

Freddie Mac Rental Income Matrix



Rental income may be used in qualifying the borrower(s) provided that the requirements of Guide Sections 22.19, 22.22.1, 37.14, 37.16.2, 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	Investment property owned by the Borrower other than the Subject Property
Rental Income used as Stable Monthly Income for Qualifying Purposes (Guide Section 37.14)	<p>Use the following to determine and document income:</p> <ul style="list-style-type: none"> 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 Form 998, Operating Income Statement <p>Rental income used to qualify the borrower must be substantiated with using:</p> <ul style="list-style-type: none"> Income approach on the appraisal and Copies of the present lease(s), if applicable <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"> 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 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 if the Borrower's federal income tax returns reflect a two-history of managing investment properties. <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 requirement of at least 6 months payments of PITI 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 meets the reserve requirement of at least 6 months payments of PITI, has 6 months of rent loss insurance, demonstrates at least a 2-year history of managing 1- to-4 unit investment properties 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: 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
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. 	Not required.
	<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. <p>Complete up to the Monthly Operating Income (MOI) reconciliation.</p>		
Federal Income Tax Return (Most recent year) (Guide Sections 37.14, 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>		Not applicable.
Reserves – (Guide Section 37.14)	<p>Six months payments of PITI required, regardless of whether rental income is used in qualifying the Borrower.</p>	<p>Six months payments of PITI and two months PITI for each other financed second home and/or 1- to 4-unit investment property the borrower owns and/or is obligated on is required, regardless of whether rental income is used in qualifying the Borrower.</p>	<p>Two months PITI for each other financed second home and/or 1- to 4-unit investment property the borrower owns and/or is obligated on.</p> <p>Not applicable when the subject property is the primary residence.</p>
Rent Loss Insurance (Guide Section 22.19, 22.22.1, 37.14)	<p>Proof of rent loss insurance covering at least six months of gross monthly rent is required if using rental income to qualify the borrower.</p>		Not required.

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
Signed Lease(s) (Guide Section 37.14)	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.		May be used to document stable monthly income if the borrower did not own the property in the previous tax year. See first section entitled Rental Income used as Stable Monthly Income for Qualifying Purposes (Guide section 37.14) for specific requirements. 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.
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 rental income is considered in qualifying the Borrower.	Not required. (Also see Additional Notes - 7.)

Additional Notes:

- 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.
- 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.
- Gift funds are not allowed on Investment Property transactions.
- 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).
- If an Investment Property, each borrower individually and all Borrowers collectively must not own and/or be obligated on more than **four** 1- to 4-unit financed residential properties, including the subject property. Ownership of commercial or multifamily (five or more units) real estate is NOT included in this limitation. (Guide Section 22.22.1(c).)
- If Borrower is converting a Primary Residence to an Investment Property, refer to Guide Section 37.16.2 (c) and (d) for additional requirements.
- 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. If the Borrower's federal income tax returns reflect a two-year history of managing investment properties, signed leases may be used to determine the net rental income for an investment property not owned during the previous tax year. (Guide Section 37.14(d).)

This document is not a replacement or substitute for the information found in the *Single-Family Seller/Service Guide*, and /or terms of your Master Agreement and/or Master Commitment.

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