

# Special Events

[www.mgic.com/training](http://www.mgic.com/training)



# **Evaluating & Calculating Rental Income**

Presented by: Sandra Sweeney, Senior Customer Trainer

**MGIC**

**Legal disclaimer:**

The materials included in this presentation are intended for general information only. This presentation is not intended to be complete or all-inclusive regarding the matters discussed herein, and nothing contained in this presentation is intended, or should be relied upon, as legal, accounting, compliance or other professional advice.

Although MGIC believes the information set forth in this publication is generally accurate, the information may be outdated due to the rapidly changing nature of the residential mortgage industry, and MGIC does not warrant the accuracy, reliability or completeness of any information contained in this publication.

The information in this publication is culled from a variety of business and mortgage industry sources. Attribution is given where deemed necessary. Opinions and insights expressed herein do not necessarily represent the views of MGIC.

The MGIC logo is displayed in white, bold, sans-serif capital letters. It is positioned on the right side of a dark blue horizontal band that features a geometric pattern of light blue lines forming various shapes. The logo is partially overlaid by a white arrow pointing to the right.

# Objectives

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Eligibility and underwriting

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Documenting rental income

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Calculating rental income/loss

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Multiple financed properties

# MGIC





# **Rental income fundamentals**

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# Are you using rental income to qualify?



No

Include  
PITIA in DTI

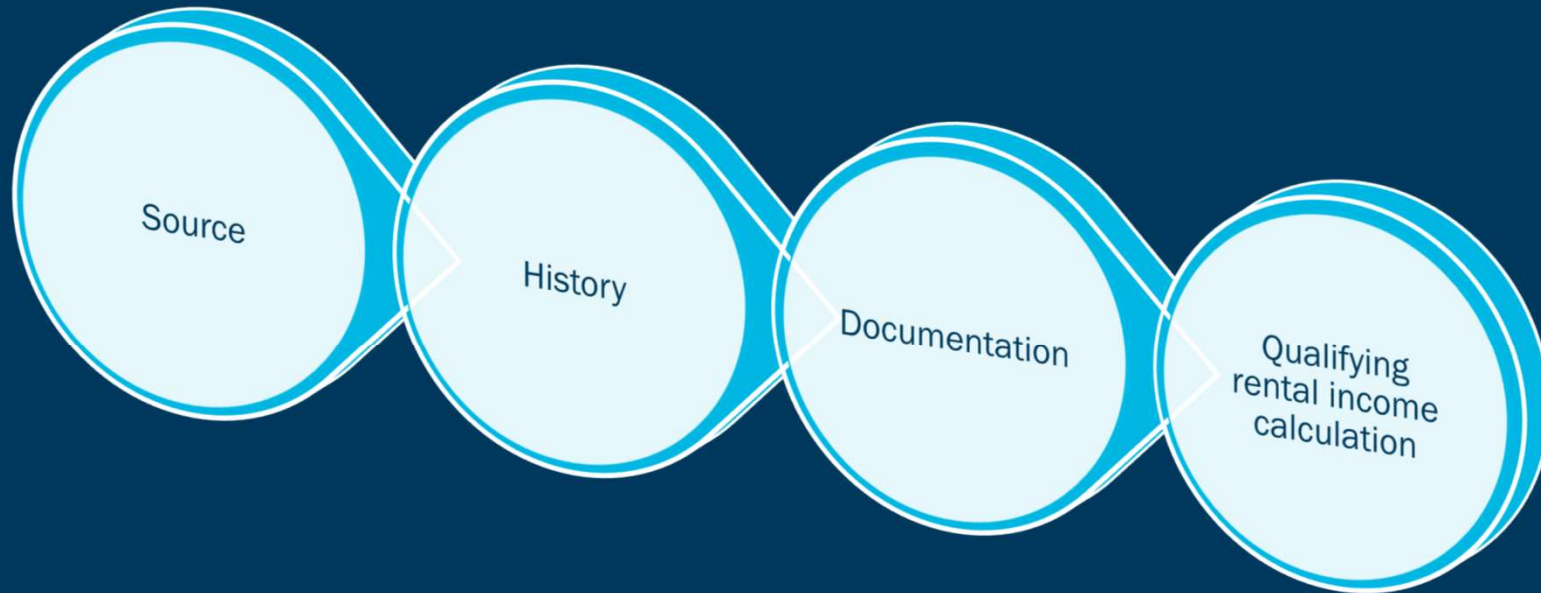
*However, documentation  
of gross rents  
is still required.*

Yes

Let's  
continue  
on...

# The fundamentals

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## Source

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- Subject 2- to 4-unit primary residence
  - Purchase or refinance
- Subject 1- to 4-unit investment property
  - Purchase or refinance
- Non-subject investment property
- Subject 1-unit primary residence (boarder income)
- Accessory units

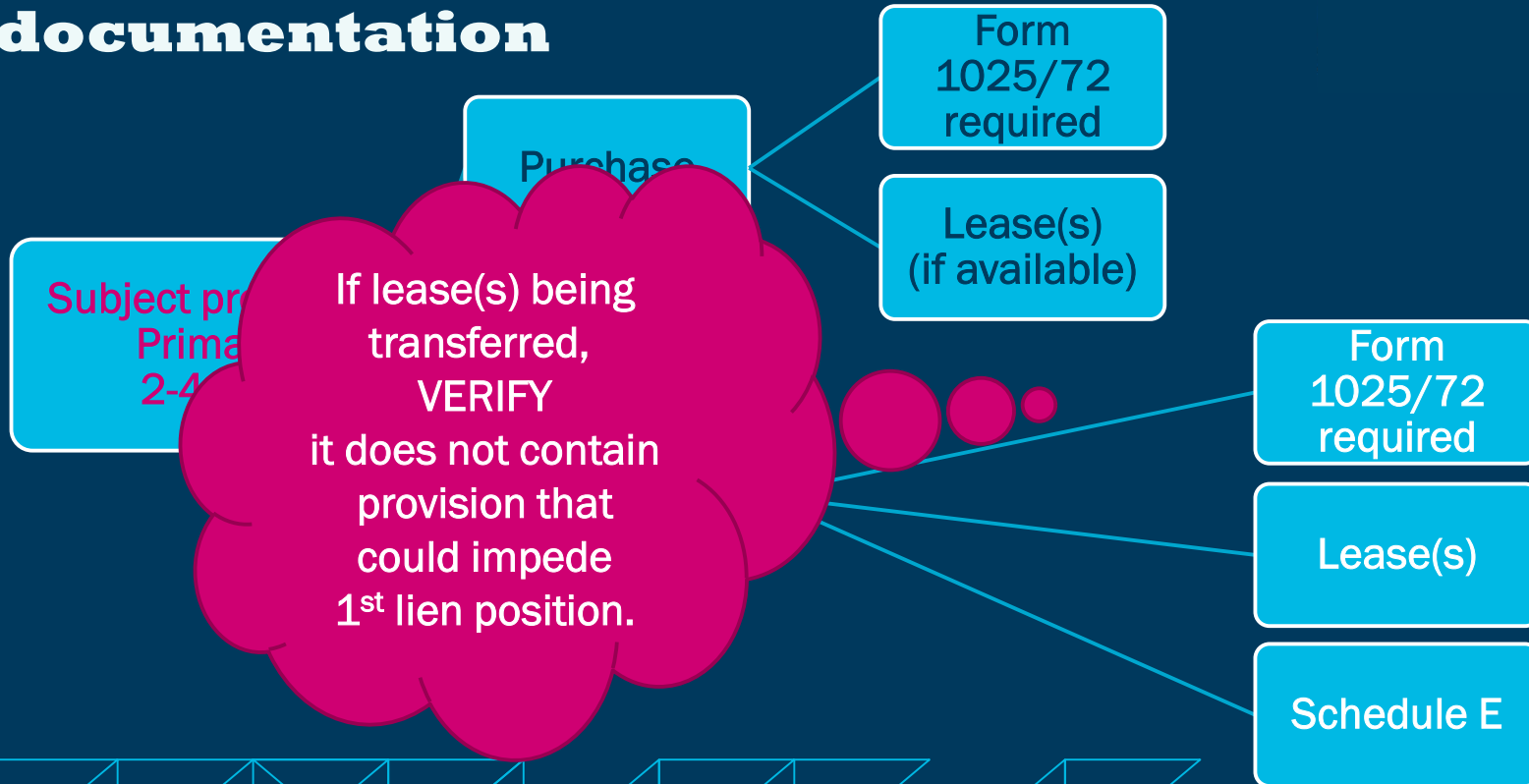
## History

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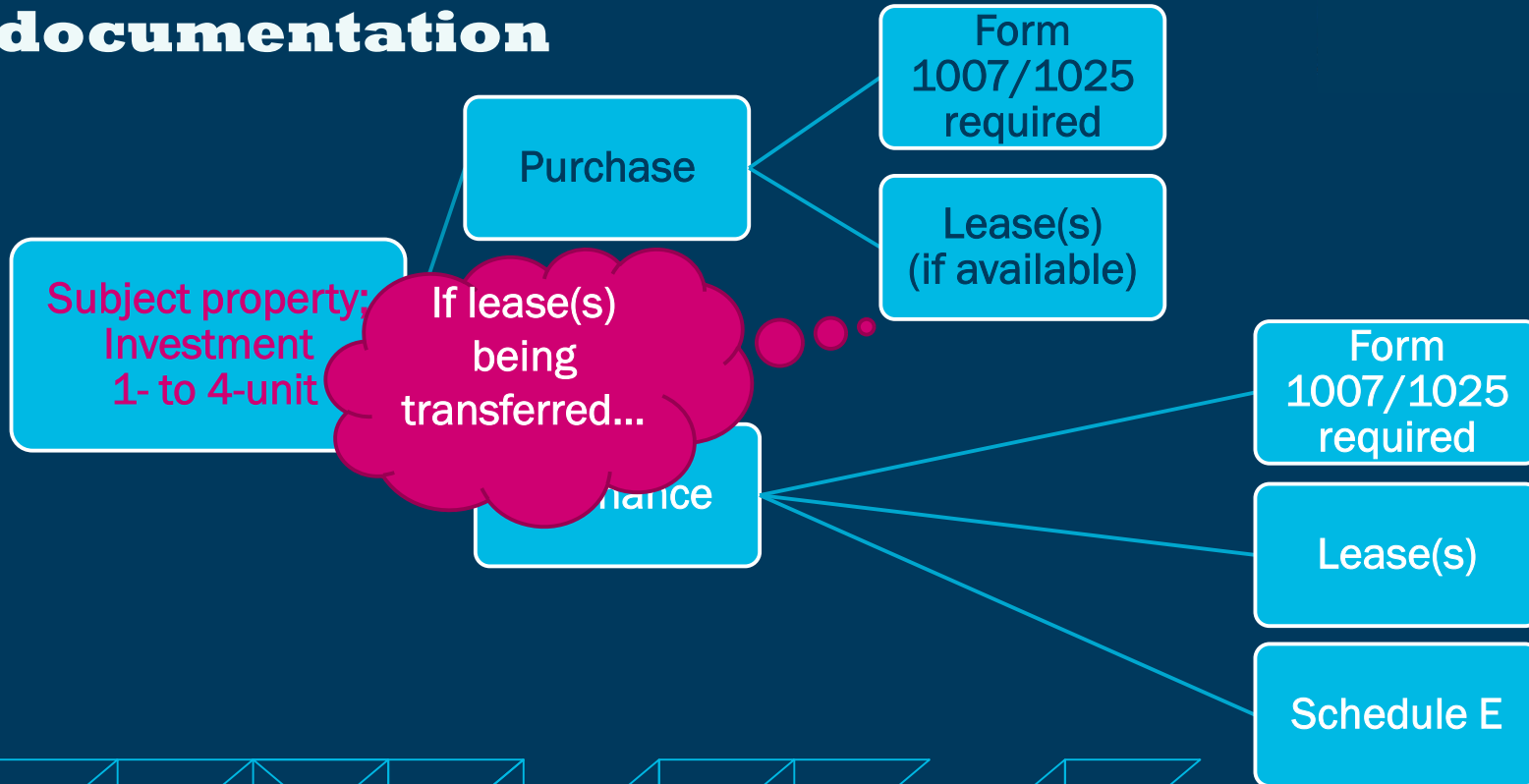
How long has property been owned or in service?

- Prior calendar year (and beyond)
  - Schedule E or combination of documentation
- Current calendar year (no taxes)
  - Lease or Forms 1007 or 1025

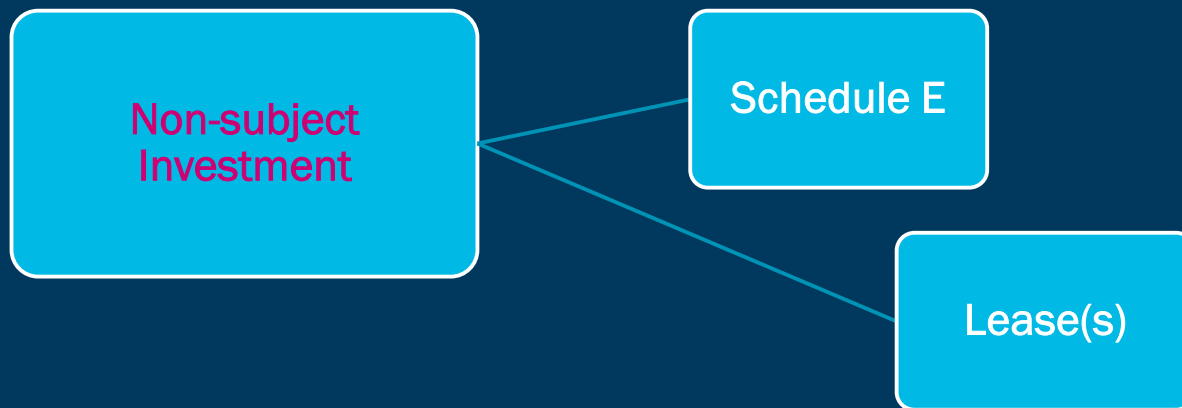
# Source, history & documentation



# Source, history & documentation



# Source, history & documentation







## Can rental income be used?

Arthur and Elizabeth own a beach condo that they use as a second home. Their tax returns reflect receipt of rental income.

Can you use the rental income obtained from their seasonal rental of this second home as part of the qualifying income?

# **Rental income documentation**

The MGIC logo is positioned in the bottom right corner of a dark blue footer. The footer features a white geometric pattern of overlapping squares and rectangles. The logo itself consists of the letters 'MGIC' in a bold, white, sans-serif font, followed by a white arrow pointing to the right.

## Form 1007

# MGIC

- 1-unit investment property
- Provided in addition to appraisal

<b>SINGLE FAMILY COMPARABLE RENT SCHEDULE</b>				
<small>This form is intended to provide the appraiser with a familiar format to estimate the market rent of the subject property. Adjustments should be made only for items of significant difference between the comparables and the subject property.</small>				
ITEM	SUBJECT	COMPARABLE NO. 1	COMPARABLE NO. 2	COMPARABLE NO. 3
Address				
Proximity to Subject				
Date Lease Begins Date Lease Expires				
Monthly Rental	If Currently Rented: \$	\$	\$	\$

# Fannie Mae Form 1025/ Freddie Mac Form 72

# MGIC

2- to 4-unit property

## Small Residential Income Property Appraisal Report

File #

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.								
Property Address		City		State		Zip Code		
Borrower		Owner of Public Record			County			
Legal Description								
S U B J E C T	Assessor's Parcel #		Tax Year		R.E. Taxes \$			
	Neighborhood Name			Map Reference		Census Tract		
	Occupant <input type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant		Special Assessments \$		<input type="checkbox"/> PUD HOA \$		<input type="checkbox"/> per year <input type="checkbox"/> per month	
	Property Rights Appraised <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold <input type="checkbox"/> Other (describe)							
	Assignment Type <input type="checkbox"/> Purchase Transaction <input type="checkbox"/> Refinance Transaction <input type="checkbox"/> Other (describe)							
	Lender/Client		Address					
	Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? <input type="checkbox"/> Yes <input type="checkbox"/> No							
	Report data source(s) used, offering price(s), and date(s).							

# Leases



**Agreement To Rent Or Lease**

This Agreement is made and entered into between \_\_\_\_\_, hereinafter "Owner" and (names of all Residents and names and ages of children to reside on the premises):

Resident \_\_\_\_\_ (Age) \_\_\_\_\_ Resident \_\_\_\_\_ (Age) \_\_\_\_\_  
 Resident \_\_\_\_\_ (Age) \_\_\_\_\_ Resident \_\_\_\_\_ (Age) \_\_\_\_\_  
 Resident \_\_\_\_\_ (Age) \_\_\_\_\_ Resident \_\_\_\_\_ (Age) \_\_\_\_\_

Hereinafter "Resident." The word Resident as used herein shall include the singular as well as the plural, and the word Owner shall include the singular as well as the plural. Under the conditions below, Owner rents to Resident, and Resident rents from Owner, for residence in the City of \_\_\_\_\_

**Owner and Resident mutually agree as follows:**

**1. TERM.** The term of the rental shall begin on \_\_\_\_\_ and shall continue for one month and the security deposit: (check one)

For a period of \_\_\_\_\_ months and \_\_\_\_\_ days thereafter expiring on \_\_\_\_\_ Renewal of the term shall be as described in Paragraph 22 of this Agreement (A Fixed Term Tenancy).

On a periodic tenancy basis, terminable by either party by the giving of a written notice in accordance with Paragraph 22 of this Agreement (A Periodic Tenancy).

**2. RENT.** Resident shall pay to Owner the Monthly rent of \$ \_\_\_\_\_ in advance on the \_\_\_\_\_ day of each month without deduction or offset. On signing this Agreement Resident shall pay one full month's rent.

**Residential Lease Agreement**

This Residential Lease Agreement is made between the Landlord \_\_\_\_\_ and the Tenant \_\_\_\_\_ on this date \_\_\_\_\_.

The Landlord hereby agrees to rent the Premises to the Tenant and Tenant hereby agrees to rent the Premises from the Landlord. The Premises is described as follows:

Street Address: \_\_\_\_\_

Premises Description: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**1. TERM:**

The Lease term shall be as follows (choose one):

Fixed term lease beginning on \_\_\_\_\_ and ending on \_\_\_\_\_ for a total period of \_\_\_\_\_ months.

Month to month lease beginning on \_\_\_\_\_.

**2. RENT:**

The Tenant agrees to pay the Landlord an amount of \$ \_\_\_\_\_ per month as rent on or before the \_\_\_\_\_ day of each month.

## When can a lease be used?

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- Purchase transactions with existing, transferring leases
- Refinance transactions with properties purchased in the last year
- Property that experienced rental interruptions (file contains verification of documented event)
- Conversion of a principal residence to investment property

# Lease agreement requirements



Fannie Mae and Freddie Mac – Old Guidelines	Fannie Mae and Freddie Mac – New Guidelines
<p>No evidence was required to ensure that lease was in effect.</p>	<ul style="list-style-type: none"> <li>• Form 1007/1000 or 1025/70 must support the income reflected on the lease agreement <b>OR</b></li> <li>• Evidence the terms of lease have gone into effect               <ul style="list-style-type: none"> <li>• 2 months' bank statements, copies of cancelled checks, or electronic transfers of rent payments <b>OR</b></li> <li>• Copy of security deposit and 1<sup>st</sup> month's rent check with proof of deposit</li> </ul> </li> </ul>
Freddie Mac – Old Guidelines	Freddie Mac – New Guidelines
<p>Newly Executed Lease Agreements or No Rental History –</p> <p>Lease must be for at least one year.</p>	<p>Newly Executed Lease Agreements or No Rental History –</p> <p>Lease must have the first payment due no later than the 1<sup>st</sup> payment on the subject mortgage.</p> <p>Transferring leases must be current and fully executed in the property seller's name as the landlord.</p>

# Schedule E



**SCHEDULE E (Form 1040) Supplemental Income and Loss**  
 (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)  
 Department of the Treasury Internal Revenue Service  
 Attach to Form 1040, 1040-SR, 1040-NR, or 1041.  
 Go to [www.irs.gov/ScheduleE](http://www.irs.gov/ScheduleE) for instructions and the latest information.  
 Name(s) shown on return: \_\_\_\_\_ Your social security number: \_\_\_\_\_

**OMB No. 1545-0074**  
**2023**  
 Attachment Sequence No. 13

**Part I Income or Loss From Rental Real Estate and Royalties**  
 Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

**A** Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions. Yes  No   
**B** If "Yes," did you or will you file required Form(s) 1099? Yes  No

**1a** Physical address of each property (street, city, state, ZIP code)  
**A** \_\_\_\_\_  
**B** \_\_\_\_\_  
**C** \_\_\_\_\_

Type of Property (from list below)	For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days			Personal Use Days			QJV			
		A	B	C	A	B	C	A	B	C	
<b>A</b>											
<b>B</b>											
<b>C</b>											

**Type of Property:**  
 1 Single Family Residence    3 Vacation/Short-Term Rental    5 Land    7 Self-Rental  
 2 Multi-Family Residence    4 Commercial    6 Royalties    8 Other (describe) \_\_\_\_\_

		Properties:		
		A	B	C
<b>Income:</b>				
<b>3</b> Rents received	3			
<b>4</b> Royalties received	4			
<b>Expenses:</b>				
<b>5</b> Advertising	5			
<b>6</b> Auto and travel (see instructions)	6			
<b>7</b> Cleaning and maintenance	7			
<b>8</b> Commissions	8			
<b>9</b> Insurance	9			
<b>10</b> Legal and other professional fees	10			
<b>11</b> Management fees	11			
<b>12</b> Mortgage interest paid to banks, etc. (see instructions)	12			
<b>13</b> Other interest	13			
<b>14</b> Repairs	14			
<b>15</b> Supplies	15			
<b>16</b> Taxes	16			
<b>17</b> Utilities	17			
<b>18</b> Depreciation expense or depletion	18			
<b>19</b> Other (list)	19			
<b>20</b> Total expenses. Add lines 5 through 19	20			
<b>21</b> Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21			
<b>22</b> Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22			
<b>23a</b> Total of all amounts reported on line 3 for all rental properties	23a			
<b>b</b> Total of all amounts reported on line 4 for all royalty properties	23b			
<b>c</b> Total of all amounts reported on line 12 for all properties	23c			
<b>d</b> Total of all amounts reported on line 18 for all properties	23d			
<b>e</b> Total of all amounts reported on line 20 for all properties	23e			
<b>24</b> Income. Add positive amounts shown on line 21. Do not include any losses	24			
<b>25</b> Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25			
<b>26</b> Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, and IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26			

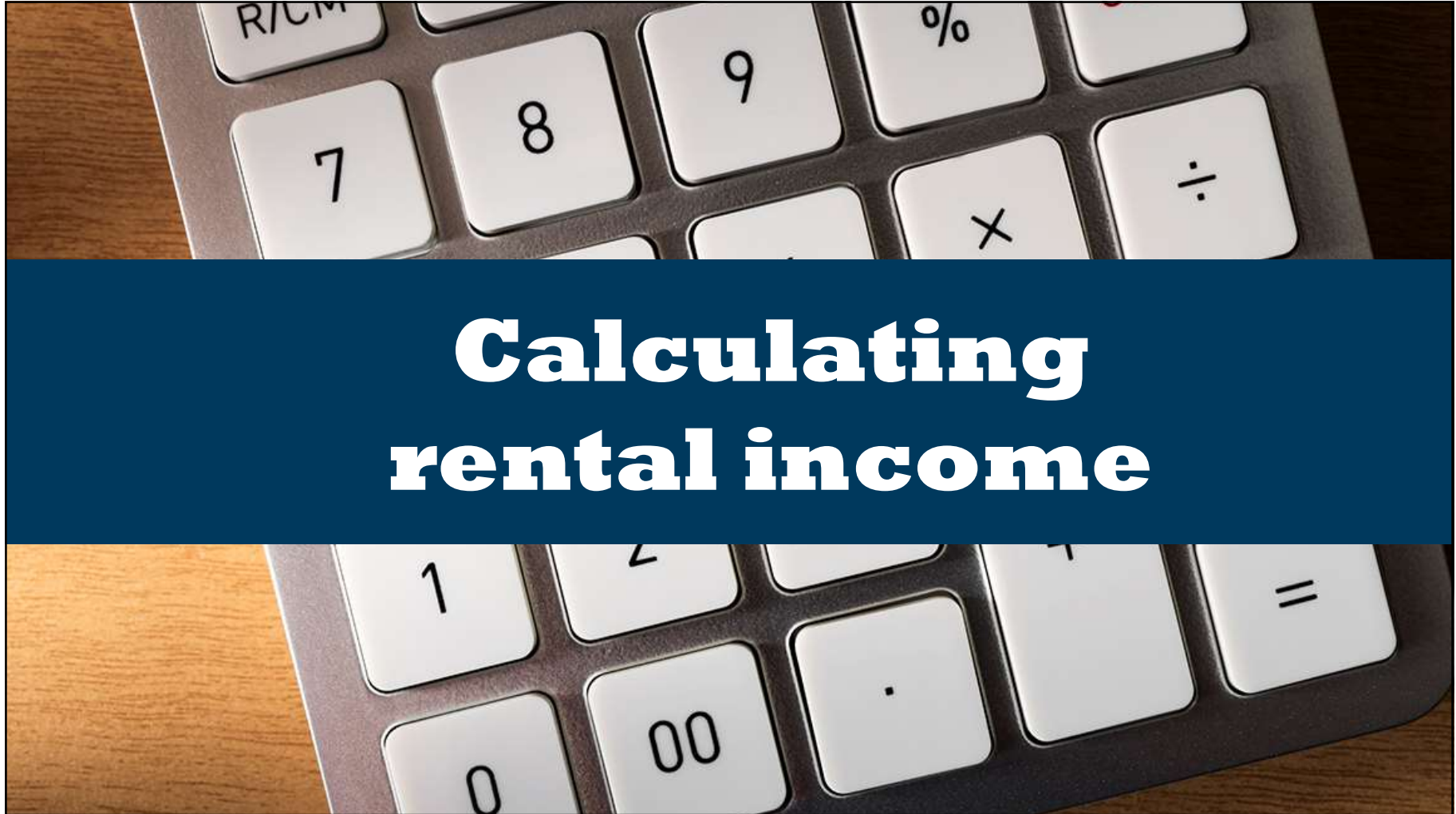
For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11346L Schedule E (Form 1040) 2023



## **Current docs**

- Mortgage statement
- Homeowner's insurance declaration page
- Property tax bill
- HOA statement (if applicable)





# Rental income worksheet

[www.mgic.com/seb](http://www.mgic.com/seb)



[www.mgic.com/seb](http://www.mgic.com/seb)

## Rental Income Worksheet



BORROWER AND/OR CO-BORROWER NAME:

DATE:

Based on the usage of the property(ies), complete your rental analysis using Schedule E, Lease Agreement (or alternate), or Form 8825, as required by your investor.  
(For Schedule E – Traditional Method complete rows 15-18 & 22).

In general, investors require analysis of the most recent tax year for net rental income (loss).  
For your convenience, average monthly rental figures are provided.

YEAR 1:

YEAR 2:

### Primary Residence (2 - 4 unit)

Schedule E

Lease Agreement (or alternate)

### Investment Property

Schedule E

Lease Agreement (or alternate)

### Business Rental

Form 8825

Lease Agreement (or alternate)

Comments / Notes (For a new line, hold Alt and press Enter)





Fannie Mae®



**Who is your end investor?**

mortgage guaranty  
insurance corporation

24

For Fannie Mae – If the borrower . . . (Selling Guide B3-3.1-08)	Rental income from . . .	Then, for qualifying purposes . . .
Currently owns a principal residence (or has a current housing expense), <b>AND</b> at least a 1-year history of receiving rental income <b>OR</b> at least 1 year of documented property management experience	Subject property <b>OR</b> Non-subject property	No restrictions on the amount of rental income that can be used
No current housing expense, <b>AND</b> Has at least 1-year history of receiving rental income from subject property	Non-subject property in service for at least 1 year	No restrictions on the amount of rental income that can be used
Currently owns primary residence (or has current housing expense), <b>AND</b> has < 1-year history of receiving rental income <b>OR</b> documented property management experience	Subject property	<b>Principal residence</b> , income not exceeding PITIA of the subject can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the subject
	Non-subject property (new or newly in service)	<b>Principal residence</b> , income not exceeding PITIA of the property can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the related property
Does not own primary residence <b>AND</b> does not have current housing expense	Subject property <b>OR</b> Non-subject property	Rental income cannot be used



# Freddie Mac – Use of rental income

# MGIC

The screenshot shows the Freddie Mac Seller/Service Guide website. The page title is "5306.1 Rental income overview" and it is effective as of 07/03/2024. The breadcrumb trail is: Guide Home > Selling > Series 5000 : Origination and Underwriting > Topic 5300 : Stable Monthly Income and Asset Qualification Sources > Chapter 5306 : Rental Income. The main content is under the heading "(a) General eligibility requirements".

**5306.1** < Prev Next >  
**Rental income overview**  
 Effective 07/03/2024  
 Guide Home > Selling > Series 5000 : Origination and Underwriting > Topic 5300 : Stable Monthly Income and Asset Qualification Sources > Chapter 5306 : Rental Income

**(a) General eligibility requirements**

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three years. For each income source used to qualify the Borrower, the Seller must determine that both the source and the amount of the income are stable. Refer to [Section 5301.1](#) for additional information about income stability and continuance.

**(i) Rental income eligibility**

Rental income generated from the following property and occupancy types may be considered when determining the stable monthly income:

- 1-unit Primary Residence:
  - Rental income from a live-in aide, regardless of the type of housing provided, or
  - Rental income from an ADU
- 2- to 4-unit Primary Residence (rental income is eligible from units that are not occupied by the Borrower)
- Subject 1- to 4-unit Investment Property
- Non-subject investment property owned by the Borrower (not restricted to residential property (e.g., commercial permitted))

Source: Freddie Mac Selling Guide, Section 5306.1

## Freddie Mac – Use of rental income



### Limitations on Use of Net Rental Income To Qualify for Certain Transaction Types

Subject Investment Property Purchase Transactions		
<p><b>If,</b></p> <p>The borrower is purchasing a <b>new</b> rental property in the <b>current</b> calendar year</p>	<p><b>Then,</b></p> <p>To use rental income to qualify each borrower <b>must currently own a primary residence or have a current rental housing payment</b> (refer to Guide Section 5401.1(a)(iv) for documentation requirements).</p> <p>Exception: Borrowers currently residing in the same property, provided at least one borrower owns a primary residence or has a current rental housing payment.</p>	<p><b>In such instances</b>, 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.</p> <p>*If documentation in the mortgage file demonstrates that at least <b>one</b> borrower has a <b>minimum of 1 year of investment property management experience</b> then the <b>full</b> amount of the net rental income can be used for qualifying.</p>

Source: Freddie Mac Rental Income Matrix

## Freddie Mac – Use of rental income



### Limitations on Use of Net Rental Income To Qualify for Certain Transaction Types (cont'd)

#### Primary Residence That Is Being Converted To An Investment Property

***If,***

The borrower's current primary residence is being **converted** to a rental property

***Then,***

Net rental income can **only offset\*** the principal, interest, taxes and insurance (PITI) and when applicable, mortgage insurance premiums, leasehold payments, homeowners association dues (excluding unit utility charges) and payments on secondary financing of that primary residence

\*If documentation in the mortgage file demonstrates that at least **one** borrower has a **minimum of 1 year of investment property management experience** then the **full** amount of the net rental income can be used for qualifying.

Source: Freddie Mac Rental Income Matrix



## History of ownership/housing expense and property management experience

Requirement	Definition
<ul style="list-style-type: none"> <li>Currently owns a principal/primary residence</li> </ul> <p>(OR)</p> <ul style="list-style-type: none"> <li>Has a current housing expense</li> </ul>	<ul style="list-style-type: none"> <li>The borrower is an individual on title to their principal/primary residence</li> <li>The 1003 reflects a history of the borrower having a current housing expense that <b><u>is representative of fair market rents</u></b></li> </ul>
	<b>Recommended documentation for housing expense</b>
	<ul style="list-style-type: none"> <li>Copy of fully executed lease with two months cancelled checks</li> <li>Direct verification of rent from management company or individual</li> <li>Six months cancelled checks, bank statements or equivalent</li> </ul>
Requirement	Recommended documentation for management experience
<ul style="list-style-type: none"> <li>Property management experience</li> </ul>	<ul style="list-style-type: none"> <li>Borrower's most recent tax returns including Schedule E, which should reflect rental income received for at least one year</li> <li>For properties owned for at least one year but the Schedule E shows less than 365 Fair Rental days, a current signed lease may be used to supplement and complete the one year of experience</li> </ul>



## Rental income needed

Theo currently lives with his parents rent-free. He does have a 24-month history of paying the monthly utilities. He is purchasing a 2-unit primary residence and will occupy one of the units.

Rental income is needed to qualify from the other unit of the subject property, which has a market rent of \$1,200.

For Fannie Mae – If the borrower . . . (Selling Guide B3-3.1-08)	Rental income from . . .	Then, for qualifying purposes . . .
Currently owns a principal residence (or has a current housing expense), <b>AND</b> at least a 1-year history of receiving rental income <b>OR</b> at least 1-year of documented property management experience	Subject property <b>OR</b> Non-subject property	No restrictions on the amount of rental income that can be used
No current housing expense, <b>AND</b> Has at least 1-year history of receiving rental income from subject property	Non-subject property in service for at least 1=year	No restrictions on the amount of rental income that can be used
Currently owns primary residence (or has current housing expense), <b>AND</b> has < 1-year history of Receiving rental income <b>OR</b> documented property management experience	Subject property	<b>Principal residence</b> , income not exceeding PITIA of the subject can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the subject
	Non-subject property (new or newly in service)	<b>Principal residence</b> , income not exceeding PITIA of the property can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the related property
Does not own primary residence <b>AND</b> does not have current housing expense	Subject property <b>OR</b> Non-subject property	Rental income cannot be used

# Freddie Mac – Use of rental income

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Freddie Mac Single-Family Seller/Service Guide

Guide Home Seller/Service Relationship **Selling** Servicing Search the Guide View All

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5306.1 < Prev Next >

## Rental income overview

Effective 07/03/2024

Guide Home > Selling > Series 5000 : Origination and Underwriting > Topic 5300 : Stable Monthly Income and Asset Qualification Sources > Chapter 5306 : Rental Income

### (a) General eligibility requirements

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three years. For each income source used to qualify the Borrower, the Seller must determine that both the source and the amount of the income are stable. Refer to Section 5301.1 for additional information about income stability and continuance.

#### (i) Rental income eligibility

Rental income generated from the following property and occupancy types may be considered when determining the stable monthly income:

- 1-unit Primary Residence:
  - Rental income from a live-in aide, regardless of the type of housing provided, or
  - Rental income from an ADU
- 2- to 4-unit Primary Residence (rental income is eligible from units that are not occupied by the Borrower)
- Subject 1- to 4-unit Investment Property
- Non-subject investment property owned by the Borrower (not restricted to residential property (e.g., commercial permitted))

Source: Freddie Mac Selling Guide, Section 5306.1

## Subject 2- to 4-unit Primary purchase

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- Using the lower of the **lease(s)** or **market rent(s)** from Form 1025:
  - Enter Gross Monthly Rental amount
  - 25% Vacancy Factor automatically deducted
  - Adjusted Monthly Rent auto calculated

Primary Residence (2 - 4 unit)

Schedule E

Lease Agreement (or alternate)

Property: 1224 Duplex Drive Upper#2 + -

Rental Income (Loss) Calculation		Adjusted Monthly Rent	
12	Gross Monthly Rent	Add to qualifying income; include PITIA in DTI	\$ 1,200.00
13	Vacancy Factor (25%) <span style="color: green;">i</span>		\$ (300.00)
14	Adjusted Monthly Rent <span style="color: blue; border: 1px solid blue; border-radius: 50%; padding: 2px;">i</span>	OK	\$ 900.00

# Subject 2- to 4-unit Primary residence - DTI calculation



Stable Monthly Income		Loan-to-Value Ratios		Proposed Monthly Payment for the Property	
Borrower 1	\$ _____	LTV	_____ %	First Mortgage P&I	\$ _____
Borrower 2	\$ _____	CLTV/TLTV	_____ %	Subordinate Lien (s) P&I	\$ _____
Borrower 3	\$ _____	HCLTV/HTLTV	_____ %	Homeowner's Insurance	\$ _____
Borrower 4	\$ _____			Supplemental Property Insurance	\$ _____
Other Borrowers (5+)	\$ _____			Property Taxes	\$ _____
Rental Income - subject property	\$ <b>900.00</b>			Mortgage Insurance	\$ _____
Net Rental Income - other properties	\$ _____			Association/Project Dues (Condo, Co-Op, PUD)	\$ _____
Total Borrower Income	\$ _____			Other	\$ _____
<input type="checkbox"/> At least one borrower is self-employed				Total	\$ <b>1,525.00</b>

Qualifying Ratios		Level of Property		All Other Monthly Payments Used in Qualifying	
Primary Housing Expense/Income	_____ %	<input type="checkbox"/> Exterior Only			\$ _____
Total Obligations/Income(DTI)	_____ %	<input type="checkbox"/> No App			



Primary Residence (2 - 4 unit)

Schedule E

Lease Agreement (or alternate)

Property: 1224 Duplex Drive Upper#2

Rental Income (Loss) Calculation	
12	Gross Monthly Rent \$ 1,200.00
13	Vacancy Factor (25%) \$ (300.00)
14	Adjusted Monthly Rent \$ 900.00



## Rental income needed

Bryan and Brittany are looking to purchase their first rental property. Brittany has a rental housing payment of \$1,800 per month. Bryan currently lives rent free in his parent's home.

Can rental income be used?



For Fannie Mae – If the borrower . . . (Selling Guide B3-3.1-08)	Rental income from . . .	Then, for qualifying purposes . . .
Currently owns a principal residence (or has a current housing expense), <b>AND</b> at least a 1-year history of receiving rental income <b>OR</b> at least 1-year of documented property management experience	Subject property <b>OR</b> Non-subject property	No restrictions on the amount of rental income that can be used
No current housing expense, <b>AND</b> Has at least 1-year history of receiving rental income from subject property	Non-subject property in service for at least 1=year	No restrictions on the amount of rental income that can be used
Currently owns primary residence (or has current housing expense), <b>AND</b> has < 1-year history of Receiving rental income <b>OR</b> documented property management experience	Subject property	<b>Principal residence</b> , income not exceeding PITIA of the subject can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the subject
	Non-subject property (new or newly in service)	<b>Principal residence</b> , income not exceeding PITIA of the property can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the related property
Does not own primary residence <b>AND</b> does not have current housing expense	Subject property <b>OR</b> Non-subject property	Rental income cannot be used



## Freddie Mac – Use of rental income



### Limitations on Use of Net Rental Income To Qualify for Certain Transaction Types

Subject Investment Property Purchase Transactions		
<p><b>If,</b></p> <p>The borrower is purchasing a <b>new</b> rental property in the <b>current</b> calendar year</p>	<p><b>Then,</b></p> <p>To use rental income to qualify each borrower <b>must currently own a primary residence or have a current rental housing payment</b> (refer to Guide Section 5401.1(a)(iv) for documentation requirements).</p> <p>Exception: Borrowers currently residing in the same property, provided at least one borrower owns a primary residence or has a current rental housing payment.</p>	<p><b>In such instances</b>, 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.</p> <p>*If documentation in the mortgage file demonstrates that at least <b>one</b> borrower has a <b>minimum of 1 year of investment property management experience</b> then the <b>full</b> amount of the net rental income can be used for qualifying.</p>

Source: Freddie Mac Rental Income Matrix



## Rental income needed

Bryan and Brittany currently reside together and are looking to purchase their first rental property. Brittany has a rental housing payment of \$1,800 per month.

Can I use a lease to offset the monthly payment on the associated mortgage payment of \$2,000? The sales contract indicates that lease will be transferred to the new owners. Monthly rent payment is \$3,000 supported by appraisal Form 1007.

For Fannie Mae – If the borrower . . . (Selling Guide B3-3.1-08)	Rental income from . . .	Then, for qualifying purposes . . .
Currently owns a principal residence (or has a current housing expense), <b>AND</b> at least a 1-year history of receiving rental income <b>OR</b> at least 1-year of documented property management experience	Subject property <b>OR</b> Non-subject property	No restrictions on the amount of rental income that can be used
No current housing expense, <b>AND</b> Has at least 1-year history of receiving rental income from subject property	Non-subject property in service for at least 1=year	No restrictions on the amount of rental income that can be used
Currently owns primary residence (or has current housing expense), <b>AND</b> has < 1-year history of Receiving rental income <b>OR</b> documented property management experience	Subject property	<b>Principal residence</b> , income not exceeding PITIA of the subject can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the subject
	Non-subject property (new or newly in service)	<b>Principal residence</b> , income not exceeding PITIA of the property can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the related property
Does not own primary residence <b>AND</b> does not have current housing expense	Subject property <b>OR</b> Non-subject property	Rental income cannot be used

## Freddie Mac – Use of rental income



### Limitations on Use of Net Rental Income To Qualify for Certain Transaction Types

Subject Investment Property Purchase Transactions		
<p><b>If,</b></p> <p>The borrower is purchasing a <b>new</b> rental property in the <b>current</b> calendar year</p>	<p><b>Then,</b></p> <p>To use rental income to qualify each borrower <b>must currently own a primary residence or have a current rental housing payment</b> (refer to Guide Section 5401.1(a)(iv) for documentation requirements).</p> <p>Exception: Borrowers currently residing in the same property, provided at least one borrower owns a primary residence or has a current rental housing payment.</p>	<p><b>In such instances</b>, 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.</p> <p>*If documentation in the mortgage file demonstrates that at least <b>one</b> borrower has a <b>minimum of 1 year of investment property management experience</b> then the <b>full</b> amount of the net rental income can be used for qualifying.</p>

Source: Freddie Mac Rental Income Matrix

# Investment 1 unit - DTI calculation



Investment Property		
<input type="radio"/>	Schedule E	
<input checked="" type="radio"/>	Lease Agreement (or alternate)	
Property: <b>New Rental Property</b> + -		
Rental Income (Loss) Calculation		
28	Gross Monthly Rent	\$ 3,000.00
29	Vacancy Factor (25%) ⓘ	\$ (750.00)
30	Adjusted Monthly Rent	\$ 2,250.00
31	Monthly PITIA	( \$ 2,000.00 )
32	NET Monthly Rental Income (Loss) ⓘ	\$ 250.00

Borrower 1	\$ _____
Borrower 2	\$ _____
Borrower 3	\$ _____
Borrower 4	\$ _____
Other Borrowers (5+)	\$ _____
Rental Income - subject property	\$ _____
Net Rental Income - other properties	\$ <b>\$2,250.00</b>
Total Borrower Income	\$ _____

**Loan-to-Value Ratios**  
 LTV \_\_\_\_\_ %  
 CLTV/TLTV \_\_\_\_\_ %  
 HCLTV/HTLTV \_\_\_\_\_ %

First Mortgage P&I	\$ _____
Subordinate Lien (s) P&I	\$ _____
Homeowner's Insurance	\$ _____
Supplemental Property Insurance	\$ _____
Property Taxes	\$ _____
Mortgage Insurance	\$ _____
Association/Project Dues (Condo, Co-Op, PUD)	\$ _____
Other	\$ _____
Total	\$ <b>1,800.00</b>

At least one borrower is self-employed

**Qualifying Ratios**

Primary Housing Expense/Income	_____ %
Total Obligations/Income(DTI)	_____ %

**Loan-to-Value Review**  
 Exterior Only  
 No Appraisal  
 Form Number \_\_\_\_\_

All Other Monthly Payments Used in Qualifying \$ \_\_\_\_\_

Borrower Funds to Close





# James & Jessica Johnson

Own 3 rental properties  
(Schedule E, page 1)

mortgage guaranty  
insurance corporation



# Schedule E Page 1

Compare to REO  
section of URLA



**SCHEDULE E (Form 1040)** Supplemental Income and Loss (OMB No. 1545-0074)

2023 Attachment Sequence No. 13

Department of the Treasury Internal Revenue Service

Attach to Form 1040, 1040-SR, 1040-NR, or 1041. Go to [www.irs.gov/ScheduleE](http://www.irs.gov/ScheduleE) for instructions and the latest information.

Name(s) shown on return: James & Jessica Johnson Your social security number: 000-00-0000

**Part I Income or Loss From Rental Real Estate and Royalties**

Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

**A** Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions.  Yes  No

**B** If "Yes," did you or will you file required Form(s) 1099?  Yes  No

**1a** Physical address of each property (street, city, state, ZIP code)

**A** 123 Clover Street Jackson TN 38301

**B** 225 S Main Street Jackson TN 38301

**C** 326 Goodview Lane Memphis TN 38111

**1b** Type of Property (from list below) **2** For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.

	Fair Rental Days	Personal Use Days	QJV
<b>A</b> 1	365	0	<input type="checkbox"/>
<b>B</b> 4	365	0	<input type="checkbox"/>
<b>C</b> 1	90	0	<input type="checkbox"/>

**Type of Property:**

1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental  
2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

	Properties:		
	A	B	C
<b>Income:</b>			
<b>3</b> Rents received	3	6,200.	17,500.
<b>4</b> Royalties received	4		4,000.
<b>Expenses:</b>			
<b>5</b> Advertising	5		100.
<b>6</b> Auto and travel (see instructions)	6		
<b>7</b> Cleaning and maintenance	7	150.	750.
<b>8</b> Commissions	8		
<b>9</b> Insurance	9	300.	2,300.
<b>10</b> Legal and other professional fees	10		
<b>11</b> Management fees	11		
<b>12</b> Mortgage interest paid to banks, etc. (see instructions)	12	4,400.	5,300.
<b>13</b> Other interest	13		
<b>14</b> Repairs	14		
<b>15</b> Supplies	15		
<b>16</b> Taxes	16	1,200.	1,200.
<b>17</b> Utilities	17		2,500.
<b>18</b> Depreciation expense or depletion	18	2,500.	2,000.
<b>19</b> Other (list Home Owners' Assn. Fees)	19		600.
<b>20</b> Total expenses. Add lines 5 through 19	20	8,550.	14,050.
<b>21</b> Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a loss, see instructions to find out if you must file Form 9198	21	-2,350.	3,450.
<b>22</b> Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22	2,350.	
<b>23a</b> Total of all amounts reported on line 3 for all rental properties	23a		27,700.
<b>b</b> Total of all amounts reported on line 4 for all royalty properties	23b		
<b>c</b> Total of all amounts reported on line 12 for all properties	23c		9,700.
<b>d</b> Total of all amounts reported on line 18 for all properties	23d		4,500.
<b>e</b> Total of all amounts reported on line 20 for all properties	23e		24,100.
<b>24</b> Income. Add positive amounts shown on line 21. Do not include any losses	24		5,950.
<b>25</b> Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25		(2,350.)
<b>26</b> Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, and IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26		3,600.

### Section 3: Financial Information — Real Estate. This section asks you to list all properties you currently own and what you owe on them. I do not own any real estate

**3a. Property You Own** If you are refinancing, list the property you are refinancing FIRST.

Address: Street 1750 PROSPERITY DRIVE City JACKSON State TN ZIP 38305 Unit # Country USA

Status: Sold, Pending Sale, or Retained  Intended Occupancy: Investment, Primary Residence, Second Home, Other  Monthly Insurance, Taxes, Association Dues, etc. if not included in Monthly Mortgage Payment \$ Monthly Rental Income \$ For LENDER to calculate: Net Monthly Rental Income \$

Property Value \$ 975,000 Retained  Investment  \$

Mortgage Loans on this Property  Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance	To be paid off at or before closing	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit (if applicable)
XYZ MORTGAGE	8212342	\$ 2,700	\$ 300,000	<input type="checkbox"/>		\$
		\$	\$	<input type="checkbox"/>		\$

**3b. IF APPLICABLE, Complete Information for Additional Property**  Does not apply

Address: Street 123 CLOVER STREET City JACKSON State TN ZIP 38301 Unit # Country USA

Status: Sold, Pending Sale, or Retained  Intended Occupancy: Investment, Primary Residence, Second Home, Other  Monthly Insurance, Taxes, Association Dues, etc. if not included in Monthly Mortgage Payment \$ Monthly Rental Income \$ For LENDER to calculate: Net Monthly Rental Income \$

Property Value \$ 500,000 Retained  Investment  \$

Mortgage Loans on this Property  Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance	To be paid off at or before closing	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit (if applicable)
XYZ MORTGAGE	83155315	\$ 1,000	\$ 250,000	<input type="checkbox"/>		\$
		\$	\$	<input type="checkbox"/>		\$

**3c. IF APPLICABLE, Complete Information for Additional Property**  Does not apply

Address: Street 225 S. MAIN STREET City JACKSON State TN ZIP 38301 Unit # Country USA

Status: Sold, Pending Sale, or Retained  Intended Occupancy: Investment, Primary Residence, Second Home, Other  Monthly Insurance, Taxes, Association Dues, etc. if not included in Monthly Mortgage Payment \$ Monthly Rental Income \$ For LENDER to calculate: Net Monthly Rental Income \$

Property Value \$ 1,000,000 Retained  Investment  \$

Mortgage Loans on this Property  Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance	To be paid off at or before closing	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit (if applicable)
ABC COMMERCIAL BK	15616546512	\$ 600	\$ 6,000	<input type="checkbox"/>		\$
		\$	\$	<input type="checkbox"/>		\$

**3c. IF APPLICABLE, Complete Information for Additional Property**  Does not apply

Address: Street 326 GOODVIEW LANE City MEMPHIS State TN ZIP 38111 Unit # Country USA

Status: Sold, Pending Sale, or Retained  Intended Occupancy: Investment, Primary Residence, Second Home, Other  Monthly Insurance, Taxes, Association Dues, etc. if not included in Monthly Mortgage Payment \$ Monthly Rental Income \$ For LENDER to calculate: Net Monthly Rental Income \$

Property Value \$ 470,000 Retained  Investment  \$

Mortgage Loans on this Property  Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance	To be paid off at or before closing	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit (if applicable)
		\$	\$	<input type="checkbox"/>		\$
		\$	\$	<input type="checkbox"/>		\$

# Subject 1- to 4-unit Investment refinance

# MGIC

Investment Property

X Schedule E

Property:

Rental Income (Loss) Calculation

15	Number of Months: <b>Maximum 12</b>				
16	Rents Received: <a href="#">Schedule E Line 3</a>				
17	Total Expenses: <a href="#">Schedule E Line 20</a>	(	)	(	)
18	Depreciation: <a href="#">Schedule E Line 18</a>				
19	Taxes: <a href="#">Schedule E Line 16</a>				
20	Mortgage Interest: <a href="#">Schedule E Lines 12 &amp; 13</a>				
21	Insurance: <a href="#">Schedule E Line 9</a>				
22	Other: <a href="#">Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E Line 19</a>				
23	<b>Annual Gross Rental Income (Loss)</b>				
24	<b>Monthly Gross Rental Income (Loss)</b>				
25	<b>Monthly PITIA</b>				
26	NET Monthly Rental Income (Loss) <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">0</span>				NET Monthly Rental Income (Loss) <span style="float: right;">X</span>
27	Average NET Monthly Rental Income (Loss), ___ months				M/A

• When positive, add to qualifying income. (Do not include PITIA in DTI; it's been subtracted from the property's gross rental income.)

• When negative, include loss in DTI. (Do not also include PITIA in DTI; it's been subtracted from the property's gross rental income.)

Lease Agreement (or alternate)



For Fannie Mae – If the borrower . . . (Selling Guide B3-3.1-08)	Rental income from . . .	Then, for qualifying purposes . . .
Currently owns a principal residence (or has a current housing expense), <b>AND</b> at least a 1-year history of receiving rental income <b>OR</b> at least 1-year of documented property management experience	Subject property <b>OR</b> Non-subject property	No restrictions on the amount of rental income that can be used
No current housing expense, <b>AND</b> Has at least 1-year history of receiving rental income from subject property	Non-subject property in service for at least 1=year	No restrictions on the amount of rental income that can be used
Currently owns primary residence (or has current housing expense), <b>AND</b> has < 1-year history of Receiving rental income <b>OR</b> documented property management experience	Subject property	<b>Principal residence</b> , income not exceeding PITIA of the subject can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the subject
	Non-subject property (new or newly in service)	<b>Principal residence</b> , income not exceeding PITIA of the property can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the related property
Does not own primary residence <b>AND</b> does not have current housing expense	Subject property <b>OR</b> Non-subject property	Rental income cannot be used

**Schedule E** **Verify mortgage payment: credit report, monthly or year-end statement. Verify with statements: HOA dues, flood insurance, etc.**

Property:

Income (Loss) calculation

Number of Months: Maximum 12	12
Rents Received: Schedule E Line 3	\$ 6,200.00
Total Expenses: Schedule E Line 20	( \$ 8,550.00 )
Insurance: Schedule E Line 9	\$ 300.00
Mortgage Interest: Schedule E Lines 12 & 13	\$ 4,400.00
Taxes: Schedule E Lines 16	\$ 1,200.00
Depreciation/Depletion: Schedule E Line 18	\$ 2,500.00
Add Back HOA Dues: Must be specifically identified on Schedule E	
One-Time Extraordinary Expenses (Casualty Loss): Provide evidence of the nature of the one-time extraordinary expense	
Annual Gross Rental Income (Loss)	\$ 6,050.00
Monthly Gross Rental Income (Loss)	\$ 504.17
Monthly PITIA	( \$ 1,000.00 )
<b>NET Monthly Rental Income (Loss)</b>	<b>\$ (495.83)</b>

Annual Gross Rental Income (Loss) \$ 6,050.00

Monthly Gross Rental Income (Loss) **\$6,050/12 months = \$504/month**

**SCHEDULE E (Form 1040) Supplemental Income and Loss** (OMB No. 1545-0074)

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

Department of the Treasury Internal Revenue Service

Attach to Form 1040, 1040-SR, 1040-NR, or 1041. Go to [www.irs.gov/ScheduleE](http://www.irs.gov/ScheduleE) for instructions and the latest information.

James & Jessica Johnson

Your social security number 000-00-0000

**Part I Income or Loss From Rental Real Estate and Royalties**

Notes: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

**A** Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions.  Yes  No

**B** If "Yes," did you or will you file required Form(s) 1099?  Yes  No

**1a** Physical address of each property (street, city, state, ZIP code)

**A** 123 Clover Street Jackson TN 38301

**B** 225 S Main Street Jackson TN 38301

**C** 326 Goodview Lane Memphis TN 38111

1b Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A 1		365	0	<input type="checkbox"/>
B 4		365	0	<input type="checkbox"/>
C 1		90	0	<input type="checkbox"/>

**Type of Property:**

1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental  
 2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe) \_\_\_\_\_

Income:	A	B	C
3 Rents received	6,200.	17,500.	4,000.
4 Royalties received			
<b>Expenses:</b>			
5 Advertising			100.
6 Auto and travel (see instructions)			
7 Cleaning and maintenance	150.	750.	400.
8 Commissions			
9 Insurance	300.	2,300.	50.
10 Legal and other professional fees			
11 Management fees			
12 Mortgage interest paid to banks, etc. (see instructions)	4,400.	5,300.	
13 Other interest			
14 Repairs			
15 Supplies			
16 Taxes	1,200.	1,200.	350.
17 Utilities		2,500.	
18 Depreciation expense or depletion	2,500.	2,000.	
19 Other (list Home Owners' Assoc. Fees)			600.
20 Total expenses. Add lines 5 through 19	8,550.	14,050.	1,500.
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a loss, see instructions to find out if you must file Form 6198	-2,350.	3,450.	2,500.
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	( 2,350. )		
23a Total of all amounts reported on line 3 for all rental properties		27,700.	
b Total of all amounts reported on line 4 for all royalty properties			
c Total of all amounts reported on line 12 for all properties		9,700.	
d Total of all amounts reported on line 18 for all properties		4,500.	
e Total of all amounts reported on line 20 for all properties		24,100.	
24 Income. Add positive amounts shown on line 21. Do not include any losses		5,950.	
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	( 2,350. )		
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, and IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2		3,600.	

For Paperwork Reduction Act Notice, see the separate instructions. Schedule E (Form 1040) 2023

# Subject 1- to 4-unit investment Refinance - DTI calculation



<b>Stable Monthly Income</b>			<b>Proposed Monthly Payment for the Property</b>	
Borrower 1	\$ _____		First Mortgage P&I	\$ _____
Borrower 2	\$ _____		Subordinate Lien (s) P&I	\$ _____
Borrower 3	\$ _____		Homeowner's Insurance	\$ _____
Borrower 4	\$ _____	<b>Loan-to-Value Ratios</b>	Supplemental Property Insurance	\$ _____
Other Borrowers (5+)	\$ _____	LTV _____ %	Property Taxes	\$ _____
Rental Income - subject property	\$ _____	CLTV/TLTV _____ %	Mortgage Insurance	\$ _____
Net Rental Income - other properties	\$ _____	HCLTV/HTLTV _____ %	Association/Project Dues (Condo, Co-Op, PUD)	\$ _____
Total Borrower Income	\$ _____		Other	\$ <del>1,000</del>
<input type="checkbox"/> At least one borrower is self-employed			Total	\$ <del>1,000</del>
		<b>Level of Property Review</b>		
<b>Qualifying Ratios</b>		<input type="checkbox"/> Exterior/Interior	<b>-\$495.83</b>	
Primary Housing Expense/Income	_____ %	<input type="checkbox"/> Appraisal	<b>All Other Monthly Payments Used in Qualifying</b>	\$ _____
Total Obligations/Income(DTI)	_____ %			



# Non-subject investment

# MGIC

Investment Property

X Schedule E

Property:

Rental Income (Loss) Calculation

15	Number of Months: <b>Maximum 12</b>			
16	Rents Received: <a href="#">Schedule E Line 3</a>			
17	Total Expenses: <a href="#">Schedule E Line 20</a>	(	)	(
18	Depreciation: <a href="#">Schedule E Line 18</a>			
19	Taxes: <a href="#">Schedule E Line 16</a>			
20	Mortgage Interest: <a href="#">Schedule E Lines 12 &amp; 13</a>			
21	Insurance: <a href="#">Schedule E Line 9</a>			
22	Other: <a href="#">Amortization/Casualty Loss/HOA Dues, if applicable: Schedule E Line 19</a>			
23	<b>Annual Gross Rental Income (Loss)</b>			
24	<b>Monthly Gross Rental Income (Loss)</b>			
25	<b>Monthly PITIA</b>			
26	NET Monthly Rental Income (Loss) <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">0</span>			NET Monthly Rental Income (Loss) <span style="float: right;">X</span>
27	Average NET Monthly Rental Income (Loss), ___ months			N/A

- When positive, add to qualifying income. (Do not include PITIA in DTI; it's been subtracted from the property's gross rental income.)
- When negative, include loss in DTI. (Do not also include PITIA in DTI; it's been subtracted from the property's gross rental income.)

Lease Agreement (or alternate)

# Non-subject investment

Verify mortgage payment: credit report, monthly or year-end statement. Verify with statements: HOA dues, flood insurance, etc....

## Rental Income Worksheet

**SCHEDULE E (Form 1040) Supplemental Income and Loss**  
 (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)  
 Department of the Treasury Internal Revenue Service  
 Name(s) shown on return: James & Jessica Johnson  
 Your social security number: 000-00-0000  
 OMB No. 1545-0074  
**2023**  
 Attachment Sequence No. 13  
 Go to [www.irs.gov/ScheduleE](http://www.irs.gov/ScheduleE) for instructions and the latest information.

**Part I Income or Loss From Rental Real Estate and Royalties**  
 Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report form rental income or loss from Form 4532 on page 2, line 40.

**A** Did you make any payments in 2023 that would require you to file Form(s) 1099?  Yes  No  
**B** If "Yes," did you or will you file required Form(s) 1099?  Yes  No

**1a** Physical address of each property (street, city, state, ZIP code)

<b>A</b>	123 Clover Street	Jackson	TN	38301
<b>B</b>	225 S Main Street	Jackson	TN	38301
<b>C</b>	326 Goodview Lane	Memphis	TN	38111

	Fair Rental Days	Personal Use Days	QJV
	365	0	<input type="checkbox"/>
	365	0	<input type="checkbox"/>
	90	0	<input type="checkbox"/>

7 Self-Rental  
 8 Other (describe)


Properties:	
B	C
17,500.	4,000.
	100.
750.	400.
2,300.	50.
5,300.	
1,200.	350.
2,500.	
2,000.	600.
14,050.	1,500.
3,450.	2,500.
27,700.	
9,700.	
4,500.	
24,100.	
	24 5,950.
Total losses here	25 ( 2,350. )
Enter the result	
of this amount on	
line 26	3,600.

Schedule E		2023
Property: 225 S Main Street, Jackson, TN		
Rental Income (Loss) Calculation		
16	Number of Months: Maximum 12	12
17	Rents Received: Schedule E Line 3	\$ 17,500.00
18	Total Expenses: Schedule E Line 20	( \$ 14,050.00 )
19	Insurance: Schedule E Line 9	\$ 2,300.00
20	Mortgage Interest: Schedule E Lines 12 & 13	\$ 5,300.00
21	Taxes: Schedule E Lines 16	\$ 1,200.00
22	Depreciation/Depletion: Schedule E Line 18	\$ 2,000.00
23	Add Back HOA Dues: Must be specifically identified on Schedule E	
24	One-Time Extraordinary Expenses (Casualty Loss): Provide evidence of the nature of the one-time extraordinary expense	
25	Annual Gross Rental Income (Loss)	\$ 14,250.00
26	Monthly Gross Rental Income (Loss)	\$ 1,187.50
27	Monthly PITIA	( \$ 875.00 )
28	NET Monthly Rental Income (Loss)	\$ 312.50

For Paperwork Reduction Act Notice, see the separate instructions. Schedule E (Form 1040) 2023

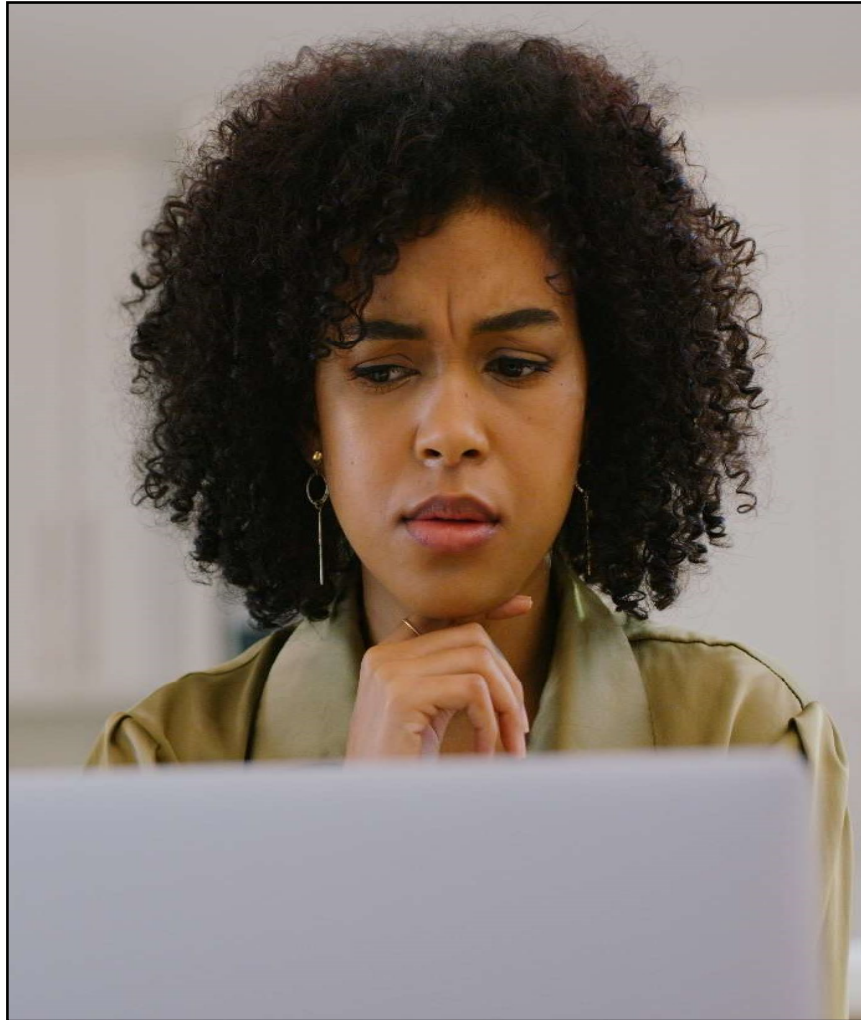
# Non-subject investment – DTI calculation



<b>Stable Monthly Income</b>			<b>Proposed Monthly Payment for the Property</b>	
Borrower 1	\$ _____		First Mortgage P&I	\$ _____
Borrower 2	\$ _____		Subordinate Lien (s) P&I	\$ _____
Borrower 3	\$ _____		Homeowner's Insurance	\$ _____
Borrower 4	\$ _____	<b>Loan-to-Value Ratios</b>	Supplemental Property Insurance	\$ _____
Other Borrowers (5+)	\$ _____	LTV _____ %	Property Taxes	\$ _____
Rental Income - subject property	\$ _____	CLTV/TLTV _____ %	Mortgage Insurance	\$ _____
Net Rental Income - other properties	\$ <b>312.50</b>	HCLTV/HTLTV _____ %	Association/Project Dues (Condo, Co-Op, PUD)	\$ _____
Total Borrower Income	\$ _____		Other	\$ _____
<input type="checkbox"/> At least one borrower is self-employed			Total	\$ _____
<b>Qualifying Ratios</b>		<b>Level of Property Review</b>		
Primary Housing Expense/Income	_____ %	<input type="checkbox"/> Exterior/Interior	<b>All Other Monthly Payments Used in Qualifying</b>	\$  _____
Total Obligations/Income(DTI)	_____ %	<input type="checkbox"/> Exterior Only		
		<input type="checkbox"/> No Appraisal		







**What if rental property was acquired during tax filing year?**

Our borrowers just purchased an investment property late last year. The tax returns only show 3 months of rental income or 90 Fair Rental Days.

How should qualifying rental income be calculated?

# Fannie Mae / Freddie Mac - Calculation of rental income

# MGIC

## Method for Calculating the Income

The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.

*Federal Income Tax Returns, Schedule E. When Schedule E is used to calculate qualifying rental income, the lender must add back any listed depreciation, interest, homeowners' association dues, taxes, or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.*

If the property was in service

- for the entire tax year, the rental income must be averaged over 12 months; or
- for less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.

Source: Fannie Mae Selling Guide B3-3.1-08

<i>If,</i>	<i>Then,</i>
Property was owned as a rental property during the <b>entire calendar year</b>	Rental income or loss used in qualifying must be annualized by dividing by 12
<p><b>Exception:</b> The qualifying income may be established based on the number of days in service provided that the property was out of service for any time period in the prior year and the mortgage file contains documentation of an event such as a renovation, as supported by a reduced number of days in use and repair costs on Schedule E.</p>	
<i>If,</i>	<i>Then,</i>
Property was purchased or converted to a rental property <b>later</b> in the prior calendar year	Rental income used for qualifying must be based on the purchase or conversion date
<p><b>Exception:</b> The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, and the mortgage file contains documentation of an event such as a renovation, as supported by a reduced number of days in use and repair costs on Schedule E.</p>	

Source: Freddie Mac Rental Income Matrix



# Non-subject investment

# MGIC

## SCHEDULE E Supplemental Income and Loss (Form 1040)

Department of the Treasury Internal Revenue Service  
OMB No. 1545-0074  
2023 Attachment Sequence No. 13  
Your social security number 000-00-0000

### Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099?  Yes  No  
B If "Yes," did you or will you file required Form(s) 1099?  Yes  No

1a Physical address of each property (street, city, state, ZIP code)

	Fair Rental Days	Personal Use Days	QJV
A 123 Clover Street Jackson TN 38301	365	0	<input type="checkbox"/>
B 225 S Main Street Jackson TN 38301	365	0	<input type="checkbox"/>
C 326 Goodview Lane Memphis TN 38111	0	0	<input type="checkbox"/>

State property listed number of fair rental and check the QJV box only. See instructions.

### Residential Lease Agreement

This Residential Lease Agreement is made between the Landlord \_\_\_\_\_ and the Tenant \_\_\_\_\_ on this date \_\_\_\_\_.

The Landlord hereby agrees to rent the Premises to the Tenant and Tenant hereby agrees to rent the Premises from the Landlord. The Premises is described as follows:

Street Address: \_\_\_\_\_

Premises Description: \_\_\_\_\_

#### 1. TERM:

The Lease term shall be as follows (choose one):

Fixed term lease beginning on \_\_\_\_\_ and ending on \_\_\_\_\_ for a total period of \_\_\_\_\_ months.

Month to month lease beginning on \_\_\_\_\_.

#### 2. RENT:

The Tenant agrees to pay the Landlord an amount of \$ \_\_\_\_\_ per month as rent on or before the \_\_\_\_\_ day of each month.

C	4,000.
	100.
	400.
	50.
	350.
	600.
	1,500.
	2,500.
	1,900.00
	633.33
	188.00
	445.33
4	5,950.
5	2,350.
6	3,600.

27 Average NET Monthly Rental Income (Loss) 3 months

For Paperwork Reduction Act Notice, see the separate instructions.

Schedule E (Form 1040) 2023

No mortgage interest noted

## Can rental income be used?

Borrower is purchasing a new primary residence and converting their existing primary residence into a rental property.

Can I use rental income from the converted property for qualifying?

How much rental income can be used?



For Fannie Mae – If the borrower . . . (Selling Guide B3-3.1-08)	Rental income from . . .	Then, for qualifying purposes . . .
Currently owns a principal residence (or has a current housing expense), <b>AND</b> at least a 1-year history of receiving rental income <b>OR</b> at least 1-year of documented property management experience	Subject property <b>OR</b> Non-subject property	No restrictions on the amount of rental income that can be used
No current housing expense, <b>AND</b> Has at least 1-year history of receiving rental income from subject property	Non-subject property in service for at least 1=year	No restrictions on the amount of rental income that can be used
Currently owns primary residence (or has current housing expense), <b>AND</b> has < 1-year history of Receiving rental income <b>OR</b> documented property management experience	Subject property	<b>Principal residence</b> , income not exceeding PITIA of the subject can be added to the gross income <b>Investment property</b> , income can only be used to offset the PITIA of the subject
Does not own primary residence <b>AND</b> does not have current housing expense	Subject property <b>OR</b> Non-subject property	Rental income cannot be used

## Freddie Mac – Primary conversion



### Limitations on Use of Net Rental Income To Qualify for Certain Transaction Types (cont'd)

#### Primary Residence That Is Being Converted To An Investment Property

*If,*

The borrower's current primary residence is being **converted** to a rental property

*Then,*

Net rental income can **only offset\*** the principal, interest, taxes and insurance (PITI) and when applicable, mortgage insurance premiums, leasehold payments, homeowners association dues (excluding unit utility charges) and payments on secondary financing of that primary residence

\*If documentation in the mortgage file demonstrates that at least **one** borrower has a **minimum of 1 year of investment property management experience** then the **full** amount of the net rental income can be used for qualifying.

Source: Freddie Mac Rental Income Matrix



# Multiple property ownership

MGIC

## Multiple property ownership

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How many FINANCED properties can a borrower own?

- If DU submission
  - Up to 10
- If Loan Product Advisor submission
  - Up to 10

The MGIC logo is displayed in white, bold, sans-serif capital letters in the upper right corner of the dark blue slide.

Q: What's a "financed" property?

A: Any 1- to 4-unit property, including the subject property, for which the borrower is personally obligated.



## How many financed properties?

Jaden and Aliyah are on a joint loan request for purchase of new beach property in FL, which they will use as investment property.

**Jaden** has a mortgage on a rental home in Salem, WI, and a first lien HELOC on rental condo in Vail, CO.

**Aliyah** has financed a vacant lot in Lake Geneva, WI, as well as a rental townhouse in Dallas, TX, that is owned free and clear.

They **jointly** own a rental condo in Charlotte, NC, that is financed.





# Multiple property reserves

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## Fannie reserves -- % UPB

# MGIC

# of financed properties	% of aggregate unpaid principal balance (UPB)*
1 to 4	2%
5 to 6	4%
7 to 10 (DU only)	6%
	* UPB for mortgages and HELOCs

Source: Fannie Selling Guide B3-4.1-01

## Freddie reserves -- PITIA

# MGIC

# of financed properties	# of months of PITIA
1 to 6	2 months for each additional property
7 to 10	8 months for each additional property

Source: Freddie Selling Guide 5501.2 eff 5/1/21

**What questions do you  
have for me?**

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Editable and auto-calculating worksheets fitted specifically for loan officers and mortgage pros.

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**Updated for tax year 2023:**

- All-in-one self-employed income calculator
- Rental income calculator

**Updated for 2024:**

- Employment and other income calculator

[Gain access now](#)

# Resources

## Rental Income Matrix



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	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. 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:		
Streamlined and Standard Documentation levels	<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; or</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>		
	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.		

<https://fanniemacourses.s3.amazonaws.com/Evaluating%20Rental%20Income/story.html>



## Evaluating Rental Income

Course coming soon

[https://sf.freddie.mac.com/content/\\_assets/resources/pdf/update/rental.pdf](https://sf.freddie.mac.com/content/_assets/resources/pdf/update/rental.pdf)



Skill-based

30 minutes

### Analyzing Self-Employed Borrowers 303 – Using Rental Income from a Business-Owned Property

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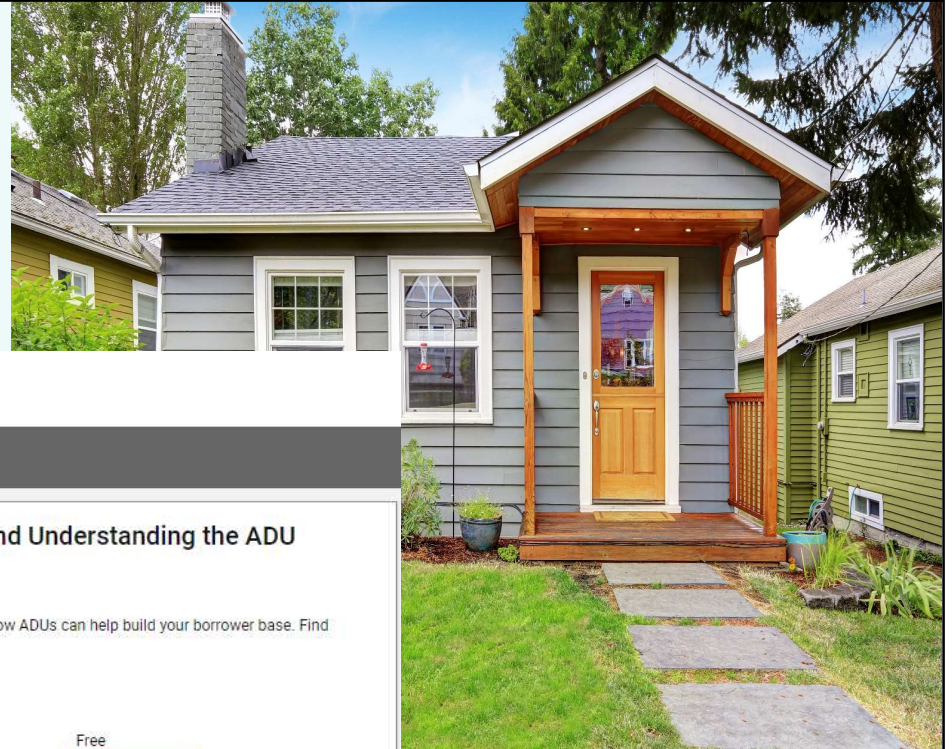
Connect with your rep:  
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**Thank you!**

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# Accessory dwelling units (ADUs)



## Accessory Dwelling Units: Avoiding Common Mistakes and Understanding the ADU

(ID: 0000024613)

### Course description :

The prevalence of ADUs is growing dramatically across the US. You won't want to miss out on how ADUs can help build your borrower base. Find out what an ADU is, the benefits of an ADU and our underwriting requirements.

### Suggested classes for you



Class ID : 0000028874

Webinar

27-JUL-2022

Virtual Class Location (Eastern Time)

Free

ENROLL



Instructor:

Carrie Cooper

Language : English

Duration : 01:00

Available seats : 449

[View detail](#) [Attachments](#) [Session Details : 27-JUL-2022 \(2:00 PM - 3:00 PM\)](#)

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