

# Rental Income Worksheet

## Schedule E – Income or Loss from Rental Real Estate

If your borrower earns rental income, look for the following line items.

**Note:** Be sure to check each property listed on Schedule E against the borrower's Schedule of Real Estate Owned on the Loan Application. If the borrower no longer owns the property, exclude the income (loss) from that property from your analysis.

In general, you only need to analyze the most recent tax year for net rental income.

### Schedule E – PITIA Calculation

Use the current PITIA (Principal, Interest, Taxes, Insurance and All other) for each rental property. Review Schedule E for numerous line item add-backs.

Follow investor guidelines.

### Schedule E – Traditional Calculation

Do not use the current PITIA for each rental property. Review Schedule E for limited line item add-backs.

Follow investor guidelines.

### Line 3: Rents Received

The amount the borrower reports on this line is income generated from rental real estate.

#### Effect on Rental Income Worksheet

- PITIA or Traditional Calculation – Add recurring rental income

### Line 20: Total Expenses

The borrower reports total expenses associated with rental real estate.

#### Effect on Rental Income Worksheet

- PITIA or Traditional Calculation – Deduct recurring expenses

### Line 18: Depreciation Expense or Depletion

Depreciation is a noncash expense allocated over the useful life of a declared asset. Depletion, a noncash expense, is the exhaustion of a natural resource over a given period of time.

In general, the borrower calculates the total depreciation deduction on Form 4562 and transfers the amount to Schedule E.

#### Effect on Rental Income Worksheet

- PITIA or Traditional Calculation – Add back the amount

### Lines 9, 12, 13 and 16: Insurance, Mortgage Interest, Other Interest and Taxes

The borrower reports insurance, mortgage interest and tax expenses on these lines.

#### Effect on Rental Income Worksheet

- PITIA Calculation – Add back the amounts, regardless of whether the items are escrowed
- Traditional Calculation:
  - If **Investment Property**; make no adjustment
  - If **Primary Residence (2-4 unit)**; add back the amounts

### Line 19: Other

The borrower may list certain expenses that are either noncash expenses (e.g., amortization) or nonrecurring in nature (e.g., casualty loss). In addition, homeowners association dues, which are recurring, may be listed here.

#### Effect on Rental Income Worksheet

- PITIA Calculation – Add back the amount included in the current PITIA payment and any amortization and/or casualty loss
- Traditional Calculation – Add back only amortization and/or casualty loss

## Form 8825: Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Partnerships and S Corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including taxable income (loss), which flow to the partner/shareholder through Schedule K-1.

When the borrower is personally obligated for related mortgage debt – as evidenced on a credit report – analyze Form 8825 using the Principal, Interest, Taxes, Insurance and All other (PITIA) method on the Rental Income Worksheet to offset the mortgage debt. Follow investor guidelines.

### FYI: Rental Income & Cash Flow Analysis Worksheets

Line items reported on Form 8825 affect the borrower's rental income and cash flow.

- Use our Rental Income Worksheet to analyze reported income
- Use the Cash Flow Analysis Worksheet to add back depreciation the borrower reported

### Line 2: Gross Rents

The amount the business reports on this line is income generated from rental real estate.

#### Effect on Rental Income Worksheet

- PITIA Calculation – Add recurring rental income

### Line 16: Total Expenses

The business reports total expenses associated with rental real estate.

#### Effect on Rental Income Worksheet

- PITIA Calculation – Deduct recurring expenses

### Line 14: Depreciation

Depreciation is a noncash business expense allocated over the useful life of a declared asset.

In general, the borrower calculates the total depreciation deduction on Form 4562 and transfers the amount to Form 8825.

#### Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amount

#### Effect on Cash Flow Analysis Worksheet

- Add back the amount

### Lines 7, 9, 11: Insurance, Interest and Taxes

#### Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amounts, regardless of whether items are escrowed or not

### Line 15: Other

The borrower may report certain expenses that are either noncash expenses (e.g., amortization) or nonrecurring in nature (e.g., casualty loss). In addition, homeowners association dues, which are recurring, may be reported here.

#### Effect on Rental Income Worksheet

- PITIA Calculation - Add back the amount included in the current PITIA and any amortization and/or casualty loss