary residence, second home, or investment

## Here's what happens next:

- 1 We talk through your situation.
- 2 We compare multiple lenders' guidelines against your income, credit, and goals.
- 3 You get a written pre-qualification you can act on.

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