

Agency	Rental Income Source			
	Boarder Income	Subject Property 2-4 unit Primary Residence or 1-4 unit Investment ¹¹	Non-Subject Property	Retained Departure Residence <i>Primary Residence Purchase</i>
Fannie¹⁶ <i>Selling Guide B3-3.1-09; B3-3.1-08; B3-6-06</i>	<ul style="list-style-type: none"> Up to 30% of qualifying income can come from boarder income, if disabled borrower receives rental income from a live-in personal assistant. Document shared residency and rental payments (cancelled checks and/or bank statements) for the past 12 months to use this monthly rent payment as income. <p><i>Note: Fannie Mae HomeReady® allows accessory unit income as well. See Selling Guide B5-6-03 & B3-3.1-08 for details</i></p>	<p>Purchase</p> <ul style="list-style-type: none"> Appraisal and Form 1007² or 1025³, as applicable and Current lease agreements⁴, if applicable <p>Owns Principal Residence or Has a Current Housing Expense</p> <ul style="list-style-type: none"> With at least one-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 one year of history of receiving rental income or documented property management experience, then for qualifying purposes: <ul style="list-style-type: none"> For a principal residence, rental income in an amount not exceeding PITIA of the subject property can be added to the borrower's gross income, or For an investment property, rental income can only be used to offset the PITIA of the subject property. <p>With No Principal Residence or Housing Exp.</p> <ul style="list-style-type: none"> Rental income from the subject property cannot be used. <p>Refinance w/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 agreements⁴ if allowed⁵ <p>Refinance w/no history of rental receipt</p> <ul style="list-style-type: none"> Appraisal and Form 1007² or 1025³, as applicable and Current lease agreements⁴ <p>Income Calculation</p> <ul style="list-style-type: none"> 2-4 unit Primary: Worksheet 1037 1-4 unit Investment: <ul style="list-style-type: none"> Individual Income up to 4 properties - Worksheet 1038 Individual Income up to 10 properties - Worksheet 1038A Business Income - Worksheet 1039 	<ul style="list-style-type: none"> Most recent year tax returns or Current lease agreements if allowed⁵ Commercial property rental income allowed. <p>Income Calculation</p> <ul style="list-style-type: none"> 1-4 unit Investment: <ul style="list-style-type: none"> Individual Income up to 4 properties - Worksheet 1038 Individual Income up to 10 properties - Worksheet 1038A Business Income - Worksheet 1039 	<ul style="list-style-type: none"> Obtain current lease agreement. Use 75% of amount stated in lease agreement as income.

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Freddie Mac <i>Selling Guide 5306.1</i>	<ul style="list-style-type: none"> Up to 30% of qualifying income can come from boarder income, if disabled borrower receives rental income from a live-in personal assistant. Document shared residency and rental payments for the past 12 months to use this monthly rent payment as income. <p><i>Note: Freddie Mac HomePossible® allows accessory unit income as well. See Selling Guide 4501.9 for details.</i></p>	<p>Purchase⁸</p> <ul style="list-style-type: none"> Appraisal and Form 1000² or 72³, as applicable and Current lease agreements^{7 4}, if applicable⁴ <p>Refinance w/history of rental receipt</p> <ul style="list-style-type: none"> Appraisal and Form 1000² or 72³, as applicable and either: <ul style="list-style-type: none"> Most recent year tax returns or Current lease agreements^{7 4} if allowed⁵ <p>Refinance w/no history of 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 Calculation¹²</p> <ul style="list-style-type: none"> If using current lease or Form 1000/72 – 75% of declared rent. If using Sch E tax form – Form 92 If using Form 8825 – Form 91 	<ul style="list-style-type: none"> Most recent year tax returns or Current lease agreements if allowed⁵ Commercial property rental income allowed. <p>Income Calculation</p> <ul style="list-style-type: none"> If using current lease – 75% of declared rent. If using Sch E tax form – Form 92 If using Form 8825 – Form 91 	<ul style="list-style-type: none"> Obtain current lease agreement⁷ 75% of Rental Income declared in lease can only be used to offset PITI of retained residence payment unless borrower has one year of investment property management experience.
FHA <i>4000.1</i> <i>II,A,4,c,xii,(I)</i> <i>II,A,5,c,xii,(I)</i>	<ul style="list-style-type: none"> Allowed with 2-year history of receipt per tax returns. Use lower of current lease or 2-year average income. II,A,4,c,xii,(I),(4) & II,A,5,c,xii,(I),(4) 	<p>Purchase</p> <ul style="list-style-type: none"> Appraisal and Form 1007/1000² or 72/1025³, as applicable and OIS Form 216/998⁸ (applies to 1-unit 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 Fannie Mae Form 216/Freddie Mac Form 998; or 75 percent 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>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 FHA) , as applicable evidencing that the borrower has at least 25% equity in the property and OIS Form 216/998⁸ (applies to 1-unit 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 Fannie Mae Form 216/Freddie Mac Form 998; or 75 percent 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. 	<ul style="list-style-type: none"> Borrower must be relocating more than 100 miles from the current principal residence in order to use rental income from departure residence to qualify. Lease agreement of at least one 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. Appraisal (does not have to be FHA) evidencing market rent and that the borrower has at least 25 percent equity in the departure residence is required. Calculate income by deducting the (PITI) from <ul style="list-style-type: none"> 75 percent 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.

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FHA Cont.		Refinance w/history of rental receipt <ul style="list-style-type: none"> Appraisal and Form 1007² or 1025³, as applicable and Most recent 2 years tax returns. Calculate rental income (which must be added to 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 two years, income must be annualized over the length of time the property has been owned. Refinance w/no history of rental receipt Same as Purchase	History of rental income¹⁰ * <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 two years, annualize the income for the length of time the property has been owned. Properties with less than two 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. 	
VA Chap 4, 2-o & 2-n	<ul style="list-style-type: none"> Obtain: <ul style="list-style-type: none"> Borrower must have documented previous experience in property management to use rental income for qualifying. individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show boarder income generated by the property, and the rental cannot impair the residential character of the property and cannot exceed 25 percent of the total floor area. 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. PITI reserves are not necessary to consider the income, and all the income may be used in the analysis. 	<ul style="list-style-type: none"> Borrower must have documented previous experience in property management to use rental income for qualifying. Document 6 months reserves (PITI). Gift funds are not eligible as reserves. Appraisal and Form 1007² or 1025³, as applicable Existing Property: The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the lease or rental agreement unless a greater percentage can be documented. Proposed Construction: The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the appraiser's opinion of the property's fair monthly rental. 	<ul style="list-style-type: none"> Obtain most recent 2 years tax returns and current lease agreements 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.¹² Each property(ies) must have a 2-year rental history itemized on the borrower's tax return. 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. 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. 	<ul style="list-style-type: none"> Obtain current lease agreement, if any: 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. This rental income may not be included in effective income. If there is no lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes.

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USDA Rural Housing 3555 Chap 9, Attch. 9-A	Not allowed	Not applicable	<ul style="list-style-type: none"> • 2-year min. history of rents received required. • Most recent 2 years tax returns required. • Current lease agreement required to show continuance. • Positive net rental income received may be included in the repayment income. • Negative net rental income is treated as a recurring liability in the debt ratios. • Corresponding mortgage liabilities may be omitted from the debt ratios. 	Rental income cannot be immediately considered at departure. USDA requires a 2-year history of received rents on investment real estate owned.

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Important Footnotes:

¹ Market rents must be reported on all investment and 2-4 unit primary residence properties regardless of whether the borrower is using rental income to qualify. If borrower is not using rental income to qualify then the borrower can provide one of the following:

- Appraisal report or Form 1007² provided neither is dated 12 months or more prior to note date;
- Opinion of market rents provided by the appraiser (if the property is not currently rented);
- If appraisal or Form 1007² is not required for transaction provide signed lease or statement regarding rental amount charged (or to be charged)

² For one-unit properties: Single-Family Comparable Rent Schedule (Fannie Form 1007 or Freddie Form 1000) (provided in conjunction with the applicable appraisal report)

³ For two- to four-unit properties: *Small Residential Income Property Appraisal Report* (Fannie Form 1025 or Freddie Form 72)

⁴ If a lease on the property is being transferred to the borrower, the lender must verify 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 follow:

- Property was acquired during or subsequent to the most recent tax filing year;
- Property was out of service for an extended period;

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 optional.

⁷ Leases must be current and fully executed, with a minimum original term of one 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 one-year (or longer) term lease, then a month-to-month term is acceptable.

⁸ Borrowers must own a primary residence to use rental income to qualify when purchasing an investment property in current calendar year. Also, in this instance rental income can only be used to offset the PITI of the new investment property unless the borrower has one year of investment property management experience.

⁹ Operating Income Statement (Fannie Mae Form 216 or Freddie Mac Form 998) showing fair market rent.

¹⁰ For properties with less than two years of rental Income history, the lender must document the date of acquisition by providing the deed, Closing Disclosure or similar legal document.

¹¹ Not applicable to FHA, VA or USDA

¹² 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 100 is required. Freddie will now allow lenders to provide bank statements, electronic transfer of rental payments, or canceled rent checks, supporting two months' receipt of rental income, in lieu of [Form 72](#) or [1000](#).

*** Rental Income – Temporary Change (effective for case numbers assigned on or after 8-12-20 through 11-30-20)**

Where a borrower is qualifying utilizing rental income, for each property generating rental income the lender must either:

- Reduce the effective income associated with the calculation of rental income by 25%, or
- Verify 6 months PITI reserves (this option is applicable to Forward only), 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.)