



TO: Freddie Mac SellersAugust 9, 2017 | 2017-12

SUBJECT: REVISIONS TO RENTAL INCOME REQUIREMENTS

This Guide Bulletin announces revised rental income requirements and guidance.

Additionally, we are making minor Guide updates to support the revisions for self-employed income announced in Bulletin 2016-19 and updating the effective date for MultiLender Swap posting information and Forms 15A and 15C announced in Bulletin 2017-7.

RENTAL INCOME

Effective for Mortgages with Settlement Dates on and after February 9, 2018; however, Sellers may implement the changes in their entirety immediately

In Guide Bulletin 2016-19 we indicated we would address rental income requirements in a future Guide Bulletin. We are now announcing revised rental income requirements and guidance with a focus on housing industry trends and matters impacting the current and historical analysis of stable monthly rental income.

The revisions:

- Proactively address evolving housing industry trends in the rental market such as short-term rental income (e.g., rental income typically derived from sources where a lease is not utilized)
- Support successful and sustainable homeownership through responsible lending practices
- Include expanded requirements, additional specificity and guidance to support the determination of stability, reasonable expectation of continuance and calculation of rental income, resulting in continued support of purchase certainty

Freddie Mac considered Seller inquiries and feedback, broad industry practices and internal review and analysis in developing these revisions. We are updating Guide Chapter 5306 to reflect the revised requirements and additional specificity in chart format, as appropriate, to support ease of use.

The highlights below summarize the key updates. Additional detail is available in [Attachment A](#) of this Bulletin.

Short-term and long-term rental income sources: refinance transactions for properties owned in the prior calendar year(s)

The changes below apply to refinance transactions when using rental income from properties owned in the prior calendar year(s) for:

- 2- to 4-unit Primary Residences
- 1- to 4-unit Investment Properties, and
- Non-subject investment properties

Short-term rental income sources

We are adding requirements and guidance to address the stability of rental income derived from short-term rental income sources (e.g., rental income from a source where a lease is not utilized) to support evolving housing industry trends in the rental market. A two-year history of rental income from a short-term source is required. The income must be documented on Schedule E and the property must have been used for the purposes of producing rental income for this period of time. Short-term rental income is typically fluctuating so historical analysis of the associated degree of volatility and/or irregularity is necessary to determine income stability.

Guide impact: Section 5306.1(c)(ii)

Long-term rental income sources

We are updating requirements for traditional rental market income sources (e.g., rental income from a one-year lease). A one-year term lease lends support to income stability and continuance, so a one-year history of rental income reported on Schedule E is acceptable. Also, Sellers may determine that rental income is stable without obtaining a current lease when it is evident that the source of rental income is not short term based on the documentation provided.

Guide impact: Section 5306.1(c)(ii)

Income from rental properties not owned in the prior calendar year

For Borrowers who do not have a documented one-year history of investment property management experience, the Seller may only consider net rental income in an amount up to 30% of the sum of the net rental income and all other stable monthly income that is used to qualify the Borrower.

This change provides support to sustainable and successful homeownership by requiring a reasonable limitation upon the reliance on a newer type of income stream.

Guide impact: Section 5306.1(c)(ii)

Guide Form 1000 and comparable rent data

We are reintroducing Guide Form 1000, *Comparable Rent Schedule*, for all 1-unit subject Investment Properties and providing requirements for the analysis of comparable rent data in both Form 1000 and Form 72, *Small Residential Income Property Appraisal Report*. As a result, we are retiring Form 998, *Operating Income Statement*.

Expanded requirements, additional specificity and guidance

Additional revisions include, but are not limited to the following:

- **Accessory units (Section 5306.1(a)(ii))** – Specifying rental income may be used for an accessory unit in a 1-unit subject Investment Property and non-subject investment property. Rental income requirements and subject property appraisal requirements must be met. Refer to Sections 5306.1(b) and 4501.9(a) for additional information.
- **Leases (Section 5306.1(c)(ii))**– Specifying that leases must be current and fully executed, with a minimum original term of one year (with an allowance for a month-to-month term if in the automatically renewable stage) for all transaction types
- **Net rental income calculations (Section 5306.1(c)(iii))** – Separating by documentation type (e.g., lease, comparable rent schedule, tax returns). Rental income calculation for subject 1- to 4- unit Investment Property and non-subject investment property is being revised to reflect calculation based on net rental income less the Mortgage payment rather than the net aggregate calculation. This calculation takes the monthly Mortgage principal payment into account. Adding Form 92, *Net Rental Income Calculations – Schedule E*, to the Guide for use when calculating the net rental income using Schedule E.
- **Establishment of debt payment-to-income ratio (Section 5306.1(d))** – Separating requirements by occupancy and property type and specifying treatment of multiple non-subject investment properties
- **Subject Investment Property** – Removing the requirement to verify operating expenses when rental income is not used to qualify
- **Non-subject investment properties** – Specifying the property type may be non-residential
- **Internal Revenue Service (IRS) Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation (Sections 5306.1(e) and 5306.1(d))** –

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- Adding a cross-reference to Chapter 5304 in Section 5306.1(e) for the treatment of all rental real estate income reported on IRS Form 8825, as announced in Bulletin 2016-19
 - Updating Sections 5306.1(e) and 5304.1(d) to specify that all rental real estate held in a partnership or S corporation is treated as self-employed income, regardless of the Borrower's ownership interest in the business

These revisions support the determination of stability, reasonable expectation of continuance and calculation of rental income, resulting in continued support of purchase certainty.

Additional resources

Sellers are encouraged to visit the [Income and Assets page](#) on the Freddie Mac Learning Center for available training.

Guide impacts

The following are impacted as a result of the revisions to requirements:

- **Form 1000, Single Family Comparable Rent Schedule** – Reintroducing Form 1000 and refreshing into a fillable PDF. The content has not changed.
- **Form 998, Operating Income Statement** – Retiring Form 998 due to the reintroduction of Form 1000. The rental data in Forms 72 and 1000 replaces the need for Form 998.
- **Form 91, Income Calculations** – Updating Form 91 to remove the Schedule E rental income calculations. See the "[Self-employed income updates](#)" section below for additional revisions made to Form 91.
- **Form 92, Net Rental Income Calculations – Schedule E** – Introducing Form 92 to support the calculation of net rental income when Schedule E is being used. Three sections are provided for ease of use when determining the debt payment-to-income ratio:
 - Subject 2- to 4-unit Primary Residence
 - Subject Investment Property
 - Non-subject investment property(s)
- Chapter 5306
- Sections 3401.12, 4201.15, 4201.16, 4501.9, 5304.1 and 5401.2
- Glossary

ADDITIONAL GUIDE UPDATES

Self-employed income updates

Effective immediately

We made the following updates to Form 91 to support the revisions for self-employed income announced in Bulletin 2016-19 and provide more comprehensive information for ease of use:

- Changed the name of the form from Income Analysis Form to Income Calculations
- Added a line item to add back depreciation reported on IRS Form 8825 and added a reference to updated Guide requirements for Mortgages and notes payable in less than one year
- Removed line items not often used for self-employed Borrower income calculations (e.g., IRS Forms 4797, 6252 and 2106)
- Updated line items with current IRS terminology (e.g., travel and entertainment, W-2 on line 7 of IRS Form 1040, schedule names)

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- Included line items for deduction of corporate dividend income for IRS Form 1040 (to prevent double counting) and deduction of travel and entertainment expenses for IRS Form 1120
 - Replaced instructions with Guide section references for improved accuracy
 - Added lines to include Borrower name and business name(s)
 - Updated format to include separation of and subtotals for each income and business type and to include an income summary page

As a reminder, Form 91 is a tool to help the Seller calculate the income for a self-employed Borrower. The Seller's calculations must be based on the requirements and guidance for the determination of stable monthly income in Topic 5300.

Additionally, the following revisions in Chapter 5304 have been made for added specificity, but do not represent a change in requirements:

- Updated Section 5304.1(d) to specify that for rental real estate held in a partnership or S corporation, the requirements for Borrower debt paid by business in Section 5401.2(b)(ii) do not apply to business rental property
- Updated language for Form 91 in Chapter 5304.1(d) from "an alternative form that provides the same information" to "a similar alternative form"
- Updated language for "analysis on Form 91" to "calculations on Form 91" since the purpose of Form 91 is to calculate income

Guide impacts: Section 5304.1 and Form 91

MultiLender Swap posting information and Forms 15A and 15C updates

New effective date – August 28, 2017

In Bulletin 2017-7 we announced that effective July 31, 2017, we would update the MultiLender Swap posting information to include the prefix for each MultiLender PC Pool and the renaming of existing MultiLender PC Pool information. Additionally, we would update Forms 15A, *Settlement Summary – Fixed Rate Guarantor* and 15C, *Settlement Summary – Weighted Average Coupon ARM PC* to include the prefix.

As announced in our [July 27, 2017 Single-Family News Center article](#), we have moved the adoption date of the new securities disclosure format for the Single Security initiative to August 28, 2017. As a result, we are updating the impacted Guide provisions to align with this new date. The applicable Selling System screens will now display the new prefix on August 28, 2017.

Guide impacts: Section 6201.4 and Forms 15A and 15C

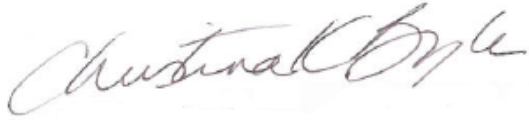
GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2017-12 (Selling) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bl1712_spreadsheet.xls.

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at (800) FREDDIE.

Sincerely,

A handwritten signature in cursive script that reads "Christina K. Boyle". The signature is written in dark ink and is positioned above the typed name.

Christina K. Boyle
Senior Vice President
Single-Family Sales and Relationship Management

Summary of Rental Income Revisions

For a summary of changes related to rental income requirements made with Bulletin 2017-12, please review the following table:

Guide reference	Subject	Update
Section 5306.1(a)	General eligibility requirements	Stability and Continuance: Adding stability and continuance statement with a reference to Section 5301.1
Section 5306.1(a)(i)	Rental income eligibility	<ul style="list-style-type: none"> • 1-unit Primary Residences and second homes: Rental income remains ineligible, except as specified in Sections 5306.1(b) (live-in aide) and 4501.9(a) (Home Possible® Mortgages). No changes to requirements. • Subject Investment Property: Removing requirement to verify operating expenses when rental income is not used • Non-subject investment property: Specifying that the property may be non-residential (e.g., commercial)
Section 5306.1(a)(ii)	Accessory units	<p>Specifying that rental income from an accessory unit is acceptable under certain circumstances for:</p> <ul style="list-style-type: none"> • 1-unit subject Investment Property and • Non-subject investment property <p>Refer to Chapter 5601 for property eligibility and appraisal requirements and Section 4501.9(a) for rental income with Home Possible Mortgages, which has been updated to reference accessory unit income.</p>
Section 5306.1(a)(iii)	Second homes	No updates to requirements for second homes; rental income remains ineligible

Guide reference	Subject	Update
Section 5306.1(b)	Rental income from live-in aide in the Borrower's 1-unit Primary Residence	<p>Updating requirements for rental income received from a live-in aide, as follows:</p> <ul style="list-style-type: none"> • Removing restriction that the Primary Residence must be the subject property • Specifying the receipt of rental payments must be documented for the most recent 12 months • Removing specific income continuance requirement • Specifying that rental income from a live-in aide who resides in the accessory unit is acceptable
Section 5306.1(c)(i)	Appraisal form documentation and analysis	<ul style="list-style-type: none"> • Form 1000, Single Family Comparable Rent Schedule: Adding form requirement for subject 1-unit Investment Properties when rental income is used to qualify • Comparable rent data: Providing requirements for analysis of comparable rent data provided on Forms 1000 and 72 • Form 998, Operating Income Statement: Deleting form • Indicated value by income approach: Deleting from rental income requirements
Section 5306.1(c)(ii)	Lease requirements	<ul style="list-style-type: none"> • Specifying that leases must be current and fully executed, with a minimum original term of one year • Noting that if the lease is documented as assigned from the property seller to the Borrower and is in the automatically renewable month-to-month phase of an original one-year (or longer) term lease, then a month-to-month term is acceptable
	Subject property purchase transaction	<ul style="list-style-type: none"> • Lease availability: If a lease is available, it must be obtained and used to determine the net rental income • Reasonable efforts to determine lease availability: Include review of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method • Seller has knowledge that the Borrower does not intend to use a lease (e.g., short-term rental): Rental income is ineligible • Market rents: May be used to determine the net rental income if it has been determined a lease is not obtainable

Guide reference	Subject	Update
Section 5306.1(c)(ii)	<p>- Subject property refinance transaction</p> <p>- Non-subject investment property</p>	<p>Property purchased or converted from primary or second home occupancy to investment occupancy in the current calendar year</p> <ul style="list-style-type: none"> Lease must be used to determine net rental income Purchase date or conversion date, as applicable, must be documented
	<p>Investment property management experience or maximum eligible amount of net rental income</p>	<p>One-year management history or limitation on net rental income usage: Adding requirement that if tax returns do not document a one-year history of managing investment property, the net rental income may be considered only in an amount up to 30% of the sum of the net rental income and all other stable monthly income used to qualify the Borrower. Examples of the required calculations are included.</p> <p>This applies to a subject purchase, subject refinance or non-subject transaction when property purchased or placed in service for use as a rental property in current calendar year.</p>
	<p>Refinance transactions for properties owned in the prior calendar year(s)</p>	<p>Updating to reflect that the Seller must determine which of the following documentation options is the most appropriate to establish and support the stable monthly net rental income based on the individual transaction.</p> <p>Option I –One-year history documented on IRS Form 1040 plus current one-year term lease (for long-term rental income sources)</p> <p>Option I is for long-term rental income sources (e.g., lease with at least one-year term) reported on Schedule E. It requires a current lease which lends support to income stability and continuance, so a shorter documented history (one-year tax return) is acceptable.</p> <ul style="list-style-type: none"> One-year history of rental income reported on Schedule E is acceptable with availability of a current one-year term lease The Seller may determine the rental income is stable without obtaining a current lease if requirements for age of tax returns and fair rental day review are met and no information is present that contradicts receipt of rental income from a long-term source

Guide reference	Subject	Update
		<p>Option II –Two-year history documented on IRS Form 1040 (for short-term rental income sources)</p> <p>Option II is for short-term rental income sources (e.g., rental income from a source where a lease is not utilized, less than a one-year lease term). Short-term rental income sources may be more volatile than long-term rental income sources so a longer documented history (two year’s tax returns) is required to support income stability and continuance.</p> <ul style="list-style-type: none"> • A two-year history of rental income reported on Schedule E is required • Property must have been used for the purposes of producing rental income for a consecutive period of 24 months • Requirements and guidance provided for the analysis of historical data for income source, amount and expenses: <ul style="list-style-type: none"> ➢ Analysis must include a review to validate the income is consistently derived from the same type of source. If the source of the rental income is from other than a lease (e.g., short-term rental), there must be a 24-month history of that source producing the rental income. ➢ Less than a 24-month history (but no less than 18 months). Examples for justification included.
<p>Section 5306.1(c)(iii)</p>	<p>Net rental income calculation requirements</p>	<ul style="list-style-type: none"> • Leases and comparable rent data: Adding requirements that a 25% vacancy/expense factor must be applied to the gross rents or gross monthly market rents from leases and comparable rent data, respectively • Tax returns: Providing specificity in requirements for the calculation of net rental income from Schedule E. Sellers may use the new Form 92, <i>Net Rental Income Calculations – Schedule E</i>, for the calculations.
<p>Section 5306.1(d)</p>	<p>Establishing the debt payment-to-income (DTI) ratio</p>	<ul style="list-style-type: none"> • Subject 2- to 4- unit Primary Residence: Requirements to establish DTI ratio remain unchanged • Subject 1- to 4- unit Investment Property: Revising requirements to establish DTI ratio to factor in the principal portion of the Mortgage payment • Non-subject investment property: <ul style="list-style-type: none"> ➢ Revising requirements to establish DTI ratio to factor in the principal portion of the Mortgage payment ➢ For Borrowers owning multiple non-subject investment properties, specifying that after the net rental income calculation has been applied to each property, the combined result may be added as one figure to either the stable monthly income (if positive) or the monthly liabilities (if negative)

Guide reference	Subject	Update
Section 5306.1(e) and Chapter 5304	IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation	Partnership and S Corporation Rental Income and Expense reported on IRS Form 8825 and IRS Schedule K-1: <ul style="list-style-type: none"> • Adding reference to Chapter 5304 in support of income revisions announced in Bulletin 2016-19 • Specifying that all Mortgage related expenses must be reported on IRS Form 8825 • Specifying that all rental real estate held in a partnership or S corporation is treated as self-employed income, regardless of the Borrower's ownership interest in the business
Section 5306.1(f)	Data delivery requirements for rental income	Consolidating ULDD Data Point information into one section. This does not represent a change in requirements.
Section 5306.1(g)	Other Guide provisions related to rental income	Providing a comprehensive listing of other Guide provisions related to the rental income topic for ease of reference
Section 5401.2(a)(6)	Liabilities included in the monthly debt payment-to-income ratio	Replacing existing language with referrals to Chapters 5304 or 5306, as applicable, for requirements with respect to treatment of mortgage debt when using rental income. Making this revision for alignment but does not represent a requirement change.
Form 91	Form 91, <i>Income Calculations</i>	Revising Schedule E rental income calculations and moving to new Form 92
Form 92	Form 92, <i>Net Rental Income Calculations – Schedule E</i>	Adding Form 92 to support the calculation of net rental income when Schedule E is being used. Three categories are provided for use when determining the DTI ratio, as follows: <ul style="list-style-type: none"> • Subject 2- to 4-unit Primary Residence • Subject Investment Property • Non-subject investment property(s)

Guide reference	Subject	Update
Chapter 5306	Other changes	<ul style="list-style-type: none"> • Application inputs: Removing references to Form 65, <i>Uniform Residential Loan Application</i> inputs for rental income • Reserve requirement reference: Removing reserve requirement reference from subject 2- to 4-unit Primary Residences row and replacing with reference to reserves in Section 5306.1(g) • Mortgage file: Removing references to documentation to be placed <i>in the Mortgage file</i>. Chapter 5301 reference applies to the entirety of Topic 5300.