

Freddie Mac Rental Income Matrix



Rental income may be used in qualifying the borrower(s) provided that the requirements of Guide Sections 37.14, 37.20, 37.22 and 37.23 are met. Use the following chart as a summary of 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 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 income approach on the appraisal (from Form 998, Operating Income Statement), and Copies of the present lease(s), or The Borrower's prior year federal tax return. <p>When the subject property has been owned less than 1 year, use:</p> <ul style="list-style-type: none"> Monthly Operating Income (MOI) from Form 998, Operating Income Statement. <p>When subject property has been owned at least 1 year, use:</p> <ul style="list-style-type: none"> MOI from Form 998, or Net rental income from Schedule E. <p>Negative net rental income from Schedule E or negative MOI from Form 998 must be considered a liability for qualification purposes.</p>	<p>Anticipated rental income must be substantiated with:</p> <ul style="list-style-type: none"> The income approach on the appraisal (from Form 998, Operating Income Statement), and Copies of the present lease(s), or The Borrower's prior year federal tax return. <p>When the subject property has been owned less than 1 year, use:</p> <ul style="list-style-type: none"> Net Cash Flow from Form 998, Operating Income Statement. <p>When the subject property has been owned at least 1 year, use:</p> <ul style="list-style-type: none"> Net Cash Flow from Form 998, or Net rental income from Schedule E. <p>Negative net rental income from Schedule E or negative Net Cash Flow from Form 998 must be considered a liability for qualification purposes.</p>	<p>If the aggregate net rental income is positive, it may be counted as stable monthly income, provided the reliability of receipt is clearly supported by the documentation in the file.</p> <p>Use at least one of the following to document income:</p> <ul style="list-style-type: none"> Form 998 Complete federal income tax returns with all schedules for the most recent year Verified net rental income from signed lease(s). <p>Aggregate negative net rental income 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	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 Investment Properties
<p>Form 998 (Guide section 37.14)</p>	<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>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, or ▪ If the borrower does not report rental 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>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, or ▪ If the borrower does not report rental income on Schedule E. 	<p>May be used to document stable monthly income. See section above entitled Rental Income used as Stable Monthly Income for Qualifying Purposes (Guide section 37.14) for specific requirements.</p>
<p>Federal Income Tax Return (Most recent year) (Guide sections 37.22 and 37.23)</p>	<p>Permitted if the borrower has owned the subject property for at least 1 year and Seller elects not to use Form 998. Provide complete federal income tax return with all schedules.</p>	<p>Permitted if the borrower has owned the subject property for at least 1 year and Seller elects not to use Form 998. Provide complete federal income tax return with all schedules.</p>	<p>May be used to document stable monthly income. See section above entitled Rental Income used as Stable Monthly Income for Qualifying Purposes (Guide section 37.14) for specific requirements.</p>
<p>Signed Lease(s) (Guide section 37.14)</p>	<p>Not permitted for documenting stable monthly income for qualifying purposes, but confirms the rents charged.</p>	<p>Not permitted for documenting stable monthly income for qualifying purposes, but confirms the rents charged.</p>	<p>May be used to document stable monthly income. See section above entitled Rental Income used as Stable Monthly Income for Qualifying Purposes (Guide section 37.14) for specific requirements.</p> <p>If used, may use no more than 75 percent of the gross rental income; or provide the prior 2 years' complete federal income tax returns with all schedules to support using a higher percentage.</p>

Topic	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 Investment Properties
Reserves - 6 Monthly Payments of PITI (Guide section 37.14)	Required if you consider rental income in qualifying the borrower (whether the net rental income resulted in a positive or negative cash flow).	Required, regardless of whether rental income is used in qualifying 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 you consider rental income in qualifying the Borrower.	Not required.

Notes:

1. Refer to Sections 37.14 and 37.22 through 37.23 of the *Freddie Mac Single-Family Seller/Servicer Guide (Guide)* for complete information on rental income.
2. 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. It may be considered as a compensating factor for exceeding the recommended monthly housing expense-to-income and debt payment-to-income ratios. For exceptions, refer to the requirements in Guide Section 37.14(a) and Guide Section A34.9 (a) for Home Possible Mortgages.
3. Positive net rental income may be entered in "Gross Monthly Income" in Section V of Form 65. Negative net rental income must be included as a liability.
4. Whenever rental income is used in qualifying, the Borrower must have rent loss insurance coverage on the subject property providing the insurer's liability in an amount equal to at least 6 months of gross monthly rent [Guide Sections 22.19 and 22.22.1(b)].
5. Gift funds are not allowed on Investment Property transactions.
6. 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).
7. If an Investment Property, the borrower(s) may not have individual or joint ownership in more than **four** 1- to 4-unit financed residential properties, including the subject property,
8. If Borrower is converting a Primary Residence to an Investment Property, refer to Guide Section 37.16.2 (c) for additional rental income requirements.