

Rental income may be used in qualifying the borrower(s) provided the requirements of Guide Section 5306.1 and the documentation requirements contained in Guide Sections 5102.3 and 5102.4 and Chapter 5302 are met. If rental income is not used to qualify the borrower, the requirements of Chapter 5306.1 do not apply.

**Notes:** A vertical revision bar " | " is used in the margin of this quick reference to highlight new requirements and significant changes.

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
Documentation, history and analysis – property owned in the prior calendar year  Streamlined and Standard Documentation levels	<p>If the borrower's monthly debt payment-to-income ratio (as described in Section 5401.2) includes the full monthly payment amount for the subject investment property and/or non-subject investment property, no further evaluation is required.</p> <p>If rental income from the subject investment property and/or non-subject investment property is to be considered in qualifying the borrower, the following requirements apply:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ 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.</li> <li>▪ A signed lease may be used: <ul style="list-style-type: none"> <li>○ 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</li> <li>○ The property was purchased later in the calendar year and Schedule E supports this by a reduced number of days in use; and</li> <li>○ Additional documentation provided, as follows: <ul style="list-style-type: none"> <li>• Forms 72, <a href="#">Small Residential Income Property Appraisal Report</a>, or 1000, <a href="#">Single-Family Comparable Rent Schedule</a>, supporting the income reflected on the lease; <b>or</b></li> <li>• 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).</li> </ul> </li> </ul> </li> </ul> <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>		



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
<p>Documentation, history and analysis – purchased or placed in service for use as a rental in the current calendar year</p> <p>Streamlined and Standard Documentation levels</p>	<p>Subject property purchase transaction:</p> <ul style="list-style-type: none"> <li>Lease, if available, must be used to determine the net rental income or</li> <li>Forms 72 or 1000, as applicable, may be used to determine net rental income when a lease is not available</li> </ul>	<p>Subject property refinance transaction or non-subject investment property:</p> <ul style="list-style-type: none"> <li>Lease must be used to determine the net rental income <b>and</b>: <ul style="list-style-type: none"> <li>Forms 72 or 1000 supporting the income reflected on the lease <b>or</b></li> <li>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).</li> </ul> </li> <li>Purchase date or conversion date, as applicable, must be documented</li> </ul>	
Lease Requirements	<ul style="list-style-type: none"> <li>Property purchased or placed in service in the current calendar year: 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.</li> <li>Property owned in the prior calendar year: 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.</li> </ul>		
Maximum eligible amount of net rental income	<ul style="list-style-type: none"> <li>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 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.</li> <li>If the borrower’s current primary residence is being converted to a rental property, net rental income can only offset the full monthly payment of that primary residence.</li> <li>If the net rental income exceeds the full monthly payment of the new rental property or the converted primary residence, as applicable, 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.</li> </ul>		



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"> <li>Lease: 75% of the gross monthly rent or gross monthly market rent.</li> <li>Form 72 or Form 1000: 75% of the gross monthly rent or gross monthly market rent.</li> <li>Schedule E: Calculate the net rental income from <u>Schedule E using Form 92, Net Rental Income Calculations – Schedule E</u>, or a similar alternative form, as follows: 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). 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.</li> </ul>		
Establishing the debt payment-to- income (DTI) ratio	<ul style="list-style-type: none"> <li>The monthly housing expense (as described in <a href="#">Section 5401.1</a>) must be calculated without the use of rental income</li> <li>The net rental income may be added to the stable monthly income</li> </ul>	Subtract the monthly payment amount (as described in <a href="#">Section 5401.2(a)(7)</a> ) from the net rental income: <ul style="list-style-type: none"> <li>If the result is positive, add it to the stable monthly income</li> <li>If the result is negative, add it to the monthly liabilities</li> </ul>	Subtract the monthly payment amount (as described in <a href="#">Section 5401.2(a)(7)</a> ) from the net rental income: <ul style="list-style-type: none"> <li>If the result is positive, add it to the stable monthly income</li> <li>If the result is negative, add it to the monthly liabilities</li> </ul> For multiple non-subject investment properties, apply the calculation above to each property, and: <ul style="list-style-type: none"> <li>If the combined result is positive, add it to the stable monthly income</li> <li>If the combined result is negative, add it to the monthly liabilities</li> </ul>
Appraisal forms – Comparable rent data - Documentation Form 72 or 1000	Form 72	Form 1000 or Form 72, as applicable	Appraisal form requirements as described in Guide Section 5306.1(c)(iii) may also apply.



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  -Analysis	<ul style="list-style-type: none"> <li>Analyze the rental market viability and income producing potential for the subject property</li> <li>Determine whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable</li> <li>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</li> </ul>		
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>Manually underwritten mortgages: Verified reserves must equal or exceed six months reserves*, 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.</p> <p>Investment property mortgages where the borrower** is obligated on:</p> <ul style="list-style-type: none"> <li>1-6 financed properties including the subject property and the borrower’s primary residence: Two months of reserves (as described in Section 5501.2(a)) for each additional second home and/or 1- to 4-unit investment property that is financed and on which the borrower is obligated, regardless of whether rental income is used in qualifying the borrower for both Loan Product Advisor mortgages and manually underwritten mortgages.</li> <li>7-10 financed properties including the subject property and the borrower’s primary residence: Eight months’ reserves for each additional second home and/or 1- to 4-unit investment property that is financed and on which the borrower is obligated, regardless of whether rental income is used in qualifying the borrower for Loan Product Advisor mortgages only. Manually underwritten mortgages not permitted.</li> </ul> <p>** Each borrower individually and all borrowers collectively.</p>		



### 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 5306.1(b) or Guide Section 4501.9 for Home Possible® mortgages.
3. Rental Income generated from an Accessory Dwelling Unit (ADU) on a subject 1-unit Primary Residence may be used to qualify the borrower if certain requirements are met. Refer to Guide Section 5306.3. Refer to Chapter 5601 for property eligibility and appraisal requirements.
4. Rental income generated from an ADU may be considered for a subject 1-unit investment property and non-subject investment property. Refer to Guide Section 5306.1(a)(ii). Refer to Chapter 5601 for property eligibility and appraisal requirements.
5. 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.

\

This document is not a replacement or substitute for the information found in the *Freddie Mac Single-Family Seller/Service Guide* or terms of your Master Agreement or other Pricing Identifier Terms.

© 2022 Freddie Mac

[Freddie Mac Learning](#)