

Rental income may be used in qualifying the borrower(s) provided the requirements of the Freddie Mac *Single-Family Seller/Servicer Guide* (Guide) Sections [5306.1](#) and [5306.4*](#) and the documentation requirements contained in Guide Sections [5102.3](#) and [5102.4](#) and Chapter [5302](#) are met.

Note: Red font and a vertical revision bar " | " is used in the margin of this quick reference to highlight new requirements and significant changes.

Select a Topic



Property owned in the **prior** calendar year Requirements (PG 2)



Property purchased and property acquired or placed in service in the **current** calendar year Requirements (PG 3)



How to calculate and document net rental income (PG 5)



Establishing the debt payment-to-income ratio (PG 5)



Understanding appraisal forms and analysis requirements (PG 6)



When is investment property management experience required (PG 6)



When to use IRS Form 8825 (PG 6)



Additional notes and FAQs (PG 7)



Exhibit 1: Guide Bulletin 2023-19 updates (PGS 8-9)

* Refer to Guide Sections [5306.2](#) for rental income from live-in aide residing in a 1-unit primary residence and [5306.3](#) rental income generated from an ADU on a subject 1-unit primary residence.

This information is not a replacement or substitute for the requirements in the Freddie Mac *Single-Family Seller/Servicer Guide* or any other contractual agreements. This information does not constitute an agreement between Freddie Mac and any other party.

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Refer to [Exhibit 1](#) for Guide Bulletin [2023-19](#) updates to documentation and lease requirements effective for mortgages with documentation and lease requirements updates effective for mortgages with Freddie Mac Settlement Dates on and after [April 1, 2024](#), but Sellers may implement immediately.

Topics	Rental income is from...		
	Property owned in the <u>prior</u> calendar year		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- To 4-unit Investment Property	Non-subject Investment Property Owned by the Borrower
Documentation, history and analysis Streamlined and Standard Documentation levels	<p>The following requirements apply:</p> <ul style="list-style-type: none"> ▪ The Seller must obtain the borrower's complete federal income tax returns (Internal Revenue Service (IRS) Form 1040) including Schedule E for the most recent year. Except as set forth below when use of a signed lease may be permitted, if the subject property has been owned for at least one year and income from the subject property is reported on the borrower's federal income tax returns, the Seller must use Schedule E to determine the net rental income or loss. ▪ If the subject property has been owned for at least one year and is reported on Schedule E of the borrower's prior year federal income tax return, use the income or loss as reported. ▪ A signed lease may be used if: <ul style="list-style-type: none"> ○ If the property was out of service for any time period in the prior year and the mortgage file contains a documented event such as a renovation and Schedule E supports this by a reduced number of days in use and reflects repair costs; or ○ The property was purchased later in the calendar year and Schedule E supports this by a reduced number of days in use; and ○ Additional documentation provided, as follows: <ul style="list-style-type: none"> • Forms 72, Small Residential Income Property Appraisal Report, or 1000, Single-Family Comparable Rent Schedule, supporting the income reflected on the lease*; or • (Refer to Exhibit 1 for Guide Bulletin 2023-19 updates) Documentation (e.g., bank statements evidencing deposit or electronic transfer of rental payments, canceled rent checks) to support two months of receipt of rental income. Note: A Form 72 or 1000 is always required for the subject property as described in Guide Section 5306.1(c)(ii). <p>Unless the above requirements are met, a signed lease may not be used and the rental income or loss from Schedule E must be used and annualized for qualifying purposes.</p> <p>*Form 72 or 1000 is always required for the subject property, as described in Section 5306.4(a).</p>		
Lease Requirements	<p>(Refer to Exhibit 1 for Guide Bulletin 2023-19 updates).</p> <p>Leases must be current and fully executed, with a minimum original term of one year. If the lease 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.</p>		



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Topic	Rental Income is from...	
	Subject property purchase and refinance transactions and non-subject properties acquired or placed in service in the <u>current</u> calendar year	
Documentation, history and analysis Streamlined and Standard Documentation levels	Subject Property Purchase	
	2- to 4-unit Primary Residence	1- to 4-unit Investment Property
	<ul style="list-style-type: none"> ▪ Existing lease, if available, must be used to determine the net rental income or ▪ Forms 72 or 1000, as applicable, may be used to determine net rental income when a lease is not available. <p>Note: The Seller must make reasonable efforts to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method.</p>	
	Subject Property Refinance	
	2- to 4-unit Primary Residence	1- to 4-unit Investment Property
	<ul style="list-style-type: none"> ▪ Lease must be used to determine the net rental income and: <ul style="list-style-type: none"> ○ Forms 72 or 1000 supporting the income reflected on the lease or ○ (Refer to Exhibit 1 for Guide Bulletin 2023-19 updates) Documentation (e.g., bank statements evidencing deposit or electronic transfer of rental payments, canceled rent checks) supporting two months of receipt of rental income. Note: Form 72 or 1000 is always required for the subject property as described in Guide Section 5306.1(c)(ii). ▪ Purchase date or conversion date, as applicable, must be documented 	
	Non-subject Property	
	<ul style="list-style-type: none"> ▪ Lease must be used to determine the net rental income and: <ul style="list-style-type: none"> ○ Forms 72 or 1000 supporting the income reflected on the lease or ○ (Refer to Exhibit 1 for Guide Bulletin 2023-19 updates): Documentation (e.g., bank statements evidencing deposit or electronic transfer of rental payments, canceled rent checks) supporting two months of receipt of rental income. Note: Form 72 or 1000 is always required for the subject property as described in Guide Section 5306.1©(ii). ▪ Purchase date or conversion date, as applicable, must be documented 	
Lease Requirements	(Refer to Exhibit 1 for Guide Bulletin 2023-19 updates). 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.	



Subject property purchase and refinance transactions and non-subject properties acquired or placed in service in the <u>current</u> calendar year		
2- to 4-unit primary residence, subject 1- to 4-unit investment property and non-subject investment property		
Maximum Eligible Amount of Net Rental Income		
If, The borrower is purchasing a new rental property in the current calendar year	Then, The borrower must currently own a primary residence to use rental income to qualify	In such instances, net rental income can only offset the principal, interest, taxes and insurance (PITI) and when applicable, mortgage insurance premiums, leasehold payments, homeowner's association dues (excluding unit utility charges) and payments on secondary financing (full monthly payment) of the new rental property.
If, The borrower's current primary residence is being converted to a rental property	Then, Net rental income can only offset the full monthly payment of that primary residence	
If, Net rental income exceeds the full monthly payment of the new rental property or the converted primary residence, as applicable	Then, The excess rental income cannot be added to the borrower's gross monthly income to qualify unless the file documentation demonstrates the borrower has a minimum of one-year investment property management experience.	



Net Rental Income

Topic	Rental Income is from...		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- to 4-unit Investment Property	Non-Subject Investment Property Owned by the Borrower
Net Rental Income Documentation Calculation Requirements	<ul style="list-style-type: none"> ▪ Lease: 75% of the gross monthly rent or gross monthly market rent. ▪ Form 72 or Form 1000: 75% of the gross monthly rent or gross monthly market rent. ▪ Schedule E: Calculate the net rental income form Schedule E using Form 92, Net Rental Income Calculations – Schedule E, or a similar alternative form, as follows: <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> Rents received (-) less total expenses (+) plus insurance, mortgage interest paid to banks, real estate taxes, depreciation and/or depletion, homeowners association dues (if specifically reported as an expense), one-time losses (e.g., casualty loss due to documented catastrophic event), and non-cash deductions (e.g., amortization). </div> <p>When calculating the net rental income for each individual property, the following expenses reported on Schedule E (and noted above) can only be added back if they are included in the payment amount being used to establish the debt payment-to-income ratio for that property: insurance, mortgage interest paid to banks, real estate taxes, homeowners association dues.</p> 		

Debt Payment-to-Income Ratio

Topic	Rental Income is from...		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- to 4-unit Investment Property	Non-Subject Investment Property Owned by the Borrower
Establishing the debt payment-to-income (DTI) ratio	<ul style="list-style-type: none"> ▪ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income. <p>The net rental income may be added to the stable monthly income.</p>	<p>Subtract the monthly payment amount (as described in Section 5401.2(a)(7)) from the net rental income:</p> <ul style="list-style-type: none"> ▪ If the result is positive, add it to the stable monthly income. <p>If the result is negative, add it to the monthly liabilities.</p>	<p>Subtract the monthly payment amount (as described in Section 5401.2(a)(7)) from the net rental income:</p> <ul style="list-style-type: none"> ▪ If the result is positive, add it to the stable monthly income. ▪ If the result is negative, add it to the monthly liabilities. <p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p> <ul style="list-style-type: none"> ▪ If the combined result is positive, add it to the stable monthly income. ▪ If the combined result is negative, add it to the monthly liabilities.



Appraisal Forms

Topic	Rental Income is from...		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- to 4-unit Investment Property	Non-Subject Investment Property Owned by the Borrower
Appraisal forms – Comparable rent data	Form 72	Form 1000 or Form 72, as applicable	Appraisal form requirements as described in Guide Section 5306.4 (a)(iii) may also apply.
Appraisal forms – Comparable rent data Analysis	<ul style="list-style-type: none"> Analyze the rental market viability and income producing potential for the subject property. Determine whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, you must determine if additional documentation is necessary to support income stability, and provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue.</p>		

Additional Information

Topic	Rental Income is from...		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- to 4-unit Investment Property	Non-Subject Investment Property Owned by the Borrower
Investment Property Management Experience	Not required. However, see requirement for counting net rental income in excess of PITI referenced above in “maximum eligible amount of net rental income” when a minimum of one-year investment-property-management experience is required.		
IRS Form 8825, Rental Real Estate Income and Expenses from a Partnership or an S Corporation	<p>Refer to Chapter 5304 for treatment of all rental real estate income or loss reported on the IRS Form 8825, which reflects all income and expenses for the rental property and the IRS Schedule K-1, which reflects the borrower’s proportionate share of the net rental income or loss.</p> <p>The requirements of Chapter 5304 are applicable regardless of the borrower’s percentage of ownership interest in the partnership or S corporation and regardless of whether the borrower is personally obligated on the Note.</p>		
Reserves – Guide Section 5501.2	<p>Loan Product Advisor® Mortgages: Verify all reserves required by Loan Product Advisor as stated on the Feedback Certificate.</p> <p>Note: Manually underwritten mortgages for the subject 2- to 4-unit primary residence: Verified reserves must equal or exceed six months reserves for the subject property*, regardless of whether rental income is used in qualifying the borrower.</p> <p>* Reserves are measured by the number of months of the monthly payment amount for the property. Refer to Guide Section 5501.2(a) for the sum of the monthly charges.</p> <p>For more information of minimum required reserves refer to Guide Section 5501.2(b).</p>		



Property with an Accessory Dwelling Unit(s) (ADU)

For more information on rental income generated from an ADU on a 1-unit property refer to the [Accessory Dwelling Unit](#) job aid, or attend the [ADU: Avoiding Common Mistakes and Understanding the ADU](#) webinar.

Additional Notes:

1. Rental income generated from the borrower's second home may not be used as stable monthly income.
2. Rental income from the borrower's 1-unit primary residence may not be used to qualify the borrower unless it meets the requirements in Guide Section 5306.2 or Guide Section 4501.9 for Home Possible® mortgages.
3. Rental Income from an accessory dwelling unit may be considered for a subject 1-unit primary residence, subject 1-unit investment property and non-subject investment property if the requirements of Guide Sections 5306.3 and 4501.9(a) are met. Refer to Chapter 5601 for property eligibility and appraisal requirements related to the subject property with an ADU.
4. When rental income from other investment properties owned by the borrower in the previous tax year is reported on the borrower's individual federal tax returns, the Seller must use Schedule E of the borrower's tax returns to determine the net rental income. Signed leases may be used to determine the net rental income for an investment property not owned during the previous tax year.

Frequently Asked Questions:

1. What constitutes "owning" a primary residence?
 - The borrower must be an individual who is on title to their primary residence but does not need to be the party obligated to repay the indebtedness secured by the mortgaged premises.
2. Is there a time limit associated with documenting when the borrower's one-year investment property management experience occurred?
 - No, there is no historical time limit as long as there is documentation that the borrower has had prior experience managing an investment property for one year at a minimum.
3. Can you use short term rental income to qualify the borrower?
 - Yes; however, the rental income or loss from Schedule E must be annualized for qualification purposes.
4. A borrower has owned investment property for several years with no documented event supporting a renovation or evidence that the property had been generating rental income. Can the borrower provide a lease to be used for qualification purposes?
 - No. This scenario does not indicate that the property was purchased or converted for use as an investment in the current calendar year. The most recent tax returns including Schedule E must be annualized for qualification purposes. Refer to the maximum amount of eligible net rental income calculation requirements since the borrower does not have a one-year history of managing rental property.

Resources:

[Rental Income Webinar](#), [Rental Income – Lease Options Clip](#) and the [Rental Income – Current Residence Status Clip](#)



Exhibit 1

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	Property owned in the <u>prior</u> calendar year		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- to 4-unit Investment Property	Non-subject Investment Property Owned by the Borrower
<p>Updates to the documentation, history and analysis</p> <p>Streamlined and Standard Documentation levels</p>	<p>The Seller must obtain the borrower's complete federal income tax returns (Internal Revenue Service (IRS) Form 1040) including Schedule E for the most recent year. Except as set forth below when use of a signed lease may be permitted, if the subject property has been owned for at least one year and income from the subject property is reported on the borrower's federal income tax returns, the Seller must use Schedule E to determine the net rental income or loss.</p> <ul style="list-style-type: none"> ▪ A signed lease may be used if: <ul style="list-style-type: none"> ○ The property was out of service for any time period in the prior year and the mortgage file contains a documented event such as a renovation and the Schedule E supports this by a reduced number of days in use and reflects repair costs; or ○ The property was purchased later in the calendar year and the Schedule E supports this by a reduced number of days in use; <p>And, in either of the above instances, additional documentation provided as follows:</p> <ul style="list-style-type: none"> – Form 72 or 1000 supporting the income reflected on the lease; or – Documentation verifying two months of receipt of rental payments or the security deposit and receipt of the first month's rental payment¹. Documentation must include: <ul style="list-style-type: none"> ➤ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks), or ➤ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screen shot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screen shot that evidences transfer of the payments and ties the account to the Borrowers bank account), or ➤ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution. <p>Unless the above requirements are met, a signed lease may not be used and the rental income or loss form the Schedule E must be used and annualized for qualifying purposes.</p>		
<p>Updates to Lease Requirements</p>	<p>Leases must be current and fully executed.</p> <p>For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage.</p>		



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Topic	Rental Income is from...	
	Subject property purchase and refinance transactions and non-subject properties acquired or placed in service in the <u>current</u> calendar year	
Updates to the documentation, history and analysis Streamlined and Standard Documentation levels	Subject Property Purchase	
	2- to 4-unit Primary Residence	1- to 4-unit Investment Property
	<ul style="list-style-type: none"> ▪ Existing lease, if available, must be used to determine the net rental income or ▪ Forms 72 or 1000, as applicable, may be used to determine net rental income when a lease is not available. <p>Note: The Seller must make reasonable efforts to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method.</p>	
	Subject Property Refinance and Non-subject Property	
	2- to 4-unit Primary Residence	1- to 4-unit Investment Property
	<ul style="list-style-type: none"> ▪ Lease must be used to determine the net rental income and: <ul style="list-style-type: none"> ○ Forms 72 or 1000 supporting the income reflected on the lease; or ○ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment¹. <p style="margin-left: 40px;">Documentation must include:</p> <ul style="list-style-type: none"> ➤ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks), or ➤ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screen shot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screen shot that evidences transfer of the payments and ties the account to the Borrowers bank account), or ➤ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution. ▪ Purchase date or conversion date, as applicable, must be documented. <p>¹Form 72 or 1000 is always required for the subject property, as described in Section 5306.4(a)(ii).</p>	
Updates to the Lease Requirements	Subject Property Purchase Transaction	Subject Investment Property and Non-subject Property
	The existing lease must be current and fully executed in the property seller's name as the landlord .	The lease must be current and fully executed. For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage.