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for borrowers who work flexible shifts and overtime (think medical field and union employees), then we may need to complete a WVOE to get an accurate monthly income calculation.

If the borrower is starting a new job with a new employer, then we can use an employment letter that states the terms of employment, including salary amount, where the new job will start within 90 days of the funding of the mortgage loan. The terms of employment must be full-time, permanent employment and not be conditional on any other requirements, such as a pending drug test.

Self-employed borrowers will need to be self-employed in their business for a minimum of two years with at least two years of filed federal income tax returns for the self-employed business.

If the borrower is an independent contractor and files a Schedule C on the Federal 1040 tax returns, we will look at the Net profit or loss on line 31 and divide by 12 months for the monthly income calculation. For Corporations, S-Corp, and Partnership/LLC, we will look at the corporate or partnership federal tax returns as well as the federal 1040 personal tax returns to come up with a monthly income amount.

The calculations for corporations and partnerships include any income paid to the borrower on a W2 as well as any income reported on a K-1 from the corporate or partnership tax returns. These calculations are more involved and need to be reviewed by someone with mortgage underwriting experience, like me. In the case of rental property income, underwriting will complete a

rental income analysis form using data from the Schedule E reported on the federal 1040 personal tax return along with the current PITI payments for each rental property. The net income calculation is complicated and cannot be figured out using common sense, which is true about anything mortgage underwriting related. More details on additional sources of income and means of meeting the DTI requirements in the next installment.

If you are curious to see how you can use the current market conditions to your benefit, please reach out for a free consultation. Stay tuned here for future updates and feel free to reach out for a free consultation if you want to understand more about interest rates and mortgage products.

As always, your mortgage guy,

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Vic's Mortgage Report

“Home of REAL Mortgage Advice®”



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My mission is to help buyers qualify for the best loan available for their circumstance. I spend a generous amount of time with each client to educate them about how the mortgage industry works, through free “Mortgage 101” consultations, so they can make good decisions and get the best loan possible. I’ve revamped my website to give clients the best resources to supplement my consultations.

When I’m not doing loans, I’m an avid scuba diver and certified Rescue Diver. Eventually, I’d like to become a dive instructor, so I can share the joys of this ocean sport with others.

I give back to the Monterey Bay Aquarium, Divers Alert Network (DAN), and the National Outdoor Leadership School (NOLS).

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Fed Stays The Course

Hi Friends,

The Federal Reserve left the Fed Funds Rate where it was at the conclusion of the June 17-18 meeting. The majority of Fed voting members still see two rate cuts later this year while 7 of the 19 voting members are in favor of no rate cuts this year. That is up from 4 members in favor or not cutting rates from the March 2025 meeting.



Fed chair Jerome Powell continues to be in a wait and see mode regarding the effects of the Trump tariffs on inflation before making any changes to the Fed Funds interest rate, currently at an effective rate of 4.33%. To reiterate, mortgage rates don’t directly follow the Fed’s rate policy, but bond trading is affected by the Fed’s stance on inflation and bond yields have a direct effect on mortgage rates. Mortgage rates continue to be elevated and are almost identical to last year at this time, averaging around 6.875% APR.

Let’s understand how mortgage underwriting qualifies a borrower for the mortgage payments. Conventional and government mortgages follow a monthly Debt-to-Income, DTI, calculation. The DTI calculation looks at the borrower’s monthly recurring payments that report on the credit reports and adds to those the total monthly housing payments to create a monthly debt payment amount.

Monthly recurring liabilities that report on the credit report include minimum monthly credit cards payments, monthly installment loan payments (auto loans, student loans, retail store), and child support/alimony. The total monthly housing payments include the

principal and interest mortgage payment, the annual property taxes divided by 12 months, the annual homeowner’s insurance premium divided by 12 months, the monthly homeowner’s association (HOA) dues for condos and townhomes, and any applicable Private Mortgage Insurance (PMI).

We refer to this monthly housing liability as the PITI payment, which stands for Principal, Interest, Taxes, and Insurance but also includes the HOA dues and the PMI.

Once we have a total monthly liability payment amount, we can compare that to the borrowers’ income to calculate the DTI ratio. The absolute maximum DTI ratio is 50% for conventional mortgages and can go above that for some government mortgage products such as FHA and VA loan.

The monthly income calculated for the borrower is different depending on the nature of the borrower’s employment and how the income taxes are filed. If the borrower is a full-time employee and receives a W2 from the employer each year, we can use the borrower’s monthly gross income.

We will calculate the monthly gross income from the most recent pay stubs and compare them to the most recent W2. If the borrower’s pay on the pay stubs is consistent from pay period to pay period, then we won’t need to complete a formal Written Verification of Employment, WVOE, from the employer and their human resources department or other automated third-party verification provider. If the income is variable, such as

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