

Rental Income Comparison

	Fannie Mae	Freddie Mac	FHA ¹²	VA	USDA
Subject Property <i>(2-4 Unit Primary Residence or 1-4 Unit Investment ¹⁰)</i>	<p>Purchase</p> <ul style="list-style-type: none"> Appraisal and Form 1007² or 1025³, as applicable, and Current lease agreements ⁴, if applicable <p>Refinance with History of Rental Receipt</p> <ul style="list-style-type: none"> Appraisal and Form 1007² or 1025³, as applicable, and either: <ul style="list-style-type: none"> Most recent year tax returns, or Current lease agreements ⁴, if allowed⁵ <p>Refinance with No History of Rental Receipt</p> <ul style="list-style-type: none"> Appraisal and Form 1007² or 1025³, as applicable, and Current lease agreements ⁴ <p>Owens Primary Residence or Has a Current Housing Expense (Purchase or Refinance)</p> <ul style="list-style-type: none"> With at least 1-year of rental income history or documented property management experience, there is no restriction on the amount of rental income that can be used Has less than 1-year of history of receiving rental income or documented property management experience, then for qualifying purposes: <ul style="list-style-type: none"> <u>Primary Residence</u> – Rental income in an amount not exceeding PITIA of the subj prop can be added to the borrower’s gross income, or <u>Investment Property</u> – Rental income can only be used to offset the PITTIA of the subj prop. <p>With No Primary Residence or Housing Expense (Purchase or Refinance)</p> <ul style="list-style-type: none"> Rental income from the subj prop can NOT be used. <p>Income Calculation</p> <ul style="list-style-type: none"> <u>Worksheet 1037</u> – 2-4 unit Primary <u>Worksheet 1038</u> – Individual Income up to 4 Properties <u>Worksheet 1038A</u> – Individual Income up to 10 Properties <u>Worksheet 1039</u> – Business Income 	<p>Purchase</p> <ul style="list-style-type: none"> Appraisal and Form 1000² or 72³, as applicable, and Current lease agreements ^{7,4}, if applicable <p>The borrower must currently own a primary residence to use rental income to qualify when purchasing a new rental property in the current calendar year. In such instances, net rental income can only be used to offset the PITIA of the new rental property unless the borrower has at least 1 year of investment property management experience.</p> <p>Refinance with History of Rental Receipt</p> <p>Appraisal and Form 1000² or 72³, as applicable, and either:</p> <ul style="list-style-type: none"> Most recent year tax returns, or Current lease agreements ^{7,4}, if allowed ⁵ <p>Refinance with No History or Rental Receipt</p> <ul style="list-style-type: none"> Appraisal and Form 1000² or 72³, as applicable, and Current lease agreements ^{7,4} <p>Income Calculation ¹¹</p> <ul style="list-style-type: none"> If using current lease or Form 1000/72 – 75% of declared rent If using Schedule E tax form – Form 92 If using Form 8825 – Form 91 	<p>Purchase</p> <ul style="list-style-type: none"> Appraisal and Form 1007/1000² or 72/1025³, as applicable, and Operating Income Statement 216/998⁸ (1un only), and Current lease agreements⁴, if applicable Calculate rental income (which must be added to borrower’s gross income) using the lesser of: <ul style="list-style-type: none"> The monthly operating income reported on Form 216/998; or 75% of the lesser of: <ul style="list-style-type: none"> Fair market rent reported by the appraiser; or The rent reflected in the lease or other rental agreement <p>Refinance with History of Rental Receipt</p> <ul style="list-style-type: none"> Appraisal and Form 1007/1000² or 72/1025³, as applicable, and Most recent 2 years’ tax returns Calculate rental income (which must be added to the borrower’s gross income) by averaging the amount shown on Schedule E. Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss. If the property has been owned for less than 2 years, income must be annualized over the length of time the property has been owned <p>Refinance with No History of Rental Receipt (same as “Purchase”)</p>	<p>To use rental income for qualifying, must have documentation of the borrower’s prior experience managing rental units and/or use of a property management company to oversee the property.</p> <p>Document 6 months reserves (PITI). Gift funds are NOT eligible as reserves</p> <p>Appraisal and Form 1007² or 1025³, as applicable</p> <p>Existing Property: The amount of rental income to include in effective income is based on 75% of the amount indicated on the lease or rental agreement unless a greater percentage can be documented.</p> <p>Proposed Construction: The amount of rental income to include in effective income is based on 75% of the amount indicated on the appraiser’s opinion of the property’s fair monthly rental</p>	Not permitted

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Non-Subject Property	<p>Most recent year tax returns or current lease agreements (if allowed) ⁵</p> <p>Commercial property rental income is allowed</p> <p>Income Calculation (1-4 Unit Investment):</p> <ul style="list-style-type: none"> • Worksheet 1038 – Individual Income up to 4 Properties • Worksheet 1038A – Individual Income up to 10 Properties • Worksheet 1039 – Business Income 	<p>Most recent year tax returns or current lease agreements (if allowed) ⁵</p> <p>Commercial property rental income is allowed</p> <p>Income Calculation</p> <ul style="list-style-type: none"> • If using current lease – 75% of declared rent • If using Schedule E tax form – Form 92 • If using Form 8825 – Form 91 	<p>Limited or No History of Rental Income</p> <ul style="list-style-type: none"> • Appraisal Form 1007/1000² or 72/1025³ (does not have to be FHA), as applicable, evidencing that the borrower has at least 25% equity in the property, and • Operating Income Statement Form 216/995⁸ (1un only), and • Current lease agreements (if applicable) • Calculate income by deducting the PITI from the lesser of: <ul style="list-style-type: none"> ○ The monthly operating income reported on Form 216/998; or ○ 75% of the lesser of: <ul style="list-style-type: none"> ▪ Fair market rent reported by the appraiser; or ▪ The rent reflected in the lease or other rental agreement <p>History of Rental Income ⁹</p> <ul style="list-style-type: none"> • Most recent 2 years’ tax returns • Calculate net rental income by averaging the amount shown on the Schedule E, provided the borrower continues to own all properties included on the Schedule E. Depreciation shown on Schedule E may be added back to the net income or loss. If the property has been owned for less than 2 years, annualize the income for the length of time the property has been owned. Properties with less than 2 years of rental income history must document the date of acquisition by providing the deed, Closing Disclosure or similar legal document. Positive net rental income must be added to the borrower’s effective income. Negative net rental income must be included as a debt/liability 	<p>Obtain most recent 2 years’ tax returns and current lease agreements</p> <p>Document 3 months PITI reserves for each non-subject property. If all non-subject properties are lien-free, then 3 months reserves cumulative are sufficient. Gift funds are NOT eligible as reserves. ¹¹</p> <p>Each property(s) must have a 2-year rental history itemized on the borrower’s tax return</p> <p>Property depreciation on the tax returns may be included in effective income. If after adding depreciation to the negative rental income, the borrower still has rental loss, the negative income should be deducted from the overall income as it reduces the borrower’s income</p> <p>If rental income will not, or cannot, be used then the full mortgage payment should be considered, and reserves do not need to be considered</p>	<p>Minimum 2-year history of rents received is required</p> <p>Most recent two (2) years’ tax returns required</p> <p>Current lease agreement required to show continuance</p> <p>Positive net rental income may be included in the repayment income</p> <p>Negative net rental income is treated as a liability in the debt ratios</p> <p>Corresponding mortgage liabilities may be omitted from the debt ratios</p>

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Retained Departure Residence <i>Primary Residence Purchase</i>	<p>Obtain current lease agreement</p> <p>Use 75% of the amount stated in the lease agreement as income</p>	<p>Obtain current lease agreement ⁷</p> <p>75% of rental income declared in lease can only be used to offset PITI of retained residence payment unless borrower has one (1) year of investment property management experience</p>	<p>Borrower must be relocating more than 100 miles from the current primary residence in order to use rental income from the departure residence to qualify</p> <p>Lease agreement of at least one (1) year's duration after the new mortgage is closed and evidence of the payment of the security deposit or first month's rent is required</p> <p>Appraisal (does not have to be FHA) evidencing market rent and that the borrower has at least 25% equity in the departure residence is required</p> <p>Calculate income by deducting the PITI from:</p> <ul style="list-style-type: none"> • 75% of the lesser of: <ul style="list-style-type: none"> ○ Fair market rent reported by the appraiser; or ○ The rent reflected in the lease or other rental agreement 	<p>Obtain current lease agreement (if any)</p> <p>Use the prospective rental income only to offset the mortgage payment and only if there is no indication that the property will be difficult to rent.</p> <p>This rental income may NOT be included in effective income.</p> <p>If there is no lease on the property, but the local rental market is very strong, the prospective rental income may still be considered for offset purposes.</p>	<p>Rental income cannot be immediately considered at departure. USDA requires a 2-year history of rents received on investment property real estate owned.</p>
Boarder Income	<p>Up to 30% of qualifying income can come from boarder income, if disabled borrower receives rental income from a live-in personal assistant.</p> <p>Document shared residency and rental payments (cancelled checks and/or bank statements) for the past 12 months.</p> <p>Note: Not permitted on WMC products.</p>	<p>Up to 30% of qualifying income can come from boarder income, if disabled borrower receives rental income from a live-in personal assistant.</p> <p>Document shared residency and rental payments (cancelled checks and/or bank statements) for the past 12 months.</p> <p>Note: Not permitted on WMC products.</p>	<p>Allowed with 2-year history of receipt per tax returns.</p> <p>Use lower of current lease or 2-year average income.</p>	<p>Borrower must have documented previous experience in property management to use rental income for qualifying.</p> <p>Obtain individual income tax returns, signed & dated, plus all applicable schedules for the previous 2 years, which show boarder income generated by the property.</p> <p>The rental cannot impair the residential character of the property and cannot exceed 25% of the total floor area.</p> <p>Include rental income in effective income only if the borrower has a reasonable likelihood of continued success, due to the strength of the local market. Provide a justification on VA Form 26-6393, Loan Analysis.</p> <p>PITI reserves are not necessary to consider the income, and all the income may be used in the analysis.</p>	<p>Not permitted</p>

Footnotes:

1. Market rents must be reported on all investment properties and 2-4 unit primary residences, regardless of whether the borrower is using rental income to qualify. If borrower is not using rental income to qualify, then borrower can provide one of the following:
 - a. Appraisal report of Form 1007² provided neither is dated 12 months or more prior to the note date
 - b. Opinion of market rents provided by the appraiser (if the property is not currently rented)
 - c. If appraisal or Form 1007² is not required for the transaction, provide signed lease or statement regarding rental amount charged (or to be charged)

Footnotes continue on next page....

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Footnotes continued...

2. For 1-unit properties: Single-Family Comparable Rent Schedule (Form 1007/1000) provided in conjunction with the applicable appraisal report
3. For 2-4 unit properties: Small Residential Income Property Appraisal Report (Form 1025/72)
4. If a lease on the property is being transferred to the borrower, it must be verified that it does not contain any provisions that could affect first lien position
5. Current leases may only be used if a borrower can document at least one of the following:
 - a. Property was acquired during or subsequent to the most recent tax filing year
 - b. Property was out of service for an extended period
 - c. Or the lender can justify a situation that warrants the use of lease agreements
6. Use of any income worksheets listed is recommended for calculation accuracy (but is optional).
7. Leases must be current and fully executed, with a minimum original term of 1 year. If the lease is documented as assigned from the property seller to the borrower and is in the automatically renewable month-to-month phase of an original 1-year (or longer) term lease, then a month-to-month term is acceptable.
8. Operating Income Statement (Form 216/998) showing fair market rent.
9. For properties with less than 2 years of rental income history, the date of acquisition must be documented by providing the deed, Closing Disclosure or similar legal document.
10. Not applicable for FHA, VA or USDA
11. In certain instances, when rental income is used to qualify the borrower and a lease is used to determine net rental income, typically Form 72 or Form 1000 is required. Freddie Mac will allow bank statements, electronic transfer of rental payments, or cancelled rent checks, supporting 2 months' receipt of rental income to be provided in lieu of Form 72 or Form 1000.
12. **FHA – Temporary COVID-19 Guidance (effective for case numbers assigned on or before September 30, 2021):** When a borrower is qualifying utilizing Rental Income, for each property generating rental income, we must either:
 - Reduce the effective income associated with the calculation of rental income by 25%; or
 - Verify 6 months PITI reserves for each property the borrower owns; or
 - Verify the borrower has received the previous 2 months rental payments as evidenced by borrower's bank statements showing the deposit. (This option is applicable only for borrowers with a history of rental income from the property).