

Freddie Mac Rental Income Matrix



Rental income may be used in qualifying the borrower(s) provided that the requirements of Guide Sections 22.22.1, 37.14, 37.20, 37.22 and 37.23 are met. Use the following chart as a tool to help summarize these rental income requirements.

Topic	Rental Income is from...		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- to 4-unit Investment Property	Property other than the Subject Property: 2- to 4-unit Primary Residences and 1- to 4-unit Investment Properties
Rental Income used as Stable Monthly Income for Qualifying Purposes (Guide Section 37.14)	<p>If used, rental income must be substantiated with:</p> <ul style="list-style-type: none"> ▪ The Borrower's prior year federal tax return if borrower has owned the property for at least 1 year, or ▪ The income approach on the appraisal (from Form 998, Operating Income Statement) <p>AND</p> <ul style="list-style-type: none"> ▪ Income approach on the appraisal and ▪ Copies of the present lease(s), if applicable <p>Positive net rental income from Schedule E of the borrower's tax returns or positive Net Cash Flow from Form 998 may be considered stable monthly income.</p> <p>Negative net rental income from Schedule E of the borrower's tax returns or negative Net Cash Flow from Form 998 must be considered a liability for qualification purposes.</p>		<p>Use the following to document income:</p> <ul style="list-style-type: none"> ▪ Complete federal income tax returns with all schedules for the most recent year if borrower has owned the property for at least 1 year, or ▪ Verified net rental income from signed lease(s) if the borrower has owned the property for less than 1 year and the income is not reported on the Borrower's individual tax returns. <p>Aggregate net rental income may be counted as stable monthly income, provided the reliability of receipt is clearly supported by the documentation in the file.</p> <p>Aggregate net rental loss from Investment Properties and 2- to 4-unit Primary Residences must be considered a liability for qualification purposes.</p>

Note: Vertical revision bars " | " are 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	Property other than the Subject Property: 2- to 4-unit Primary Residences and 1- to 4-unit Investment Properties
Form 998 (Guide Section 37.14)	<p>Not required:</p> <ul style="list-style-type: none"> If you do not consider rental income from the subject property in qualifying the borrower (borrower qualifies with the full PITI), or If the borrower has owned the subject property for at least 1 year and reports the income on Schedule E. 	<p>Not required:</p> <ul style="list-style-type: none"> If you do not consider rental income from the subject property in qualifying the borrower (borrower qualifies with the full PITI plus operating expenses), or If the borrower has owned the subject property for at least 1 year and reports the income on Schedule E. 	<p>Not required.</p>
	<p>Required:</p> <ul style="list-style-type: none"> If you consider rental income from the subject property in qualifying the borrower, and The borrower has owned subject property less than 1 year, and/or does not report rental income on Schedule E. 		
Federal Income Tax Return (Most recent year) (Guide Sections 37.22 and 37.23)	<p>If Borrower owned rental property during the previous tax year, provide complete federal income tax returns to determine the net rental income or loss for qualifying. The rental income or loss from the borrower's individual federal tax returns must be used unless there are reasons for not using the income or loss from the tax returns to determine rental income (e.g., tax returns show large one-time expenses, or the borrower documents and explains that the property was under renovation).</p>		
Appraisal (Guide Section 37.14)	<p>The income approach on the appraisal must substantiate the rental income used for qualifying</p>		<p>Not applicable.</p>
Signed Lease(s) (Guide Section 37.14)	<p>Leases, by themselves, may not be used for documenting stable monthly income for qualifying purposes, however, they may be used as support for the rental income used to qualify.</p>		<p>May be used to document stable monthly income if the borrower did not own the property in the previous tax year. See section above entitled Rental Income used as Stable Monthly Income for Qualifying Purposes (Guide section 37.14) for specific requirements.</p> <p>If leases are used, 75% of the gross rental income shown on the lease may be used to offset the mortgage and other expenses for the property to determine net rental income.</p>
Reserves - 6 Monthly Payments of PITI (Guide Section 37.14)	<p>Required if rental income is considered in qualifying the borrower (whether the net rental income resulted in a positive or negative cash flow).</p>	<p>Required, regardless of whether rental income is used in qualifying the Borrower.</p>	<p>Not required.</p>

Topic	Rental Income is from...		
	Subject Property: 2- to 4-unit Primary Residence	Subject Property: 1- to 4-unit Investment Property	Property other than the Subject Property: 2- to 4-unit Primary Residences and 1- to 4-unit Investment Properties
Rent Loss Insurance (Guide Section 37.14)	Proof of rent loss insurance covering at least six months of gross monthly rent is required if using rental income to qualify the borrower.	Proof of rent loss insurance covering at least six months of gross monthly rent is required if using rental income to qualify the borrower.	Not required.
Experience Managing Investment Properties (Guide Section 37.14)	Not required.	The Borrower must demonstrate at least a 2-year history of managing 1- to 4-unit Investment Properties if using rental income to qualify the borrower.	Not required.

Notes:

1. Rental income from the Borrower's 1-unit Primary Residence or second home is not considered stable monthly income and may not be used to qualify the Borrower unless it meets the requirements in Guide Section 37.14(a) and Guide Section A34.9 (a) for Home Possible Mortgages.
2. Positive net rental income may be entered in "Gross Monthly Income" in Section V of Form 65. Aggregate net rental loss must be included as a liability.
3. Gift funds are not allowed on Investment Property transactions.
4. A-minus offering is not eligible if borrower has more than one financed investment property. This only applies to Investment Property Mortgages being sold to Freddie Mac per Guide Section 22.22.1(c).
5. If an Investment Property, each borrower individually and all borrowers collectively may not have individual and/or joint ownership in more than **four** 1- to 4-unit financed residential properties, including the subject property.
6. If Borrower is converting a Primary Residence to an Investment Property, refer to Guide Section 37.16.2 (c) for additional requirements.

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