

Income Documentation**Rental Income – Property Being Vacated by the Borrower (Total and Manual)**

If Rental Income is being derived from the Property being vacated by the Borrower, this is acceptable unless the home being vacated has an FHA loan on it. Then the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The Mortgagee must obtain:

- A lease agreement of at least one year's duration after the Mortgage is closed
- Evidence of the payment of the security deposit or first month's rent
- An appraisal evidencing market rent and that the borrower has at least 25 percent equity in the property
 - The appraisal is not required to be completed by an FHA Roster Appraiser

Rental Income – HOC Vacancy and Maintenance Factor

Note: FHA no longer uses a variable HOC-specific vacancy and maintenance factor. It is now fixed at 25%.

Rental Income Received from Subject Property (TOTAL)

Rental Income Two- to Four-Units The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) and, if available, the prospective leases.

➤ Calculation of Effective Income - The Mortgagee must add the net subject property Rental Income to the Borrower's gross income. The Mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income. To calculate the effective income the Mortgagee must use:

- the monthly operating income reported on Freddie Mac Form 998; or
- 75 percent of the lesser of:
 - ❖ fair market rent reported by the Appraiser; or
 - ❖ the rent reflected in the lease or other rental agreement. See Property Types / Eligible 3-4 Units / Self-Sufficiency Rental Income Eligibility for loan restrictions on 3-4 unit properties

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Rental Income from Other Real Estate Holdings (TOTAL)

Limited or No History of Rental Income Where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, the Mortgagee must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

- Two- to Four-Units
The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form

1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) and, if available, the prospective leases.

➤ One Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report, Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule, and Fannie Mae Form 216/Freddie Mac Form 998, Operating Income Statement, showing fair market rent and, if available, the prospective lease.

Calculation of Effective Net Rental Income (limited or no history)

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee must deduct the Principal, Interest, Taxes, and Insurance (PITI) from the lesser of:

- the monthly operating income reported on Freddie Mac Form 998; or
 - 75 percent of the lesser of fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

History of Rental Income

The Mortgagee must obtain the Borrower's last two years' tax returns with Schedule E.

Calculation of Effective Net Rental Income (with history of net rental income)

- The Mortgagee must calculate the 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 two years, the Mortgagee must annualize the Rental Income for the length of time the Property has been owned.
- For Properties with less than two years of Rental Income history, the Mortgagee must document the date of acquisition by providing the deed, Settlement Statement 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.