

Rental income may be used in qualifying the borrower(s) provided that 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. 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   | Investment property owned by the borrower other than the Subject Property   |
| <b>Rental Income used as Stable Monthly Income for Qualifying Purposes</b> | <p>Use the following to determine and document income:</p> <ul style="list-style-type: none"> <li>▪ The borrower's prior year federal tax return if reported on Schedule E and borrower has owned the property for at least 1 year, or</li> <li>▪ Form 998, Operating Income Statement</li> </ul> <p>Rental income used to qualify the borrower must be substantiated with using:</p> <ul style="list-style-type: none"> <li>▪ Income approach on the appraisal and</li> <li>▪ Copies of the present lease(s), if applicable</li> </ul> <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 determine and document income:</p> <ul style="list-style-type: none"> <li>▪ Schedule E of the borrower's tax returns to determine the net rental income when rental income from the other investment properties owned by the borrower in the previous tax year is reported on the borrower's individual federal tax returns, or</li> <li>▪ Verified net rental income from signed lease(s) may be used to determine the net rental income for an investment property not owned during the previous year.</li> </ul> <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> |
|  | <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, provided, the borrower meets the reserve requirements and the income approach on the appraisal and copies of current leases substantiate the rental income used to qualify the borrower.</p>  | <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, provided, the borrower and meets the reserve requirements, and the income approach on the appraisal and copies of current leases substantiate the rental income used to qualify the borrower.</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:<br>2- to 4-unit Primary<br>Residence  | Subject Property:<br>1- to 4-unit Investment<br>Property  | Investment property owned<br>by the borrower other than<br>the subject property   |
| <b>Form 998</b>                                     | <p>Not required:</p> <ul style="list-style-type: none"> <li>If you do not consider rental income from the subject property in qualifying the borrower (borrower qualifies with six months of the full monthly payment amount), or</li> <li>If the borrower has owned the subject property for at least 1 year and reports the income on Schedule E.</li> </ul>  | <p>Not required:</p> <ul style="list-style-type: none"> <li>If you do not consider rental income from the subject property in qualifying the borrower (borrower qualifies with six months of the full monthly payment amount plus operating expenses), <b>or</b></li> <li>If the borrower has owned the subject property for at least 1 year and reports the income on Schedule E.</li> </ul> | Not required.   |
|   | <p>Required:</p> <ul style="list-style-type: none"> <li>If you consider rental income from the subject property in qualifying the borrower, and</li> <li>The borrower has owned subject property less than 1 year, and/or does not report rental income on Schedule E.</li> </ul> <p>Complete up to the Monthly Operating Income (MOI) reconciliation.</p>  |   |   |
| <b>Federal Income Tax Return (Most recent year)</b> | 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). |   |   |
| <b>Appraisal</b>                                    | The income approach on the appraisal must substantiate the rental income used for qualifying.   |   | Not applicable.   |
| <b>Reserves (Guide Section 5501.2)</b>              | Six months reserves required, regardless of whether rental income is used in qualifying the borrower.   | Six months reserves and two months reserves for each additional financed second home and/or 1- to 4-unit investment property the borrower owns and is obligated on is required, regardless of whether rental income is used in qualifying the borrower.   | Two months reserves for each additional financed second home and/or 1- to 4-unit investment property the borrower owns and is obligated on.<br><br>Not applicable when the subject property is the primary residence. |
| <b>Rent Loss Insurance</b>                          | Not required.   |   |   |

| Topic  | Rental Income is from...  |  |   |
|--|---|--|---|
|  | Subject Property:<br>2- to 4-unit Primary<br>Residence  | Subject Property:<br>1- to 4-unit Investment<br>Property | Investment property owned<br>by the borrower other than<br>the subject property   |
| <b>Signed Lease(s)</b>                           | Current leases, by themselves, may not be used for documenting stable monthly income for qualifying purposes; however, they must support the rental income used to qualify. |  | <p>May be used to document stable monthly income if the borrower did not own the property in the previous tax year.</p> <p>Signed leases may also be used to substantiate gross rents that are higher than the rental income documented on the tax returns; however, no more than 75% of the gross rental income from the signed leases may be used, unless the prior two years' individual federal tax returns clearly support the use of a higher percentage.</p> |
| <b>Experience Managing Investment Properties</b> | Not required.   |  |   |

**Additional 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 5306.1 and Guide Section 4501.9 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 4201.16(a).
5. If an Investment Property or Second Home, each borrower individually and all borrowers collectively must not own and/or be obligated on (e.g., Notes, land contracts and/or any other debt or obligation) more than **six** 1- to 4-unit financed residential properties, including the subject property. Refer to Guide Section 4201.15(b) and 4201.16(b) for examples of financed properties that do not have to be counted in this limitation.
6. 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.

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

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