

Chapter 5301: General Requirements for All Stable Monthly Income and Asset Qualification Sources

5301.1: General requirements for all stable monthly income (04/01/25)

This section contains information and guidance related to:

- [Overview of stable monthly income](#)
- [General requirements for all stable monthly income](#)
- [Income stability and history requirements](#)
- [Income continuance requirements](#)
- [Alimony payments](#)

(a) Overview of stable monthly income

Topic 5300 provides requirements and guidance for the determination of stable monthly income. The Seller must determine when additional analysis and documentation is needed to support the determination of stable and consistent monthly income.

(b) General requirements for all stable monthly income

Stable monthly income: Stable monthly income is the Borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the Borrower, the Seller must determine that both the source and the amount of the income are stable, with a consistent level of earnings.

The income used to qualify the Borrower (whether or not specifically addressed as an income source or type in Topic 5300) and the documentation in the Mortgage file must be evaluated for stable monthly income qualification requirements and must meet the requirements of Topic 5300.

Income that does not meet these requirements or is not calculated correctly may invalidate the Loan Product Advisor® Risk Class on the Feedback Certificate.

Cryptocurrency: Income that is paid to the Borrower in cryptocurrency may not be used for qualification.

Written analysis: The Seller must include a written analysis of the income and amount in the Mortgage file. A written analysis includes topics such as:

- The calculation used to determine the amount of the qualifying income, unless the qualifying income can be clearly derived from documentation in the Mortgage file (e.g., Social Security pre-determined payment amounts, annual salary); and
- The rationale for determining that the source and the amount of the qualifying income are stable, including any rationale applicable to the stability, history, calculation and continuance of the income

Mortgage file documentation: All documentation used to establish stable monthly income must be retained in the Mortgage file.

(c) Income stability and history requirements

The Seller must consider the length of history of the income and whether the earnings have been consistent. When evaluating stability of income based upon historical receipt, additional layering of risk may be present depending upon the degree of income fluctuation. As a result, the Seller must determine when additional documentation (e.g., an additional year of earnings history) is necessary to support income stability.

In most instances, a two-year history of receiving a consistent level of income is required for the income to be considered stable and used for qualifying. While the source of income may vary, the Borrower must have a consistent level of income despite changes in the sources of income.

(d) Income continuance requirements

For all income used to qualify the Borrower, the Seller must determine whether the income is reasonably expected to continue. This determination must focus on the Borrower's past employment/self-employment history, history of receipt of other income and the probability of continued consistent receipt of the income used to qualify the Borrower. At a minimum, the Seller must base the determination on the requirements of Topic 5300 and any other documentation contained in the Mortgage file. Additional documentation may be required, as described in Section 5302.1.

The Seller must not consider income for qualifying the Borrower if the Seller has knowledge, information or documentation that contradicts a reasonable expectation of continuance or probability of consistent receipt over at least the next three years.

Income continuance categories and tables

Continuance of income is categorized as follows:

- Income and earnings types typically without documentable continuance (likely to continue) (**Table A**)
 - Income types with documentable continuance (**Table B**)
 - Income types that may or may not have documentable continuance, depending upon the source (e.g., government program, private insurer) and terms of the specific income type (e.g., retirement, long-term disability) (**Table C**)
- (i) **Income and earnings types typically without documentable continuance (likely to continue)**

Table A: Income and earnings types typically without documentable continuance	
Earnings types and income types	Continuance requirements
Employed income <ul style="list-style-type: none"> ■ Base employment earnings ■ Military earnings (base, entitlements, Reserve, National Guard) ■ Bonus, commission, overtime and tip earnings ■ Restricted stock (RS) and restricted stock units (RSU) subject to performance-based vesting provisions ■ Recurring RS and RSU awards subject to time-based vesting provisions ■ Automobile allowance ■ Unemployment (associated with seasonal employment) 	<p>Income must be likely to continue for at least the next three years.</p> <p>The Seller is not required to obtain documentation to verify income continuance, absent any knowledge, information or documentation that the income is no longer being received or is likely to cease.</p> <p>When the Seller has knowledge or information that the income may not be reasonably expected to continue, the Seller must conduct additional evaluation and/or obtain documentation in order to determine if the income can be used.</p> <p>Example (Seller knowledge): If a Borrower has been receiving overtime or bonuses, but the Seller has information or documentation evidencing that the income is already discontinued or will be discontinued due to the completion of a project or termination of a bonus program, the “likely to continue” requirement would not be met, and the income cannot be used for qualification purposes.</p>
Rental income	
Self-employment income	

Table A: Income and earnings types typically without documentable continuance	
Other income <ul style="list-style-type: none"> ■ Foster-care income ■ Housing or parsonage allowance ■ Mortgage Credit Certificate ■ Royalty payments (two-year history) ■ Tax-exempt income 	

(ii) Income types with documentable continuance

For income types with documentable continuance, the documentation requirements for each individual income type listed within Topic 5300 provide the minimum documentation required in order for the Seller to verify income continuance for at least three years.

Table B: Income types with documentable continuance	
Income types	Continuance requirement highlights¹
Mortgage differential	Document duration of payments (Refer to Sections 5303.1 and 5305.1)
Notes receivable	
Royalty payments (one-year history)	
Nonrecurring RS and RSU awards subject to time-based vesting provisions	
Trust income (fixed payment)	
Alimony, child support and/or separate maintenance	Document duration of obligation (Refer to Section 5305.1)

Table B: Income types with documentable continuance	
Homeownership Voucher Program (HOV)	Document duration of HOV term limit for assistance (Refer to Section 5305.1)
Capital gains	Document sufficient assets (Refer to Section 5305.1)
Dividend and interest	
Retirement account distributions as income	
Trust income (fluctuating payments)	

¹ Highlights of the requirements from the individual income types are provided for illustrative purposes only. Refer to the sections shown above for complete requirements.

(iii) Income types that may or may not have documentable continuance

Table C: Income types that may or may not have documentable continuance
<p>Certain income types are associated with multiple income sources, each of which may have specific requirements with respect to continuance, whether defined or undefined. For this reason, this grouping of income types may or may not have documentable continuance.</p> <p>Example:</p> <ul style="list-style-type: none"> ■ If the source of retirement income is Social Security retirement benefits, no additional documentation of continuance is required ■ If the source is a retirement annuity from an insurance company, there will generally be a defined term in which case continuance must be documented

Table C: Income types that may or may not have documentable continuance	
Income types	Continuance requirement highlights¹
Retirement income (e.g., social security, defined benefit pension, annuity, other similar benefits)	<p>Sellers must be knowledgeable about the source of the specific income type in order to determine whether or not documentable continuance is applicable. This includes, but is not limited to, knowledge of factors with respect to whether the payments are received pursuant to a written agreement, government program, law and/or regulation, as well as the applicable eligibility criteria governing the continued receipt of the income.</p> <p>Refer to Section 5305.1 for requirements for these income types.</p> <p>For long-term disability and SSI income types:</p> <p>Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</p>
Survivor and dependent benefits (e.g., Social Security Survivor Benefits, Survivors' VA benefits, other similar benefits)	
Long-term disability income (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)	
Social Security Supplemental Security Income (SSI)	
Public assistance income (e.g., Temporary Assistance for Needy Families)	

¹ Highlights of the requirements from the individual income types are provided for illustrative purposes only. Refer to the sections shown above for complete requirements.

(e) Alimony payments

The amount of the monthly alimony payment must be deducted from the stable monthly income if both of the following apply:

1. The Borrower is obligated to pay alimony
2. There are more than 10 months of payments remaining

Note: See Section 5401.2(b)(3) for additional information.

5301.2: General requirements for all stable monthly asset qualification sources (03/05/25)

Asset qualification sources that meet the requirements of Topic 5300, including Chapter 5307, may also be used to qualify the Borrower for the Mortgage. For each asset qualification source, the Seller must determine that both the source of the asset and the amount of the asset source used to qualify the Borrower are reasonable and stable.

The asset qualification sources used to qualify the Borrower and the documentation in the Mortgage file must be evaluated for stable monthly asset qualification requirements. Asset qualification sources that do not meet these requirements or are not calculated correctly may invalidate the Loan Product Advisor[®] Risk Class on the Feedback Certificate.

Written analysis: The Seller must include a written analysis of the asset qualification source and amount in the Mortgage file.

Mortgage file documentation: All documentation used to establish stable monthly asset qualification must be retained in the Mortgage file.

5301.3: Note Date references (10/02/24)

For the purposes of Topic 5300, all references to the Note Date refer to the modification date for Seller-Owned Modified Mortgages, the Conversion Date for Seller-Owned Converted Mortgages, the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages, or the assumption agreement date, as applicable.

Chapter 5302: General Requirements for Documentation Used to Verify Employment and Income

5302.1: Introduction to documentation requirements (07/02/25)

For all income and each qualification source used to qualify the Borrower, the Seller must obtain the required documentation and verifications listed in the respective income sections of Topic 5300.

Additional documentation may be necessary to evaluate, justify and explain the qualification of the Borrower. This includes scenarios in which the Seller has knowledge that the documentation originally provided by the Borrower may not be reflective of the Borrower's current level of income, even though the documentation meets the age of documentation requirements.

Example: A more recent paystub may be necessary if, after the original paystub was provided, the Borrower's industry was impacted by economic conditions or widespread business closures that could affect hours worked and income received.

All documentation must be maintained in the Mortgage file.

The documentation requirements are the same for Streamlined Accept and Standard Documentation.

For information about general requirements for verifying documents and acceptable age of documentation, refer to:

- Section 5102.3 for general requirements for verifying documents
- Section 5102.4 for age of documentation requirements

5302.2: Employed income documentation and verification requirements (07/02/25)

This section contains information related to:

- [Year-to-date \(YTD\) paystubs](#)
- [W-2 forms and alternative documentation](#)

- [Written verification of employment \(VOE\)](#)
- [10-day pre-closing verification \(10-day PCV\)](#)

(a) YTD paystub(s)

The following table contains requirements and guidance pertaining to YTD paystubs:

YTD paystubs	
Topic	Requirements
YTD paystubs	<p>The YTD paystub(s) must enable the Seller to determine and support the stable monthly income used for qualification. At a minimum, the paystub must:</p> <ul style="list-style-type: none"> ■ Be dated no more than 30 days before the Application Received Date in addition to complying with the age of documentation requirements in Section 5102.4 ■ Clearly identify the employer's name, the Borrower as the employee and the date issued ■ Show the time period covered, the current pay period dates and earnings and the complete YTD earnings <p>YTD paystubs with less than the required information:</p> <p>When the YTD paystub does not contain the required information (e.g., paystubs that are handwritten or typed by the employer and do not contain YTD earnings), the Seller must verify the required information by obtaining additional documentation (e.g., written VOE, a review of payroll deposits on bank statements).</p>

(b) W-2 forms and alternative documentation

W-2 form(s) must be the complete Internal Revenue Service (IRS) Form W-2 issued by the employer for the preceding tax year(s).

The following table contains requirements pertaining to W-2 form alternative documentation:

W-2 form alternative documentation	
Topic	Requirements
Year-end YTD paystub or military Leave and Earnings Statement	The year-end YTD paystub(s) or military Leave and Earnings Statement may be used in lieu of the W-2 form(s) if the documentation reflects the complete income earned in the previous calendar year.
W-2 transcript for all income and earnings types	The W-2 transcript(s) may be used in lieu of the W-2 form(s) if the transcript reflects the complete income earned in the previous calendar year.

(c) Written VOE

A written VOE must contain:

- Signature, printed name, title and contact information (e.g., phone number) of the authorized employer representative who verified the information
- The date the information was verified
- Borrower's name and employer's name and address

If the employer provides additional information, such as the probability of continued employment and/or income, or comments, the Seller must consider the information with the income and employment analysis.

Note: Refer to Section 5102.3 for additional information about verifying documents.

The following table contains additional requirements pertaining to written VOEs:

Additional requirements for written VOEs	
Topic	Requirements
Current employment and income	<ul style="list-style-type: none"> ■ Date employment began ■ Current position ■ Gross base non-fluctuating earnings per pay period (e.g., monthly, bi-weekly) ■ Fluctuating hourly earnings and rate of hourly pay ■ Year-to-date earnings with paid through date ■ Earnings from either the most recent one- or two-year calendar period, in accordance with the requirements in Chapter 5303 <p>Earnings (e.g., base non-fluctuating, fluctuating hourly, bonus, overtime, tips, commissions) must be split into separate categories for YTD earnings and prior year(s) earnings</p>
Current military active-duty employment base (basic) pay and entitlement income	<ul style="list-style-type: none"> ■ Date employment began ■ Current position ■ Base (basic) monthly pay ■ Current monthly entitlement income (e.g., rations, clothing, quarters) ■ Year-to-date earnings with paid through date
Current military reserve or National Guard income	<ul style="list-style-type: none"> ■ Date employment began ■ Current position ■ YTD earnings with paid through date ■ Earnings from most recent one-year calendar period
Previous employment and income	<ul style="list-style-type: none"> ■ Date employment began ■ Date employment concluded ■ Position held ■ Gross earnings amount

(d) 10-day PCV

Verification of the Borrower's current employment must be obtained in accordance with the requirements of this section.

The 10-day PCV, when required and unless otherwise noted, must be obtained no earlier than 10 Business Days before the Note Date and no later than the day before the Delivery Date.

The following table contains requirements for eligible 10-day PCV types:

Eligible 10-day PCV types	
10-day PCV types	Requirements
Verbal verification of employment (verbal VOE)	<p>The Mortgage file must include Form 90, Verbal Verification of Employment, or a similar written document that includes:</p> <ul style="list-style-type: none">■ Name of the Borrower, employer's name, name and title of the individual contacted at employer, date of contact and the phone number used to contact the employer■ Name of the third-party source used to obtain the phone number for the employer (e.g., phone directory, reliable internet source, directory assistance)■ Borrower's current employment status■ Any additional information that was verified■ Name, title and employer of the representative who contacted the Borrower's employer and completed the verbal VOE
E-mail VOE	<p>The Mortgage file must include:</p> <ul style="list-style-type: none">■ An e-mail exchange with the Borrower's employer from the independently obtained employer's work e-mail address that includes:<ul style="list-style-type: none">❑ Borrower's name and employer's name❑ Name and title of the individual contacted at the employer, date of contact and the individual's work e-mail address❑ Borrower's current employment status■ Information about the third-party source used to obtain the employer's e-mail (e.g., a reliable internet source)

Eligible 10-day PCV types	
10-day PCV types	Requirements
	<ul style="list-style-type: none"> ■ Name, title and employer of the representative who contacted the Borrower's employer and obtained the e-mail verification
Employment commencing after the Note Date (refer to Section 5303.2)	In addition to a verbal VOE or e-mail VOE, the Seller must confirm and include on the verbal VOE or e-mail VOE that the terms reflected on the non-contingent offer letter or employment contract accepted by the Borrower have not changed since the acceptance date, including employment start date, salary and any other relevant income or employment information used to qualify the Borrower.
Written VOE	A written VOE verifying the current employment status of the Borrower in accordance with the requirements of Section 5302.2(c)
YTD paystub	<p>A YTD paystub that:</p> <ul style="list-style-type: none"> ■ Is from the pay period immediately preceding the Note Date ■ Has a "paid through" date no more than 15 Business Days before the Note Date
Military Leave and Earnings Statement	A military Leave and Earnings Statement dated no more than 120 days before the Note Date
Third-party employment verification service provider – electronically generated	Refer to Section 5302.3 for third-party verification requirements.
Automated employment assessment with Loan Product Advisor®	Refer to Section 5302.6 for requirements.

5302.3: Third-party verification service providers: employment and income verifications (07/02/25)

This section contains information related to:

- [General requirements for third-party service provider verifications](#)
- [Employment and income verifications](#)
- [10-day pre-closing verifications \(PCV\)](#)

(a) General requirements for third-party service provider verifications

Employment, income and 10-day PCVs obtained through third-party verification service providers are acceptable if the following requirements are met:

- The verifications must be received by the originator directly from the third-party verification service provider
- If any required information is missing, the Seller must obtain additional documentation to supplement the third-party verification
- The Seller is responsible for the accuracy and integrity of the information provided by the third-party verification service providers
- The Seller must verify that all third-party verification service providers have procedures in place to comply with quality control requests for reverification from Freddie Mac, the Seller and/or Servicer

(b) Employment and income verifications

A copy of the verification must be retained in the Mortgage file and:

- Employment and income verifications must contain sufficient information to determine stable monthly income as required by Topic 5300
- If the verification is completed using employment and/or income information from an electronic database, the verification must evidence that the information in the database is no more than 35 days old

Note: Refer to Section 5102.4 for more information about the age of documentation requirements.

(i) Mortgages that use automated income assessment using employed income data

Mortgages that use automated income assessment using employed income data may comply with the requirements in Section 5303.4(c) if the Last Feedback Certificate indicates Seller's eligibility for representation and warranty relief is "Eligible" or "Partial" as described in Section 5303.4(d)(ii).

(ii) Mortgages that use automated income assessment with Loan Product Advisor using account data

Mortgages that use automated income assessment with Loan Product Advisor using account data may comply with the requirements in Section 5303.5(c) and/or 5305.2(c), as applicable, if the Mortgage:

- Receives a Risk Class of Accept; and
- Is underwritten using income types that are eligible for representation and warranty relief as described in Section 5303.5(d)(ii) and/or 5305.2(d)(ii), as applicable

(c) 10-day PCVs

Verification of the Borrower's current employment (10-day PCV) must be obtained in accordance with the requirements of this section.

If a third-party verification service provider is used, employment information must be verified and documented by the third-party verification service provider directly through the employer's electronic database or the electronic database of the employer's third-party payroll services provider.

The 10-day PCV, when required, must be obtained no earlier than 10 Business Days before the Note Date and no later than the day before the Delivery Date. As stated above, the employment verification must evidence that the information in the database is no more than 35 days old.

The employment verification must contain:

- Name of Borrower
- Name of employer
- Borrower's current employment status
- Any additional information that was verified
- Date employment information was issued from the employer to the third-party verification services provider (e.g., effective date, current as of date)
- Date verification was issued to the Seller by third-party verification service provider

The form used by the third-party verification service provider must contain the name and contact information of the service provider.

5302.4: Tax returns and tax return information: Documentation and verification requirements (05/07/25)

This section contains information related to:

- [Tax return requirements](#)
- [Age of tax return requirements](#)
- [Internal Revenue Service \(IRS\) tax transcripts](#)
- [When tax returns are required](#)
- [Unreimbursed employee expenses reported on tax returns](#)

Under certain circumstances, the Taxpayer First Act requires that the taxpayer's consent be obtained prior to the use and disclosure of the taxpayer's tax return or tax return information to a third party. If taxpayer consent is required under the Act, Sellers must ensure that the form of consent obtained from the taxpayer permits the use and sharing of the tax return or tax return information with and by any actual or potential owners of the Mortgage, as well as their service providers, successors and assigns. The signed consent form must be obtained in a timely manner and placed in the Mortgage file in accordance with Section 3301.11.

(a) Tax return requirements

Tax returns must be:

- The Borrower's signed copy of the U.S. federal income tax return(s) that were most recently filed with the Internal Revenue Service (IRS)
- A complete tax return, including all applicable schedules and forms (which includes all W-2s, K-1s and 1099s)

The following are acceptable alternatives for the Borrower's signature on the tax return(s):

- Evidence the tax returns were filed electronically (e.g., signed Form 8879, IRS e-file Signature Authorization or equivalent), or
- Tax transcripts that validate the information on the unsigned tax returns, or
- A completed IRS Form 4506-C signed by the Borrower, or alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party

(b) Age of tax return requirements

The most recent federal income tax return is the last tax return, individual and/or business, that was filed with the IRS by the Borrower and, if applicable, the Borrower's business. Sellers are encouraged to always confirm with the Borrower that the tax returns provided are the tax returns most recently filed with the IRS.

The Seller must determine the stable monthly income which may require additional documentation and analysis. Refer to Section 5304.1(g) for additional guidance about self-employed income and supporting documentation when the tax returns for the most recent calendar year are not yet available.

At a minimum, the following date and documentation requirements must be met, based on the Application Received Date and the Note Date for the Mortgage:

(i) For Mortgages with Note Dates on or after November 1, 2024

Application Received Date	Note Date	Age of tax return and other documentation requirements
Before: April 15, 2025	On or after: November 1, 2024 Before: May 31, 2025	<ul style="list-style-type: none">■ Most recent federal income tax return(s) filed with the IRS■ The most recent tax return(s) must be no older than 2023
On or after: April 15, 2025	Before: May 31, 2025	If the Borrower has not filed the 2024 tax return(s) with the IRS: <ul style="list-style-type: none">■ The most recent tax returns must be no older than 2023■ The Seller must obtain:<ul style="list-style-type: none">□ IRS confirmation verifying tax transcript(s) are not yet available for the tax return(s) (individual, and business, if applicable) from the 2024 tax year^{1,2}; and□ Evidence of completed IRS tax filing extension(s) for the 2024 tax year (e.g., if using IRS tax extension forms to evidence tax filing extension, include IRS Form(s) 4868 and/or 7004, as applicable)³;
All	On or after: May 31, 2025 Before: November 1, 2025	
All	On or after: November 1, 2025	<ul style="list-style-type: none">■ The most recent tax return(s) must be no older than 2024, regardless of other factors such as tax filing extension status or IRS tax filing deadline relief status

¹ If the IRS extends the tax filing due date, the IRS confirmation is required for Mortgages with Application Received Dates on or after the IRS income tax filing due date, or May 31, 2025, whichever occurs first; and Note Dates on or after the last day of the month following the IRS income tax filing due date, or June 30, 2025, whichever occurs first.

² Alternative documentation is acceptable in lieu of the IRS confirmation that tax transcript(s) are not yet available for the business tax return(s), as follows:

- Confirmation business tax returns were filed after IRS filing due date for the prior year(s) (e.g., 2023 business tax return in file was signed later in the year (e.g., October)) or documentation from third-party tax return preparer confirming 2024 business return has not yet been filed; and
- Documented evidence of continued income stability using at least one of the examples listed in Section 5304.1(g) in the row labeled “Business and/or individual tax return(s) - most recent calendar year not yet available”

³ If the IRS extends the tax filing due date, evidence of the completed IRS tax filing extension is required for Mortgages with Application Received Dates on or after the IRS income tax filing due date and Note Dates on or after the last day of the month following the IRS income tax filing due date.

(ii) For Mortgages with Note Dates before November 1, 2024 and Settlement Dates on or after February 5, 2025

Apply the age of tax return and other documentation requirements as shown in the table in Section 5302.4(b)(i); however, the prior calendar year may replace the calendar year shown in the table.

(c) IRS tax transcripts

If a tax transcript is obtained and contains information sufficient to meet verification requirements in Topic 5300, it may be used in lieu of other required documentation (e.g., IRS Form W-2); however, the information provided on the tax transcript often lacks certain information needed to fully evaluate the stable monthly income.

Example: Individual rental property data, partnership and S corporation information is not clearly delineated in the tax transcripts. Conversely, the sole proprietorship information for Schedule C that is contained in a tax transcript may be an effective documentation alternative when reviewing the impact of a business loss incurred by self-employment.

IRS confirmation verifying transcripts are not yet available for the prior calendar year are always recommended, and in certain instances are required. Refer to Section 5302.4(b) for additional information about age of tax return requirements.

(d) When tax returns are required

The Seller must obtain the Borrower’s most recent federal income tax return(s) for certain types of income and/or employment characteristics if using the income to qualify the Borrower. Links to the topic specific requirements are provided in the table below.

When tax returns are required	
Income types and/or employment characteristics	Guide location
Tip income – Cash and charge tips reported on IRS Form 4137	Section 5303.1(d)(ii)

When tax returns are required	
Income types and/or employment characteristics	Guide location
Income from employment by a family member, property seller, broker or other interested party to the transaction	Section 5303.1(e)
Employed income from a foreign source	Section 5303.1(e)
Income reported on IRS Form 1099 for services performed	Section 5303.1(e), Chapter 5304
Self-employed income	Chapter 5304
Dividend and interest income	Section 5305.1
Capital gains income	Section 5305.1
Royalty payments	Section 5305.1
Trust income	Section 5305.1
Non-employment/non-self-employment income from a foreign source	Section 5305.1
Tax-exempt income (optional)	Section 5305.1
Rental income	Chapter 5306

(e) Unreimbursed employee expenses reported on tax returns

Unreimbursed employee expenses reported on the Borrower's federal individual income tax returns are not required to be deducted from the Borrower's income.

5302.5: IRS Form 4506-C requirements for all income and asset qualification sources (07/02/25)

This section contains information related to:

- [General requirements](#)
- [Mortgages that use automated income assessment](#)

(a) General requirements

All Borrowers whose income is used to qualify or whose assets are used as a basis for repayment of obligations pursuant to Section 5307.1 must sign Internal Revenue Service (IRS) Form 4506-C or an alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party (e.g., IRS Form 8821). The Form 4506-C must be signed no later than the Note Date and must be retained in the Mortgage file.

If submitting the Form 4506-C to the IRS, the IRS must receive the Form 4506-C before its expiration date. The Seller must retain in the Mortgage file the tax documentation received back from the IRS.

In addition to the requirements above, for Borrowers with income derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands that are exempt from federal income taxation under the Internal Revenue Code, the following requirements apply:

- In lieu of a Form 4506-C, Borrowers with income derived from sources in Puerto Rico must sign the most recent version of Commonwealth of Puerto Rico Form 2907 titled “Request For Copy of the Return, Estate or Gift Certificate of Release” (Modelo SC 2907 “Solicitud De Copia De Planilla, Relevé De Herencia Y De Donación”) for submission to the Puerto Rico Department of the Treasury, Internal Revenue Area
- Borrowers with income derived from sources in Guam or the U.S. Virgin Islands must sign the Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party) for submission to the Guam Department of Taxation and Revenue or Virgin Islands Bureau of Internal Revenue, as applicable

(b) Mortgages that use automated income assessment

Mortgages that use automated income assessment using employed income data may comply with the requirements in Section 5303.4(f) if the Last Feedback Certificate indicates Seller’s eligibility for representation and warranty relief is “Eligible” or “Partial” as described in Section 5303.4(b).

Mortgages that use automated income assessment with Loan Product Advisor using account data may comply with the requirements in Section 5303.5(e) and/or 5305.2(e), as applicable, if the Mortgage:

- Receives a Risk Class of Accept; and
- Is underwritten using income types that are eligible for representation and warranty relief as described in Section 5303.5(d)(ii) and/or 5305.2(d)(ii), as applicable

5302.6: Automated employment assessment with Loan Product Advisor® (07/02/25)

This section contains:

- [Overview](#)
- [Eligible employment earnings using account data](#)
- [Eligible employment earnings using employed income data](#)
- [Underwriting requirements](#)
- [Data submission requirements, representation and warranty relief eligibility and documentation requirements](#)

(a) Overview

Representation and warranty relief eligibility is contingent on the Seller's compliance with the requirements of this chapter.

Asset and income modeler (AIM) automated employment assessment provides Sellers with the option to use Loan Product Advisor® to determine whether the Seller is eligible for relief from enforcement of certain representations and warranties related to the Borrower's current employment.

The Seller must obtain the Borrower's account or employed income data and submit all required data and information to Loan Product Advisor. Based on the data submitted, Loan Product Advisor will assess for representation and warranty relief eligibility and return the results of the assessment on the Feedback Certificate.

(b) Eligible employment earnings using account data

Employment earnings, as described in Section 5303.1, are eligible for automated employment assessment with Loan Product Advisor, except for Borrowers with business ownership interest(s) less than 25%.

When using account data, the Borrower's depository history must reflect a minimum of three consecutive payroll deposits from the same payor(s).

(c) Eligible employment earnings using employed income data

Employment earnings, as described in Section 5303.1, are eligible for automated employment assessment with Loan Product Advisor, except for earnings with the following employment/income characteristics:

- Earnings of a Borrower employed by a family member, the property seller, real estate broker or other interested party to the transaction
- Employed income from foreign sources
- Income reported on IRS Form 1099 for services performed
- Borrowers with business ownership interest(s) less than 25%

(d) Underwriting requirements

(i) General underwriting requirements

The Seller must have no knowledge, information or documentation that contradicts an expectation that the current employment will continue for at least the next three years.

In the event the Borrower has taken a temporary leave of absence from his or her employment:

- When a verification report is obtained, the verification report must indicate that, as of the date of the verification report, the Borrower has returned to work
- When the employed income data has been obtained from the Borrower's paystub(s) and W-2 form(s), the Seller must maintain documentation in the Mortgage file showing the Borrower has returned to work

(ii) Age of documentation

For the age of the documentation:

- When a verification report is obtained, the expiration date of the verification report reflected on the Last Feedback Certificate complies with the requirements in Section 5102.4
- When the employed income data has been obtained from the Borrower's paystub(s) and W-2 form(s), the paystub and W-2 must comply with the requirements in Section 5102.4(a)

(e) Data submission requirements, representation and warranty relief eligibility and documentation requirements

(i) Data submission requirements

For Mortgages with an automated employment assessment using Loan Product Advisor, the Seller must:

- Submit the most current account data or employed income data to Loan Product Advisor
- Investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, Uniform Residential Loan Application (including the Borrower's income and employment representations), and the Mortgage file and, if applicable, resubmit the correct information to Loan Product Advisor
- Resubmit the data to Loan Product Advisor if an updated verification report or paystub(s) is obtained after the initial submission

(A) Automated employment assessment with Loan Product Advisor using account data

For Mortgages that are eligible for automated employment assessment with Loan Product Advisor using account data, the Seller must confirm:

- Each account on the verification report is owned by at least one Borrower
- The payor(s) is the Borrower's current employer by using the information in the Mortgage file

(B) Automated employment assessment with Loan Product Advisor using employed income data

For Mortgages that are eligible for automated employment assessment with Loan Product Advisor using employed income data, the following requirements must be met:

- The Seller must confirm that the information on the verification report or paystub(s) and W-2 form(s) is for the correct Borrower and employer
- When a verification report is obtained, the method used to produce the verification report must be an automated process where the employed income data is accessed directly from an electronic database of employer-provided income information. The employed income data on the verification report cannot be obtained from a written, verbal or email verification of income performed by the service provider.

(C) Automated employment assessment with Freddie Mac's application programming interface (API)

For Mortgages not submitted or resubmitted to Loan Product Advisor, the Freddie Mac API can be used to meet the 10-day pre-closing employment verification

requirements as described in Section 5302.3. Such Mortgages are not eligible for relief of representations and warranties related to the Borrower's employment.

To obtain the API report, the Seller must:

- Submit the Borrower's account data or employed income data to the API
- Close by the close-by date reflected in messaging on either the "AIM Employment API Assessment" or the "AIM Account Data API Assessment"
- Maintain the "AIM Employment API Assessment" or the "AIM Account Data API Assessment", as applicable, in the Mortgage file

(ii) Representation and warranty relief results on Feedback Certificate

If multiple Loan Product Advisor submissions are made, the Seller's eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.

When employment representation and warranty eligibility results are provided on the Last Feedback Certificate, the representation and warranty relief available is described in the following table:

Employment representation and warranty relief based on Feedback Certificate results	
Eligibility result	Representation and warranty relief
Eligible	<p>The Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> 1. Borrower's current employment through the close-by-date on the Feedback Certificate. The Note Date of the Mortgage must be on or before the close-by-date reflected in the Last Feedback Certificate for the 10-day pre-closing verification requirement to be met. 2. Accuracy and integrity of the data represented on the verification report <p>Note: The Seller is not relieved from the representations and warranties related to the accuracy and integrity of the data when obtained from the Borrower's paystub(s).</p>
Not eligible	The Seller is not eligible for relief from enforcement of representation and warranties related to the Borrower's employment.

Unavailable	The Seller is not eligible for relief from enforcement of representation and warranties related to the Borrower's employment.
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(iii) Documentation requirements based on representation and warranty relief result on Feedback Certificate

When employment representation and warranty relief eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on Feedback Certificate	
Eligibility result	Employment documentation requirements
Eligible	<p>The verification report and paystub(s), as applicable, must be maintained in the Mortgage file.</p> <p>Paystub documentation must meet the requirements of Section 5302.2.</p> <p>If the Note Date of the Mortgage is not on or before the close-by date on the Last Feedback Certificate, the Seller must resubmit to Loan Product Advisor to obtain a new close-by date or meet the requirements described above in 5302.6(e)(i)(C).</p>
Not eligible	The employment must be verified and documented as required by the Guide.
Unavailable	The employment must be verified and documented as required by the Guide.

Chapter 5303: Employed Income

5303.1: Employed income (06/04/25)

This section contains requirements and guidance related to:

- [Requirements for all employed income](#)
- [Employment history requirements](#)
- [Non-fluctuating employment earnings \(base, entitlements, military reserve, National Guard\)](#)
- [Fluctuating employment earnings \(base fluctuating hourly earnings, additional fluctuating earnings\)](#)
- [Employment/income characteristics – requirements and guidance](#)

(a) Requirements for all employed income

All employed income used for qualifying must meet the requirements and guidance of this chapter and Section 5301.1 for all stable monthly income.

(i) Stability and continuance of income

The Seller must determine that the amount of income used to qualify the Borrower is stable and complies with the requirements for each income type. All income must be expected to continue or have documented continuance for at least three years as described in this chapter. The Seller must analyze all income documentation while taking into consideration the characteristics of the employed income (e.g., employment source, earnings type, income type and stability of the employment history, including any gaps in employment).

A Borrower who has had different types of employment in the past may be considered to have stable income if the income amount has remained at a consistent level. When evaluating a Borrower who has frequently changed jobs, the Seller must focus on whether the changes have affected the Borrower's ability to pay their obligations.

(ii) Primary and secondary employment types

Primary employment is the primary source of the Borrower's employed income whether derived from employment such as full-time employment, part-time employment, and/or seasonal employment.

Secondary employment is any type of employment (e.g., second part-time job or multiple jobs) that is in addition to the Borrower's primary employment.

(b) Employment history requirements

(i) Primary employment

In most instances, the Borrower should have at least a two-year history of primary employment documented on Form 65, Uniform Residential Loan Application, and verified in accordance with Topic 5300.

For Borrowers who are active-duty members of the U.S. Armed Forces, a history of military employment is not required for the employment to be considered stable.

Tenure with the same employer or in a similar industry lends support to the analysis of employment stability.

When a Borrower has less than a two-year history of primary employment, the Seller must provide its justification for determining that the employment is stable, taking into consideration factors such as income and/or employment characteristics and the overall layering of risk factors, including the Borrower's demonstrated ability to repay obligations.

Examples that may support less than a two-year history (see minimum history requirements below):

- **Example 1:** For a Borrower returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence

- **Example 2:** For a Borrower new to the workforce, documentation is provided that supports the Borrower's recent attendance at school or in a training program prior to their current employment

Minimum history requirements for base fluctuating hourly earnings: For additional minimum history requirements (e.g., 12 months) for base fluctuating hourly earnings, refer to the history requirements in Section 5303.1(d), below.

(ii) Secondary employment

In most instances, the Borrower should have at least a two-year history of secondary employment for the employment to be considered stable. When a Borrower has less than a two-year secondary employment history but has at least a 12-month history, the Seller may be able to justify and determine the employment is stable.

Examples that may support less than a two-year history:

- **Example 1:** The Borrower previously held a job with base non-fluctuating earnings working 40 hours per week for multiple years; however, due to reasons such as position elimination, work force reduction, or illness, the Borrower is no longer employed at this job and now works at multiple part-time jobs that are similar in hours and pay, when combined, to the previous full-time job. Since the Borrower's full-time employment ended 18 months ago, the length of employment at each part-time job is in the range of 13 to 15 months. In this scenario, the Seller may be able to justify an employment history of less than two years for the secondary and additional jobs provided the earnings are consistent and the Borrower has exhibited the ability to repay obligations.
- **Example 2:** The Borrower is employed as a school teacher. During the previous summer, the Borrower taught summer school and is now starting summer school teaching for the current year. Although the two-year history is not yet fully developed, given the job type and current employment situation, the Seller may be able to justify including the summer school income, provided an accurate qualifying amount can be established and documented based on the previous and current earnings. Additional documentation to determine the stable monthly income may be appropriate (e.g., how many classes, how much, is it similar to prior year).

(c) Non-fluctuating employment earnings (base, military, additional fixed earnings)

Requirements for history, continuance, calculation and documentation for non-fluctuating employment earnings are outlined in the tables below. Additional documentation may be required to determine the stable monthly income amount. Refer to Section 5303.1(e) for additional documentation and requirements that may apply based on employment characteristics.

(i) Base non-fluctuating employment earnings

Earnings type: Base non-fluctuating employment earnings are stable and consistent earnings that may be salaried or hourly.

Base non-fluctuating earnings may include:

- Exempt (salaried)
- Military base (basic) pay
- Non-exempt (hourly) earnings. The pay rate and number of hours are reflected on an ongoing consistent basis for each pay period and must be supported by the year-to-date (YTD) income. If the only reason the earnings fluctuate is because of additional employed income (e.g., overtime), the base earnings are still considered non-fluctuating.

(A) Minor fluctuations in hours

Minor variations in base hours on paystubs (e.g., Borrower clocked out a few minutes early) are acceptable and may be treated as base non-fluctuating earnings when the variation is no more than an hour per week. Minor variations do not automatically render the base earnings as fluctuating if the historical earnings support the level of pay.

Example: The pay frequency is weekly. The current YTD paystub shows 39.78 hours while the prior paystub shows 40 hours. The YTD income reasonably supports 40 hours per week of gross pay and the prior year W-2(s) support a similar amount of pay.

(B) Exception for non-exempt earnings: primary employment earnings with minimum required hours

For Borrowers with primary employment earnings that fluctuate but have a position with a minimum number of required hours, the earnings may be considered non-fluctuating, and the minimum required hours are acceptable to use for gross pay when following requirements are met:

- The Seller must obtain written documentation from the employer confirming the minimum required hours (i.e., written verification of employment (VOE), offer letter or equivalent documentation)
- The documented minimum required hours must be supported by YTD income and prior year, as applicable

Only the minimum required hours may be considered non-fluctuating. The requirements for fluctuating employment earnings apply to any additional hours used to qualify the Borrower.

Example (minimum required hours):

The Borrower has been with the current employer as a nurse with a hospital for four months; prior to that, the Borrower was in nursing school. The written VOE verifies the Borrower works three 12-hour shifts each week, which is common for this profession, and the YTD earnings support at least this level of gross pay. Based on this, it is acceptable to consider these the minimum required hours and use 36 hours weekly gross pay for income calculation.

Base non-fluctuating employment earnings – primary and secondary employment	
Topic	Stable monthly income requirements
Employment history	Refer to the employment history requirements in Section 5303.1(b), above.
Continuance	Must be likely to continue for at least the next three years

Base non-fluctuating employment earnings – primary and secondary employment	
Topic	Stable monthly income requirements
Documentation	<ul style="list-style-type: none"> ■ Primary employment earnings: base non-fluctuating earnings All of the following: <ul style="list-style-type: none"> <input type="checkbox"/> YTD paystub(s) documenting all YTD earnings <input type="checkbox"/> W-2 form(s)¹ for the most recent calendar year <input type="checkbox"/> 10-day pre-closing verification (10-day PCV) Or all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Written VOE documenting all YTD earnings and the earnings for the most recent calendar year <input type="checkbox"/> 10-day PCV ■ Secondary employment earnings: base non-fluctuating earnings All of the following: <ul style="list-style-type: none"> <input type="checkbox"/> YTD paystub(s) documenting all YTD earnings <input type="checkbox"/> W-2 forms¹ for the most recent two calendar years <input type="checkbox"/> 10-day PCV Or all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years <input type="checkbox"/> 10-day PCV
Calculation	For all income used to qualify the Borrower, the Seller must determine the pay frequency (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable

Base non-fluctuating employment earnings – primary and secondary employment															
Topic	Stable monthly income requirements														
	<p>monthly income. All documentation in the Mortgage file must support the Seller’s income analysis and calculation.</p> <p>The following table describes the calculation methods the Seller must use to determine stable monthly income for base non-fluctuating employment earnings, taking into consideration the typical pay periods of weekly, bi-weekly, semi-monthly and monthly.</p> <table> <tr> <th colspan="2">Calculation of base non-fluctuating employment earnings</th></tr> <tr> <th>Pay period type</th><th>Calculation</th></tr> <tr> <td>Weekly</td><td>Multiply the weekly gross pay by 52 and divide by 12.</td></tr> <tr> <td>Bi-weekly (every two weeks)</td><td>Multiply the biweekly gross pay by 26 and divide by 12.</td></tr> <tr> <td>Semi-monthly (twice per month)</td><td>Multiply the semi-monthly gross pay by 24 and divide by 12.</td></tr> <tr> <td>Monthly</td><td>Use the monthly gross pay.</td></tr> <tr> <td>Annual base non-fluctuating salary paid out over less than 12 months per year (e.g., teachers)</td><td> Divide annual gross pay by 12 Example: If the annual salary is paid out over 10 months of the year, multiply the monthly base salary amount by 10 months and divide by 12. </td></tr> </table>	Calculation of base non-fluctuating employment earnings		Pay period type	Calculation	Weekly	Multiply the weekly gross pay by 52 and divide by 12.	Bi-weekly (every two weeks)	Multiply the biweekly gross pay by 26 and divide by 12.	Semi-monthly (twice per month)	Multiply the semi-monthly gross pay by 24 and divide by 12.	Monthly	Use the monthly gross pay.	Annual base non-fluctuating salary paid out over less than 12 months per year (e.g., teachers)	Divide annual gross pay by 12 Example: If the annual salary is paid out over 10 months of the year, multiply the monthly base salary amount by 10 months and divide by 12.
Calculation of base non-fluctuating employment earnings															
Pay period type	Calculation														
Weekly	Multiply the weekly gross pay by 52 and divide by 12.														
Bi-weekly (every two weeks)	Multiply the biweekly gross pay by 26 and divide by 12.														
Semi-monthly (twice per month)	Multiply the semi-monthly gross pay by 24 and divide by 12.														
Monthly	Use the monthly gross pay.														
Annual base non-fluctuating salary paid out over less than 12 months per year (e.g., teachers)	Divide annual gross pay by 12 Example: If the annual salary is paid out over 10 months of the year, multiply the monthly base salary amount by 10 months and divide by 12.														

¹ Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

(ii) Military earnings (base, entitlements, reserve, National Guard)

(A) Military base (basic) pay

Base non-fluctuating earnings include military base (basic) pay. For members of the U.S. Armed Forces, active-duty pay is considered base non-fluctuating earnings.

Military base (basic) pay	
Topic	Stable monthly income requirements
Employment history	For Borrowers who are active-duty members of the U.S. Armed Forces, a history of military employment is not required for the employment to be considered stable.
Continuance	Must be likely to continue for at least the next three years
Documentation	YTD Military Leave and Earnings Statement Or all of the following: <ul style="list-style-type: none">■ Written VOE documenting all YTD earnings■ 10-day PCV
Calculation	Refer to calculation guidance and requirements for base non-fluctuating employment earnings in Section 5303.1(c)(i), directly above.

(B) Military entitlements (e.g., flight or hazard duty, rations, clothing allowance or quarters allowance)

Military entitlements (e.g., flight or hazard duty, rations, clothing allowance or quarters allowance)	
Topic	Stable monthly income requirements
History of receipt	A history of receipt is not required for the income to be considered stable
Continuance	Must be likely to continue for at least the next three years
Documentation	YTD Military Leave and Earnings Statement Or all of the following: <ul style="list-style-type: none"> ■ Written VOE documenting the current monthly fixed entitlement amount(s) and type(s) ■ 10-day PCV
Calculation	Current fixed monthly amount

(C) Military reserve and National Guard income

Military reserve and National Guard income	
Topic	Stable monthly income requirements
History of receipt	One year
Continuance	Must be likely to continue for at least the next three years

Military reserve and National Guard income	
Topic	Stable monthly income requirements
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ YTD Military Leave and Earnings Statement ■ W-2 form¹ for the most recent calendar year <p>Or all of the following:</p> <ul style="list-style-type: none"> ■ Written VOE documenting all YTD earnings and the earnings for the most recent calendar year ■ 10-day PCV
Calculation	12-month average

¹ Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end Military Leave and Earnings Statement).

(iii) Additional fixed employment earnings (automobile allowance, mortgage differential)

For the purposes of determining stable monthly income, additional fixed employment earnings are considered to be earnings that are based on a pre-determined and agreed upon fixed amount of pay that is fully documented, such as an automobile allowance or mortgage differential. Generally, additional employment earnings are received in connection with the primary or secondary employment.

For additional fixed employment earnings used to qualify the Borrower, the Seller must determine that the amount of income used to qualify the Borrower is stable and complies with the requirements below for each income type. All income must be expected to continue or have documented continuance for at least three years as described in this section.

(A) Automobile allowance

Automobile allowance	
Topic	Stable monthly income requirements
History of receipt	Two years, consecutive
Continuance	Must be likely to continue for at least the next three years
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ YTD paystub(s) documenting all YTD earnings ■ W-2 forms¹ for the most recent two calendar years ■ 10-day PCV <p>Or all of the following:</p> <ul style="list-style-type: none"> ■ Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years ■ 10-day PCV
Calculation	<p>Add the full amount of the allowance to the qualifying income.</p> <p>Note: The Seller may not subtract the automobile allowance from the monthly automobile financing expense.</p>

¹ Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

(B) Mortgage differential

Mortgage differential	
Topic	Stable monthly income requirements
History of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	Must continue for at least the next three years
Documentation	<p>Agreement from the employer stating the terms including the scheduled amount and duration of the payments.</p> <p>The documentation must show that the payments are pursuant to an established, ongoing and documented employer program. The employer must not be an interested party to the transaction.</p>
Calculation	<p>Payments from the Borrower's employer for all or part of the housing payment differential between the Borrower's present and proposed Mortgage payment may be added to the qualifying income.</p> <p>Note: The payments may not be used to offset the monthly housing payment amount used for qualification.</p>

(d) Fluctuating employment earnings (Base fluctuating hourly earnings, additional fluctuating earnings)

Requirements for history, continuance, calculation and documentation for fluctuating employment earnings are outlined in the tables below. Additional documentation may be required to determine the stable monthly income amount. Refer to Section 5303.1(e) for additional documentation and requirements that may apply based on employment characteristics.

(i) Base fluctuating hourly employment earnings

Earnings type: Base fluctuating hourly employment earnings are not pre-determined and may fluctuate each pay period.

- **Example 1:** The pay frequency is weekly. The current YTD paystub shows 37 hours. The prior pay period YTD paystub shows 31 hours. This is typically an indication that the base hours fluctuate.
- **Example 2:** The pay frequency is weekly. The paystub shows 37 hours at a pay rate of \$30 per hour and reflects six months of YTD income. If the Borrower's paystub shows 37 hours every week, the YTD earnings are approximately \$28,860. However, the YTD base earnings on the paystub are \$20,240. This income documentation shows fluctuating hourly earnings and additional documentation is necessary to determine otherwise.

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
Employment history	<p>Refer to employment history requirements in Section 5303.1(b), above.</p> <p>In addition, when the Borrower's employed income is derived from base fluctuating hourly employment earnings, the Borrower must have at least a 12-month history of employment. The required minimum 12-month history must be derived from one of the following:</p> <ul style="list-style-type: none">■ The Borrower's current fluctuating hourly employment■ A combination of current and prior fluctuating hourly employment■ A combination of current fluctuating hourly employment and prior salaried employment in a similar industry or job type that had an income level consistent with the current income level based on trend analysis described in this table in the row labeled "calculation method and trend analysis for consistent and increasing income trends" below.
Continuance	Must be likely to continue for at least the next three years

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
Documentation	<ul style="list-style-type: none"> ■ Primary employment earnings: Base fluctuating hourly earnings All of the following: <ul style="list-style-type: none"> <input type="checkbox"/> YTD paystub(s) documenting all YTD earnings <input type="checkbox"/> W-2 form(s)¹ for the most recent calendar year <input type="checkbox"/> 10-day PCV Or all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> VOE documenting all YTD earnings and the earnings for the most recent calendar year <input type="checkbox"/> 10-day PCV ■ Secondary employment earnings: Base fluctuating hourly earnings All of the following: <ul style="list-style-type: none"> <input type="checkbox"/> YTD paystub(s) documenting all YTD earnings <input type="checkbox"/> W-2 forms¹ for the most recent two calendar years <input type="checkbox"/> 10-day PCV Or all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years <input type="checkbox"/> 10-day PCV

Base fluctuating hourly employment earnings											
Topic	Stable monthly income requirements										
General requirements for calculating income	<p>When calculating qualifying income, the Seller must:</p> <ul style="list-style-type: none">■ Determine and consider the pay frequency (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable monthly income■ Determine if the income trend is consistent, increasing or declining by comparing the YTD income to prior year(s) income and taking into consideration the length of receipt and degree of fluctuation■ Evaluate the income trend and use the amount that is most likely to continue for the next three years■ Ensure that all documentation in the Mortgage file supports the Seller’s income analysis and calculation										
Calculation method and trend analysis for consistent and increasing income trends	<p>Calculation method: consistent and increasing income trends</p> <p>The Seller must average the most recent year(s) and YTD income. The amount of time averaged should be determined based on the requirements for history, documentation and other applicable factors such as time at the current employer, prior employment and consistency of the earnings level.</p> <p>Note: If the increasing income is due to a pay raise, the Seller may use the calculation method as described in this table in the row labeled “pay raises” below.</p> <p>Calculation examples for primary employment:</p> <table><tr><th colspan="4">Example 1: Current employer five years</th></tr><tr><th>Employment history</th><th>Documentation and</th><th>Degree of</th><th>Calculation</th></tr></table>			Example 1: Current employer five years				Employment history	Documentation and	Degree of	Calculation
Example 1: Current employer five years											
Employment history	Documentation and	Degree of	Calculation								

Base fluctuating hourly employment earnings				
Topic	Stable monthly income requirements			
		base earnings amount	fluctuation	
	Current employer: Five years	May 31 st YTD paystub YTD base: \$24,200 Prior year W-2 \$55,000 ¹	5.6% Consistent	Average 17 months (YTD + prior year)
	¹ If W-2s from the most recent two years are in the Mortgage file, only the most recent YTD and prior year earnings must be included in the average if the income is reasonably stable.			
	Example 2: Recent or frequent job changes			
	Employment history	Documentation and base earnings amount	Degree of fluctuation	Calculation
	Current employer: Three months	March 31 st YTD paystub YTD average: \$5,000/month	25% Increasing ¹	Average 15 months (YTD + prior year)
	Previous employers: Three employers in most recent 12 months; similar job types and industry	Three W-2s from previous employers W-2 combined average: \$4,000/month		

Base fluctuating hourly employment earnings												
Topic	Stable monthly income requirements											
	<div><div>¹ Trend analysis must be completed.</div><div>Exception: The Seller may average using less than the most recent year(s) and YTD income if the income is supported by the employment history, historical earnings and documentation. This depends on individual circumstances, and the level of income must reasonably be expected to continue and represent stable monthly income.</div><div>Calculation examples for exception</div><div><table><tr><th colspan="3">Example 1: Current employer less than two years (likely fits within exception)</th></tr><tr><th>Employment History</th><th>Degree of fluctuation</th><th>Exception calculation</th></tr><tr><td>Current employment: 10 months</td><td rowspan="2">4% Consistent (reasonable based on job type and industry)</td><td rowspan="2">Average 10 months (current employment)</td></tr><tr><td>Previous employment: Two years Similar job type and/or industry</td></tr></table></div><div>Example 2: Current employer less than two years (likely does not fit within exception)</div></div>		Example 1: Current employer less than two years (likely fits within exception)			Employment History	Degree of fluctuation	Exception calculation	Current employment: 10 months	4% Consistent (reasonable based on job type and industry)	Average 10 months (current employment)	Previous employment: Two years Similar job type and/or industry
Example 1: Current employer less than two years (likely fits within exception)												
Employment History	Degree of fluctuation	Exception calculation										
Current employment: 10 months	4% Consistent (reasonable based on job type and industry)	Average 10 months (current employment)										
Previous employment: Two years Similar job type and/or industry												

Base fluctuating hourly employment earnings				
Topic	Stable monthly income requirements			
	Employment history	Base earnings amount	Degree of fluctuation	Exception calculation
	Current employment: Five months	YTD average: \$2,500/month	67% Increasing	N/A Example likely does not fit within exception due to employment history and historical earnings
	Previous employment: Two years Two employers Similar job type and/or industry	W-2 combined average: \$1,500/month		
	Trend analysis: consistent and increasing income trends:			
	<div>■ Degree of fluctuation ≤ 10% Income trend is considered consistent. No additional analysis or documentation is required when calculating the qualifying income.</div> <div>■ Degree of fluctuation > 10% – ≤ 30% No additional analysis or documentation is required when the increase is supported by the verification of pay raise described in this table in the row labeled “pay raises,” below, and/or the documented income breakdown described in the row labeled “documented income breakdown” in the table for bonus, commission, overtime and tips in Section 5303.1(d)(ii)(A), below.</div>			

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
	<p>Otherwise, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the Borrower.</p> <p>■ Degree of fluctuation > 30%</p> <p>Additional analysis is required, and additional documentation will likely be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the Borrower.</p> <p>When using an average with the YTD and most recent year, the degree of fluctuation is based on the increase between the YTD and the prior year</p> <p>When using an average with the YTD and the prior two years, the degree of fluctuation is based on the increase between the YTD and the prior two years</p>
Pay raises	<p>Verification of pay raises and using pay increase in calculation of income</p> <p>Merit, promotional or other types of increases in pay may justify using different averaging methods for fluctuating hourly earnings based on the application of the new pay rate to the average hours for the prior year and YTD.</p> <p>While documentation to verify pay raises is not always required, it may be used to support a higher amount of qualifying income and/or support fluctuating hourly earnings when the degree of fluctuation exceeds 10%.</p> <p>Verification method: Use employed income documentation outlined in Chapter 5302, such as written VOEs and paystubs. Paystubs from the current or prior year that show the new and old rates of pay when the raise occurred and/or year-end paystubs will likely be necessary to</p>

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
	<p>complete this verification.</p> <p>Calculation method</p> <p>For consistent and increasing income trends, use one of the options below:</p> <ul style="list-style-type: none"> ■ Option 1: Average the most recent year(s) and YTD income, as described in this table in the row labeled “calculation method and trend analysis for consistent and increasing income trends” above ■ Option 2: Apply the current pay rate to the average number of hours during the prior year and the current year, provided the hours during the prior year and the current year are consistent or increasing, and documented
Calculation: Excluding time periods based on a specific event unlikely to recur	<p>Calculation: Excluding time periods based on a specific event unlikely to recur</p> <p>In certain instances, income may be calculated using a shorter time period; however, the Seller must provide a written justification and/or documentation supporting the months used in the calculation. When excluding a time period based on a specific event that is unlikely to recur, at least 12 months of stable monthly income must still be used in the calculation. These 12 months do not need to be consecutive (i.e., the period impacted by the non-recurring event can be excluded).</p> <p>Example:</p> <p>The Borrower has a 10-year employment history as a restaurant manager. The June 2025 YTD paystub, 2024 W-2 and 2023 W-2 have been provided.</p> <p>While the June 2025 YTD paystub and 2023 W-2 earnings support approximately \$60,000 in base earnings per year, the 2024 W-2 earnings are low at \$30,000.</p> <p>Documentation in the file verifies that the restaurant was closed for renovations from April</p>

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
	through September of 2024, which supports a justifiable one-time event and the resulting reduced earnings, so it is reasonable to exclude the 2024 earnings from the calculation and average the 2025 YTD and 2023 earnings over 18 months or take the 2024 earnings for 6 months and 2025 YTD earnings of 6 months to get an average across 12 earning months (ignoring the specific event).
Calculation method and trend analysis for declining trend	<p>Calculation method and trend analysis: declining trend</p> <p>The Seller must use the YTD income and must not include the previous higher level unless there is documentation of a one-time occurrence (e.g., injury) that prevented the Borrower from working or earning full income for a period of time and evidence that the Borrower is back to the income amount that was previously earned.</p> <p>If the decline between the prior year(s) and/or YTD earnings exceeds 10%, the Seller must conduct further analysis, and additional documentation may be necessary to determine whether the income is currently stable. This analysis must include the reason for the declining trend, and support that the current income has stabilized.</p>

¹ Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

(ii) Additional fluctuating employment earnings (e.g., bonus, commission, overtime, tips, unemployment)

For the purposes of determining stable monthly income, additional fluctuating employment earnings are considered to be earnings that fluctuate on a regular basis, often based on factors such as hours, job type and performance. Fluctuating earnings may include, but are not limited to, income types such as commissions, overtime, bonus, tips, and unemployment compensation associated with seasonal employment. For additional fluctuating employment earnings to qualify the Borrower, the Seller must determine that the amount of income used to qualify the Borrower is stable and complies with the requirements below for each income type. All income must be expected to continue or have documented continuance for at least three years as described in this section.

Income history and stability – requirements and guidance

The stability of fluctuating income is primarily determined based on historical earnings, so it is imperative that a sufficient income history has been established. For this reason, most income types that fluctuate have a history requirement of two years. In certain instances, a shorter history may still be considered stable if the Seller provides a written analysis and sufficient supporting documentation justifying the determination of stability. When making this determination, the Seller must take into consideration factors such as income and/or employment characteristics and the overall layering of risk factors, including the Borrower's demonstrated ability to repay obligations. The income history must be at least 12 months.

(A) Bonus, commission, overtime, tips (reported by the employer)

Bonus, commission, overtime, tips (reported by the employer)	
Topic	Stable monthly income requirements
History of receipt	Two years, consecutive Exception: A history of less than two years, but not less than one year, may be acceptable. Refer to income history and stability requirements and guidance in Section 5303.1(d)(ii), above.
Continuance	Must be likely to continue for at least the next three years
Documentation	All of the following: <ul style="list-style-type: none">■ YTD paystub(s) documenting all YTD earnings■ W-2 forms¹ for the most recent two calendar years■ 10-day PCV Or all of the following: <ul style="list-style-type: none">■ Written VOE documenting all YTD earnings and the earnings for the most recent two calendar

Bonus, commission, overtime, tips (reported by the employer)	
Topic	Stable monthly income requirements
	<p>years</p> <ul style="list-style-type: none"> ■ 10-day PCV
General requirements for calculating income	<p>When calculating qualifying income, the Seller must:</p> <ul style="list-style-type: none"> ■ Determine and consider the pay frequency (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable monthly income ■ Determine if the income trend is consistent, increasing or declining by comparing the YTD income to prior year(s) income and taking into consideration the length of receipt and degree of fluctuation ■ Evaluate the income trend and use the amount that is most likely to continue for the next three years ■ Ensure that all documentation in the Mortgage file supports the Seller's income analysis and calculation <p>Example (pay frequency): The Borrower received an annual bonus in February in both the prior year and current year as evidenced by the written VOE dated in March of the current year. The bonus amounts are consistent based on the income trend analysis. Because the bonus is paid on an annual basis, the amounts received in the current and prior year must be averaged over a 2-year period. It is inaccurate to average the prior year and YTD number of months on the income documentation (e.g., 15-month average).</p>
Calculation method and trend analysis	<p>Calculation method: consistent and increasing trends</p> <p>The Seller must average the most recent years and YTD income over the applicable number of months of required history and documentation.</p>

Bonus, commission, overtime, tips (reported by the employer)	
Topic	Stable monthly income requirements
for consistent and increasing income trends	<p>Trend analysis: consistent and increasing trends</p> <p>Refer to the row labeled “Calculation method and trend analysis for consistent and increasing income trends” in the table for base fluctuating hourly earnings type in Section 5303.1(d)(i), above.</p>
Calculation: Excluding time periods based on a specific event unlikely to recur	<p>Calculation: Excluding time periods based on a specific event unlikely to recur</p> <p>In certain instances, income may be calculated using a shorter time period; however, the Seller must provide a written justification and/or documentation supporting the months used in the calculation. When excluding a time period based on a specific event that is unlikely to recur, at least 12 months of stable monthly income must still be used in the calculation. These 12 months do not need to be consecutive (i.e., the period impacted by the non-recurring event can be excluded).</p> <p>Example:</p> <p>The Borrower has a 10-year employment history as a server earning tips. The June 2025 YTD paystub, 2024 W-2 and 2023 W-2 have been provided.</p> <p>While the June 2025 YTD paystub and 2024 W-2 earnings support approximately \$60,000 in tip income per year, the 2023 W-2 earnings appear low at \$30,000.</p> <p>Documentation in the file verifies that the restaurant was closed for renovations from April through September of 2023, which supports the reduced tip income, so it is reasonable to exclude the 2023 earnings from the calculation and average the most recent 18 months of income.</p>
Documented income breakdown	<p>Documented income breakdown (e.g., bonus, overtime, commissions)</p> <p>A documented breakdown between the base non-fluctuating earnings or base fluctuating hourly earnings and the additional fluctuating employment earnings (e.g., bonus, overtime, commission,</p>

Bonus, commission, overtime, tips (reported by the employer)	
Topic	Stable monthly income requirements
	<p>tips) ensures the most accurate analysis and calculation of stable monthly income.</p> <p>While a documented breakdown is not always required, one may be used to support a higher amount of qualifying income, verify bonus pay frequency, and/or support fluctuating income when the degree of fluctuation exceeds 10%.</p> <p>Verification method: Use employed income documentation outlined in Chapter 5302 such as written VOEs and/or year-end and current YTD paystubs that show the breakdown between the earnings type and additional employment earnings (e.g., overtime, bonus, commissions).</p>
Calculation method and trend analysis for declining trends	<p>Calculation method and trend analysis: declining trend</p> <p>Refer to the row labeled “Calculation method and trend analysis for declining trends” in the table for base fluctuating hourly earnings type in Section 5303.1(d)(i), above.</p>

¹ Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

(B) Tip income – cash and charge tips reported on Internal Revenue Service (IRS) Form 4137

Tip income – Cash and charge tips reported on IRS Form 4137	
Topic	Stable monthly income requirements
History of receipt	Two years, consecutive Exception: A history of less than two years, but not less than one year, may be acceptable. Refer to income history and stability requirements and guidance in Section 5303.1(d)(ii), above.
Continuance	Must be likely to continue for at least the next three years
Documentation	The Mortgage file must contain all of the following: <ul style="list-style-type: none">■ IRS Form 4137 for the most recent two years■ Complete federal individual income tax returns covering the most recent two-year period■ 10-day PCV
Calculation	Refer to requirements for calculating income in the table for bonus, commission, overtime and tips in Section 5303.1(d)(ii)(A), above.

(C) Unemployment compensation associated with seasonal employment

Unemployment compensation associated with seasonal employment	
Topic	Stable monthly income requirements
History of receipt	Two years, consecutive Exception: A history of less than two years, but not less than one year, may be acceptable. Refer to income history and stability requirements and guidance in Section 5303.1(d)(ii), above.
Continuance	Must be likely to continue for at least the next three years
Documentation	Proof of receipt of unemployment compensation for the most recent two-year period (e.g., IRS Form 1099-G(s) and/or equivalent documentation)
Calculation	Refer to requirements for calculating income in the table for bonus, commission, overtime and tips in Section 5303.1(d)(ii)(A), above.

(D) Restricted stock (RS) and restricted stock units (RSUs)

(I) RS and RSU subject to performance- based vesting provisions

Performance-based RS and RSU are RS or RSU with a vesting schedule contingent on corporate and/or individual performance.

RS and RSU subject to performance-based vesting provisions	
Topic	Stable monthly income requirements
History of receipt	<ul style="list-style-type: none"> ■ Two years, consecutive Exception: A history of less than two years, but not less than one year, may be acceptable. Refer to income history and stability requirements and guidance in Section 5303.1(d)(ii), above. ■ To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their current employer, without restriction
Continuance	Must be likely to continue for at least the next three years
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU ■ W-2 forms¹ for the most recent two calendar years ■ 10-day PCV <p>Or all of the following:</p> <ul style="list-style-type: none"> ■ Written VOE documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent two calendar years ■ 10-day PCV <p>Employment and income verifications obtained through a third-party verification service provider as described in Section 5302.3 are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU.</p> <p>The Mortgage file must also include the following additional documentation:</p>

RS and RSU subject to performance-based vesting provisions	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> ■ Evidence the stock is publicly traded ■ Documentation verifying that the vesting provisions are performance-based (e.g., RS and/or RSU agreement, offer letter) ■ Vesting schedule(s) currently in effect detailing past and future vesting ■ Evidence of receipt of previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the Borrower (pre-tax) ■ Documentation of the 200-day simple moving average stock price
Calculation	<p>Based on the form in which vested RS or RSU are distributed to the Borrower (i.e., as shares or its cash equivalent), the Seller must use the applicable method(s) below to calculate the monthly income:</p> <ul style="list-style-type: none"> ■ RS or RSU distributed as shares <p>Multiply the documented 200-day simple moving average stock price by the total number of vested shares distributed (pre-tax) to the Borrower in the past two years, then divide by 24.</p> <p>Example: If 200 vested shares were distributed (pre-tax) in the past two years and the documented 200-day simple moving average stock price is \$10, multiply 200 x \$10 then divide by 24= \$83.33 monthly income.</p> ■ RS or RSU distributed as cash equivalent <p>Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24.</p>

RS and RSU subject to performance-based vesting provisions	
Topic	Stable monthly income requirements
	<p>Exception: If the Borrower has not received the RS or RSU income from their current employer for a full 24 months, the Seller may calculate the monthly income using the actual number of months received if supported by a written analysis and documented compensating factors (e.g., a history of receipt of RS or RSU income for the previous five years from a prior employer). In all cases, the Borrower must have a minimum history of receipt of 12 months with their current employer, as specified above, and the calculated monthly income used for qualifying may not be based on less than 12 months.</p>

¹ Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

(II) RS and RSU subject to time-based vesting provisions

Time-based RS and RSU are RS or RSU with a pre-determined vesting schedule contingent only on the Borrower's continued employment.

RS and RSU subject to time-based vesting provisions	
Topic	Stable monthly income requirements
History of receipt	<ul style="list-style-type: none"> ■ One year ■ To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their current employer, without restriction
Continuance	Recurring awards must be likely to continue for at least the next three years.

RS and RSU subject to time-based vesting provisions	
Topic	Stable monthly income requirements
	Nonrecurring awards (e.g., a one-time award) must have at least three years' vesting and distribution remaining on the vesting schedule.
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU ■ W-2 form¹ for the most recent calendar year ■ 10-day PCV <p>Or all of the following:</p> <ul style="list-style-type: none"> ■ Written VOE documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent calendar year ■ 10-day PCV <p>Employment and income verifications obtained through a third-party verification service provider as described in Section 5302.3 are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU.</p> <p>The Mortgage file must also include the following additional documentation:</p> <ul style="list-style-type: none"> ■ Evidence the stock is publicly traded ■ Documentation verifying that the vesting provisions are time-based (e.g., RS and/or RSU agreement, offer letter) ■ Vesting schedule(s) currently in effect detailing past and future vesting ■ Evidence of receipt of previous year's payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its

RS and RSU subject to time-based vesting provisions	
Topic	Stable monthly income requirements
	<p>cash equivalent distributed to the Borrower (pre-tax)</p> <ul style="list-style-type: none"> ■ Documentation of the 200-day simple moving average stock price
Calculation	<p>Based on the form in which vested RS or RSU are distributed to the Borrower (i.e., as shares or its cash equivalent), the Seller must use the applicable method(s) below to calculate the monthly income:</p> <ul style="list-style-type: none"> ■ RS or RSU distributed as shares <p>Multiply the documented 200-day simple moving average stock price by the number of vested shares distributed (pre-tax) to the Borrower in the past year, then divide by 12.</p> <p>Example: If 50 vested shares were distributed (pre-tax) in the past year and the documented 200-day simple moving average stock price is \$10, multiply 50 x \$10 then divide by 12 = \$41.67 monthly income.</p> ■ RS or RSU distributed as cash equivalent <p>Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.</p>

¹ Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

(e) Employment/income characteristics requirements and guidance

For all employment and/or income characteristics below, the Seller must determine whether the employment and/or income represents primary or secondary employment and/or income and use the applicable requirements for history, continuance, earnings type, documentation and calculation in this chapter and in conjunction with Chapters 5301 and 5302, unless specifically stated otherwise. For certain employment and/or income characteristics, additional documentation and/or analysis may be needed, as described below.

Employment/income characteristics		Additional requirements
Full-time and part-time employment	Full-time and part-time employment may be either primary or secondary employment, and may consist of base non-fluctuating earnings, base fluctuating hourly earnings and/or additional employment earnings.	None
Seasonal employment	Seasonal employment may be primary employment (e.g., highway construction and road work in colder regions) or secondary employment (e.g., educators teaching summer school). The earnings may include base non-fluctuating earnings, base fluctuating hourly earnings and/or additional employment earnings.	<p>When using unemployment income associated with the seasonal employment as stable monthly income:</p> <ul style="list-style-type: none"> ■ A documented two-year history of seasonal employment and income receipt is required, and ■ The requirements for unemployment income associated with seasonal employment in Section 5303.1(d)(ii)(C) must be met

Employment/income characteristics		Additional requirements
Union members	<p>Certain union members may work in industries where they may switch employers frequently and the union facilitates the next position. In that case, the Borrower may have multiple YTD paystubs and W-2s, all of which can be used for the verification and calculation of stable monthly income.</p> <p>The Borrower's earnings may be comprised of base non-fluctuating earnings, base fluctuating hourly earnings and/or additional employment earnings.</p> <p>A Borrower may exhibit a stable and consistent employment and income history, regardless of the number of employers.</p> <p>The Borrower may or may not be in between employers at the time of closing.</p> <p>If the Seller determines that the Borrower's employment and income history is stable and it is documented that the Borrower has multiple jobs as described above, it may be acceptable to obtain the 10-day PCV (refer to Section 5302.2(d)) from the union. The Seller must make this determination based on a review of all employment</p>	None

Employment/income characteristics		Additional requirements
	and income characteristics.	
Borrower employed by a family member or by the property seller, real estate broker or other interested party to the transaction	When a Borrower is employed by a family member or by an interested party to the transaction, the employment and income is not arm's length. Due to the increased layering of risk inherent in non-arm's length employment, additional third-party validation supporting the current income level is necessary.	Complete signed federal individual income tax return or IRS wage and income transcripts for the most recent year. This documentation must validate the prior year earnings from current employment and support the current income level. If the current income level is not supported, the Seller may use the validated income amount from the prior year as qualifying income.
Employed income from a foreign source	<p>When a Borrower receives employed income from a foreign source, the income may be considered for qualifying income if the income is reported on the Borrower's U.S. federal individual income tax return for the most recent year, in addition to meeting the requirements in this chapter.</p> <p>Refer to Chapter 5305 for all other non-employment/non-self-employment income from a foreign source.</p>	Complete signed U.S. federal individual income tax return for the most recent year

Employment/income characteristics		Additional requirements
Employment contracts	<p>Employment contracts in the educational industry:</p> <p>It is common for Borrowers who work in the educational industry, such as teachers, to be employed under renewable or term employment contracts.</p> <p>For the educational field, if the Borrower provides an annually renewable or term contract, it is reasonable to consider continuance of receipt, provided the Seller does not have knowledge or documentation to the contrary.</p>	None
	<p>Employment contracts in other industries:</p> <p>If an employment contract is provided, it may be considered for the purposes of determining stable monthly income.</p> <p>When making the determination of employment history, income stability and the monthly income amount, the Seller must take into consideration factors such as the following:</p> <ul style="list-style-type: none"> ■ Whether employment contracts are reasonably common to the particular employment field and/or 	A documented two-year history of income and employment in the same or a similar employment field or industry when the terms of the employment contract do not include a base non-fluctuating pay structure

Employment/income characteristics		Additional requirements
	<p>region</p> <ul style="list-style-type: none"> ■ The pay structure outlined within the terms of the contract ■ Whether the Borrower has demonstrated the ability to maintain consistent employment and income with this form or a similar form of pay structure over the most recent two years 	
Temporary help services employment	<p>Some contract firms and temporary staffing firms contract out the services of their employees to other employers.</p> <p>When making the determination of employment history, income stability and the monthly income amount, the Seller must take into consideration factors such as whether the Borrower has demonstrated the ability to maintain steady and continuous employment and income with this employment structure over the most recent two-year period.</p>	W-2 forms from the contract and/or temporary staffing firm for the most recent two-year period
Income reported on IRS Form 1099 for services performed	At times, Borrowers receive IRS Form 1099(s) for services performed; this pay structure is often referred to in terms such as contractor or contingent worker.	<p>Minimum documentation – all of the following:</p> <ul style="list-style-type: none"> ■ All IRS Form 1099s for services performed for the most recent two-year period, and ■ YTD paystubs and/or other equivalent and reasonably reliable third-party documentation (e.g., YTD

Employment/income characteristics		Additional requirements		
	<p>Income received on IRS Form 1099 for services performed may be reported on Schedule C and may represent a sole proprietorship. The Seller must treat this income as either:</p> <ul style="list-style-type: none">■ Self-employed income in accordance with the requirements and guidance in Chapter 5304, <p>OR</p> <ul style="list-style-type: none">■ Non-self-employed income in accordance with the requirements in this section if the IRS Schedule C from the most recent calendar year tax return evidences all of the following: <ul style="list-style-type: none">❑ Gross receipts or sales = total amount(s) reported on the IRS Form 1099(s)❑ Total expenses are < 5% of gross receipts or sales, after deducting non-cash expenses (e.g., depreciation)❑ Cost of goods sold = \$0❑ 12-month history of 1099 income and reported expenses is present <p>Exception: If the above expense factor is not met but expenses are within a</p>	<p>earnings statements or evidence of payments for services performed) documenting YTD income received by the Borrower</p> <ul style="list-style-type: none">■ Pages 1 and 2 of the Borrower’s federal individual income tax returns, and the applicable schedules (i.e., Schedule C, Schedule 1), covering the most recent one-year period <p>History of receipt: Most recent two years; however, in certain instances, a shorter history of income with this pay structure may still be considered stable if the Seller provides a written analysis and sufficient supporting documentation justifying the determination of stability (e.g., a prior history of employment earnings at a similar level). In no event may the history of receipt for this pay structure documented on the tax returns be less than 12 months.</p> <p>Continuance: Must be likely to continue for at least the next three years</p> <p>Calculation: Average must be based on the required and documented history of receipt and support a consistent level of income in accordance with the requirements of Section 5301.1(c). The 1099 income must be reduced by the expenses (excluding non-cash items) reported on Schedule C. Apply an average of the verified expenses to the 1099 income without verified expenses.</p> <table><tr><th>Calculation example</th></tr><tr><td>Scenario: Borrower has an 18-month history of</td></tr></table>	Calculation example	Scenario: Borrower has an 18-month history of
Calculation example				
Scenario: Borrower has an 18-month history of				

Employment/income characteristics		Additional requirements	
	<p>close range (e.g., 6%), the Seller may perform additional analysis to determine whether income reported on Schedule C remains characteristic of non-self-employed income. Factors the Seller may consider when making this determination include, but are not limited to:</p> <ul style="list-style-type: none">■ The principal business or profession,■ Gross receipts or sales,■ Cost of goods sold, and■ The type and level of expenses reported <p>If the Seller determines that the Borrower is a sole proprietor, refer to the self-employed income requirements and guidance in Chapter 5304.</p>	documented 1099 income, with 12 months of income and expenses reflected on the most recent Schedule C and reasonably reliable verification of YTD income for the most recent 6 months. Prior employment (W-2) for 5 years with similar income level and employment field.	
		1099(s) reported as gross receipts/sales:	(+) \$100,000
		Less: Schedule C Expenses (less non-cash expenses)	(-) \$4,000 (4%)
		Subtotal (<i>most recent year Schedule C</i>)	\$96,000
		Verified YTD 1099 income (6 months):	(+) \$50,000
		Less: 4% expense rate (based on most recent year Schedule C)	(-) \$2,000 (4%)
		Subtotal (<i>Current YTD</i>)	\$48,000
		Income calculation: \$144,000 (<i>combined subtotals</i>) / 18 months	\$8,000/month
		Stable monthly income: The Seller must determine if more information and/or documentation is needed to support and justify the stable monthly income based on	

Employment/income characteristics		Additional requirements
		<p>the individual circumstances.</p> <p>Pre-closing verification: Sellers are encouraged to complete a pre-closing verification confirming that the Borrower continues to perform services for the provider(s) of the 1099 income as close to the Note Date as possible.</p>
<p>Borrowers with business ownership interest(s) less than 25%</p>	<p>For use of ordinary income (loss) or guaranteed payments for services reported on IRS Schedule K-1 as stable monthly qualifying income, the Seller must meet either:</p> <ul style="list-style-type: none"> ■ The self-employed requirements in Chapter 5304, or ■ All requirements in this section in conjunction with the general requirements and guidance in Section 5301.1 and Chapter 5302 <p>The Borrower should not have an ownership interest of 25% or more in any business.</p> <p>When using ordinary business income for qualification, the historical cash distributions must be reasonably consistent with the ordinary business income reported on the K-1s.</p> <p>Note: For use of W-2 income, the Seller must meet the requirements of this chapter or Chapter 5304 for self-</p>	<p>Schedule K-1 income from partnerships and S corporations</p> <p>Minimum documentation – all of the following:</p> <ul style="list-style-type: none"> ■ Schedule K-1s for the most recent two calendar years for partnerships and S corporations ■ Documentation of all YTD income must be obtained if available (e.g., most recent YTD paystub or equivalent). If YTD information is not attainable (e.g., due to year-end payment structures), the Seller may document and justify the income stability without this information. ■ The Schedule K-1(s) must evidence less than 25% ownership interest for the individual Borrower ■ Verification of current existence of business in accordance with Section 5304.1(g) <p>History of receipt:</p> <ul style="list-style-type: none"> ■ Ordinary business income: Most recent two years ■ Guaranteed payments for services: Most recent two years; however, in certain instances, a shorter history may still be considered stable if the Seller provides a

Employment/income characteristics		Additional requirements
	employed income; the additional requirements in this row do not apply.	<p>written analysis and sufficient supporting documentation justifying the determination of stability (e.g., recently changed from an employee of the same firm to a partner with a nominal ownership interest). In no event may the history be less than 12 months.</p> <p>Continuance: Must be likely to continue for at least the next three years</p> <p>Calculation: Average must be based on the required and documented history of receipt and support a consistent level of income in accordance with the requirements of Section 5301.1(c).</p> <p>Stable monthly income: The Seller must determine if more information and/or documentation is needed to support and justify the stable monthly income based on the individual circumstances.</p>

5303.2: Income commencing after the Note Date (10/02/24)

For Borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income if either all requirements for option one, or all requirements for option two in the following table are met.

Topic	Option one	Option two
Eligible employment and income	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> Income must be from new primary 	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> Income must be from new primary employment Income must be non-fluctuating and salaried (e.g., hourly

Topic	Option one	Option two
	<p>employment or a future salary increase with the current primary employer</p> <ul style="list-style-type: none"> ■ Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and ■ The employer must not be a family member or an interested party to the real estate or Mortgage transaction 	<p>earnings are not permitted)</p> <ul style="list-style-type: none"> ■ The employer must not be a family member or an interested party to the real estate or Mortgage transaction ■ As of the Delivery Date, the income must be no less than that used to qualify the Borrower for the Mortgage
Start date of the new employment or future salary increase, as applicable	<ul style="list-style-type: none"> ■ Must be no later than 90 days after the Note Date ■ May be before or after the Delivery Date 	<ul style="list-style-type: none"> ■ No limit on the number of days after the Note Date ■ Must be before the Delivery Date
Eligible Mortgage purpose	<ul style="list-style-type: none"> ■ Purchase transaction ■ “No cash-out” refinance 	<ul style="list-style-type: none"> ■ Purchase transaction ■ “No cash-out” refinance ■ Cash-out refinance
Eligible Mortgaged Premises	1-unit Primary Residence	<ul style="list-style-type: none"> ■ 1- to 4-unit Primary Residence ■ Second home ■ 1- to 4-unit Investment Property

Topic	Option one	Option two
Verification of additional funds	<ul style="list-style-type: none"> ■ In addition to funds required to be paid by the Borrower and Borrower reserves, the Seller must verify additional funds in the Borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, as described in Section 5401.1, and other monthly liabilities, as described in Section 5401.2, multiplied by the number of months between the Note Date and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for the purpose of this calculation. ■ The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase. 	<p>The following requirements apply when there are more than 15 calendar days between the Note Date and the start date of the new employment:</p> <ul style="list-style-type: none"> ■ In addition to funds required to be paid by the Borrower and Borrower reserves, the Seller must verify additional funds in the Borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, as described in Section 5401.1, and other monthly liabilities, as described in Section 5401.2, multiplied by the number of months between the Note Date and the start date of the new employment, plus one additional month. A partial month is counted as one month for the purpose of this calculation. ■ The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment.

Topic	Option one	Option two																								
	Sellers may use the following worksheet to assist with the additional funds calculation:																									
	<table><tr><th colspan="3">Calculation for verification of additional funds worksheet</th></tr><tr><td>1</td><td>Total monthly housing expense (Section 5401.1)</td><td>\$ _____</td></tr><tr><td>2</td><td>Monthly debt payment (Section 5401.2)</td><td>\$ _____</td></tr><tr><td>3</td><td>Line 1 + Line 2</td><td>\$ _____</td></tr><tr><td>4</td><td>Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month</td><td>_____</td></tr><tr><td>5</td><td>(Line 3) x (Line 4)</td><td>\$ _____</td></tr><tr><td>6</td><td>Borrower's verified gross income expected between Note Date and start date of new employment</td><td>\$ _____</td></tr><tr><td>7</td><td>Line 5 – Line 6</td><td>\$ _____ (This is the amount of additional funds the Seller must verify)</td></tr></table>		Calculation for verification of additional funds worksheet			1	Total monthly housing expense (Section 5401.1)	\$ _____	2	Monthly debt payment (Section 5401.2)	\$ _____	3	Line 1 + Line 2	\$ _____	4	Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month	_____	5	(Line 3) x (Line 4)	\$ _____	6	Borrower's verified gross income expected between Note Date and start date of new employment	\$ _____	7	Line 5 – Line 6	\$ _____ (This is the amount of additional funds the Seller must verify)
Calculation for verification of additional funds worksheet																										
1	Total monthly housing expense (Section 5401.1)	\$ _____																								
2	Monthly debt payment (Section 5401.2)	\$ _____																								
3	Line 1 + Line 2	\$ _____																								
4	Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month	_____																								
5	(Line 3) x (Line 4)	\$ _____																								
6	Borrower's verified gross income expected between Note Date and start date of new employment	\$ _____																								
7	Line 5 – Line 6	\$ _____ (This is the amount of additional funds the Seller must verify)																								

Topic	Option one	Option two
Required documentation	<ul style="list-style-type: none"> ■ Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that meets all of the following requirements: <ul style="list-style-type: none"> ❑ Fully executed and accepted by the Borrower ❑ Non-contingent or provide documentation, such as a letter or e-mails from the employer verifying all contingencies have been cleared ❑ Includes the terms of employment, including employment start date and annual income based on non-fluctuating earnings ■ For a future salary increase with the Borrower's current employer, the above documentation must indicate the increase is fully approved and is explicitly granted to the Borrower ■ 10-day pre-closing verification (PCV) verifying the terms of the employment offer letter, contract or future salary increase have not changed (refer to Section 5302.2(d)) ■ Documentation of additional funds, as required above 	<ul style="list-style-type: none"> ■ Copy of the employment offer letter or employment contract that meets all of the following requirements: <ul style="list-style-type: none"> ❑ Fully executed and accepted by the Borrower ❑ Includes the terms of employment, including, but not limited to, employment start date and annual income based on non-fluctuating earnings ■ Paystub, written verification of employment (VOE) or a third-party employment verification supporting the income used for qualifying the Borrower ■ Documentation of additional funds, as required above

5303.3: Income while on temporary leave (10/02/24)

This section contains requirements and guidance related to:

- [Temporary leave from current employment – general requirements and guidance](#)
- [Determining qualifying income and Borrower capacity to meet obligations while on temporary leave](#)
- [Documentation requirements](#)

(a) Temporary leave from current employment – general requirements and guidance

Temporary leave from an employer may encompass various circumstances (e.g., family and medical, short-term disability, maternity, other temporary leaves with or without pay). Temporary leave is generally short in duration. The period of time that a Borrower is on temporary leave may be determined by various factors such as applicable law, employer policies and short-term insurance policy and/or benefit terms. Leave ceases being considered temporary when the Borrower does not intend to return to the current employer or does not have a commitment from the current employer to return to employment.

The requirements and guidance for income while on temporary leave do not extend to employer-initiated actions such as furloughs and layoffs.

Refer to Chapter 5305 regarding long-term disability income if the Seller has knowledge the Borrower has applied for, is receiving or will be receiving long-term disability benefits or long-term insurance benefits.

(b) Determining qualifying income and Borrower capacity to meet obligations while on temporary leave

During a temporary leave, a Borrower's income may be reduced and/or completely interrupted. The Seller must determine that during and after the temporary leave the Borrower has capacity to repay the Mortgage and all other monthly obligations in accordance with Topics 5100 through 5500. The Seller's determination must be based on required documentation, Seller knowledge and available information.

(i) For Borrowers returning to their current employer prior to or on the first Mortgage payment due date

For Borrowers returning to their current employer prior to or on the first Mortgage payment due date, the Seller may use for qualifying income the Borrower's pre-leave gross monthly income.

(ii) For Borrowers returning to their current employer after the first Mortgage payment due date

- For Borrowers returning to their current employer after the first Mortgage payment due date, the Seller may use for qualifying income the Borrower's gross monthly income amount being received for the duration of the temporary leave
- For Borrowers returning to their current employer after the first Mortgage payment due date, in the event that the income has been reduced or interrupted, the Seller may use for qualifying income the monthly reduced income amount (this amount may be zero) being received for the duration of the leave combined with the Borrower's available liquid assets, as necessary. Available liquid assets may be used as a partial or complete income supplement up to the amount of the income reduction.

The "Asset calculation for establishing the debt payment-to-income ratio" described in Section 5307.1(b) does not apply to the calculation of assets as an income supplement when determining qualifying income and Borrower capacity to meet obligations while on temporary leave.

Assets that are required for the transaction (e.g., Down Payment, Closing Costs and reserves) may not be considered as available assets.

- The total qualifying income must not exceed the Borrower's pre-leave gross monthly income amount

(c) Documentation requirements

The following documentation is required for all Borrowers on temporary leave:

- Documentation to verify the Borrower's pre-leave income and employment in accordance with Topic 5300, regardless of leave status

- Written statement, in the form of a signed letter or an e-mail directly from the Borrower, confirming the Borrower's intent to return to the current employer and the intended date of return
- Documentation generated by current employer confirming the Borrower's eligibility to return to the current employer after temporary leave. Acceptable forms of employer documentation that the Seller may obtain from the Borrower include but are not limited to:
 - ❑ an employer-approved leave request,
 - ❑ a Family and Medical Leave Act document or other documentation generated by the employer or
 - ❑ a third-party verifier on behalf of the employer

In addition, the following documentation is required for Borrowers returning to the current employer after the first Mortgage payment due date:

- Documentation evidencing amount and duration of all temporary leave income being used to qualify the Borrower (e.g., short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer) that are being received during the temporary leave
- All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet the requirements of and be verified in accordance with the Streamlined Accept Documentation or Standard Documentation requirements, as applicable, listed in Section 5501.3
- A written rationale explaining the analysis used to determine the qualifying income, regardless of the underwriting path

5303.4: Automated income assessment using employed income data (08/06/25)

This section contains:

- [Overview](#)
- [Eligible income types](#)
- [Underwriting requirements](#)
- [Data submission requirements, representation and warranty relief eligibility and documentation requirements](#)
- [Closed Loans data submission requirements, representation and warranty relief eligibility and documentation requirements](#)
- [Internal Revenue Service \(IRS\) Form 4506-C requirements](#)

(a) Overview

Representation and warranty relief eligibility is contingent on the Seller's compliance with all requirements as set forth in this section.

(i) Automated income assessment

Asset and income modeler (AIM) automated income assessment using employed income data, provides Sellers with the option to use certain Systems (as defined in Section 2401.1(b)) to determine whether the Seller is eligible for relief from enforcement of certain representations and warranties related to the Borrower's income.

The Seller must obtain the Borrower's employed income data and submit all required data and information to the applicable System. Based on the data submitted, the System will assess for representation and warranty relief eligibility and return the results of the assessment.

(ii) Automated income assessment of Closed Loans

Sellers with access to Freddie Mac's application programming interface (API) for automated income assessment with Loan Product Advisor[®] using employed income data may submit data from a Closed Loan (an existing Mortgage in which the Seller/Servicer or a Related Third Party has a beneficial ownership interest as defined in Section 2402.3(c)) for assessment.

If the Seller is eligible for income representation and warranty relief for a Closed Loan, the API response file will return a Portable Document Format (PDF) document indicating eligibility (the “AIM Payroll API R&W Assessment”). The Seller should contact its Freddie Mac representative or Customer Service at 800-FREDDIE to request Freddie Mac’s approval to submit Closed Loan data to the API.

(b) Eligible income types

The following tables describes income types that are eligible for an automated income assessment using employed income data:

Eligible income types for an automated income assessment	
Eligible income types	Ineligible employment/income characteristics
Base non-fluctuating employment earnings, except military earnings (base, entitlements, reserve, National Guard) as described in Section 5303.1(c)(i).	Earnings with the following employment/income characteristics as described in Section 5303.1(e) are not eligible for an automated income assessment using employed income data: <ul style="list-style-type: none"> ■ Earnings of a Borrower employed by a family member, the property seller, real estate broker or other interested party to the transaction ■ Employed income from foreign sources ■ Income reported on IRS Form 1099 for services performed ■ Borrowers with business ownership interest(s) less than 25%
The following fluctuating employment earnings as described in Section 5303.1(d): <ul style="list-style-type: none"> ■ Base fluctuating hourly employment earnings ■ Bonus ■ Commission ■ Overtime 	

(c) Underwriting requirements

(i) General underwriting requirements

The Seller must have no knowledge, information or documentation that contradicts an expectation that the income will continue for at least the next three years.

The Seller must confirm that the information on the verification report or paystub(s) and W-2 form(s) is for the correct Borrower and employer, and all employed income data must be in U.S. dollars.

(ii) Temporary leave of absence

In the event the Borrower has taken a temporary leave of absence from their employment:

- When a verification report is obtained, the verification report must indicate that, as of the date of the verification report, the Borrower has returned to work
- When the employed income data is from the Borrower's paystub(s) and W-2 form(s), the Seller must maintain documentation in the Mortgage file showing the Borrower has returned to work

(iii) Age of documentation

For the age of the documentation:

- When a verification report is obtained, the expiration date of the verification report reflected in feedback messaging on the Last Feedback Certificate complies with the requirement in Section 5102.4
- When the employed income data has been obtained from the Borrower's paystub(s) and W-2 form(s), the paystub and W-2 must comply with the requirements in Section 5102.4(b)

(iv) Verification reports

When a verification report is obtained, the method used to obtain the verification report must be an automated process where the employed income data is accessed directly from an electronic database of employer-provided income information.

The employed income data on the verification report cannot be obtained from a written, verbal or e-mail verification of income performed by the service provider.

(d) Data submission requirements, representation and warranty relief eligibility and documentation requirements

(i) Data submission requirements

The Seller must submit the most current employed income data to the applicable System. If after the initial submission, the Seller obtains an updated verification report, paystub(s) or W-2 form(s), the Seller must resubmit the employed income data.

For Loan Product Advisor submissions, the Seller must submit the income amount used to underwrite the Mortgage.

When a verification report is submitted to Loan Product Advisor, the Seller must investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, Uniform Residential Loan Application (including the Borrower's income and employment representations), and the Mortgage file and, if applicable, resubmit the correct information to Loan Product Advisor

(ii) Representation and warranty relief results on Feedback Certificate

If multiple Loan Product Advisor submissions are made, Seller's eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the representation and warranty relief available is described in the following table:

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
Eligible	<p>The Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> 1. Accuracy of the income calculation related to eligible income types on the verification report or paystub(s) and W-2 form(s), and 2. Accuracy and integrity of the data on the verification report <p>Note: The Seller is not relieved from the representations and warranties related to the accuracy and integrity of the data when obtained from the Borrower's paystub(s) and W-2 form(s).</p>
Partial	<p>When partial income representation and warranty relief is granted for a source(s) as confirmed by the feedback message, the Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> 1. Accuracy of the income calculation related to eligible income types on the verification report or paystub(s) and W-2 form(s), and 2. Accuracy and integrity of the data on the verification report <p>Note: The Seller is not relieved from the representations and warranties related to the accuracy and integrity of the data when obtained from the Borrower's paystub(s) and W-2 form(s).</p>
Not eligible	<p>The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.</p> <p>Exception: The Seller is relieved from enforcement of representations and warranties related to the Borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and warranty relief</p>

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
	based on Freddie Mac Income Calculator Certificate result”.
Unavailable	<p>The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower’s income.</p> <p>Exception: The Seller is relieved from enforcement of representations and warranties related to the Borrower’s income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled “Representation and warranty relief based on Freddie Mac Income Calculator Certificate result”.</p>

(iii) Documentation requirements based on representation and warranty relief result on Feedback Certificate

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on Feedback Certificate	
Eligibility result	Income documentation requirements
Eligible	<p>The Seller must maintain in the Mortgage file, as applicable:</p> <ul style="list-style-type: none"> ■ Submitted verification report, if obtained ■ Paystub(s) and W-2 form(s) except when a verification report is obtained ■ Last Freddie Mac Income Calculator Certificate, if obtained <p>Paystub and W-2 documentation must meet the requirements of Section 5302.2.</p> <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief,</p>

Documentation requirements based on representation and warranty relief result on Feedback Certificate	
Eligibility result	Income documentation requirements
	<p>the Seller must either:</p> <ol style="list-style-type: none"> 1. Verify and document the income as required by the Guide, or 2. Remove the income and resubmit the Mortgage to Loan Product Advisor
Partial	<p>The Seller must maintain in the Mortgage file, as applicable:</p> <ul style="list-style-type: none"> ■ Submitted verification report, if obtained ■ Paystub(s) and W-2 form(s), except when a verification report is obtained ■ Last Freddie Mac Income Calculator Certificate, if obtained <p>Paystub and W-2 documentation must meet the requirements of Section 5302.2.</p> <p>When there are multiple income sources and one or more income sources are needed to qualify the Borrower, document the income source(s) as required by the feedback messages.</p>
Not eligible	The income must be verified and documented as required by the Guide.
Unavailable	The income must be verified and documented as required by the Guide.

(iv) Representation and warranty relief results on Freddie Mac Income Calculator Certificate

When income representation and warranty eligibility results are provided on the Freddie Mac Income Calculator Certificate, the representation and warranty relief available is described in the following table:

Income representation and warranty relief based on Freddie Mac Income Calculator Certificate result	
Eligibility result	Representation and warranty relief
Eligible	The Seller is relieved from enforcement of the representation and warranty for the accuracy of the income calculation related to each eligible income type that is on the paystub(s) and W-2 form(s).
Not eligible	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.

(v) Documentation requirements based on representation and warranty relief result on Freddie Mac Income Calculator Certificate

When income representation and warranty eligibility results are provided on the Freddie Mac Income Calculator Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on Freddie Mac Income Calculator Certificate	
Eligibility result	Income documentation requirements
Eligible	<p>The Seller must maintain in the Mortgage file:</p> <ul style="list-style-type: none"> ■ The Freddie Mac Income Calculator Certificate reflecting the calculated income amount for each income source used to underwrite the Mortgage ■ Paystub(s) and W-2 form(s) <p>Paystub and W-2 documentation must meet the requirements of Section 5302.2.</p> <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the Seller must verify and document the income as required by the Guide.</p>

Documentation requirements based on representation and warranty relief result on Freddie Mac Income Calculator Certificate	
Eligibility result	Income documentation requirements
Not eligible	The income must be verified and documented as required by the Guide.

(e) Closed Loans data submission requirements, representation and warranty relief eligibility and documentation requirements

(i) Closed Loans data submission requirements

For Closed Loans with an automated income assessment, the Seller must:

- Submit the employed income data used in the last Loan Product Advisor submission to the API for an automated income assessment using employed income data, and
- Investigate and resolve any inconsistent or contradictory information between employed income data, information contained in Form 65 (including the Borrower's income and employment representations) and the Mortgage file

(ii) Representation and warranty relief provided on the AIM Payroll API R&W Assessment

The AIM Payroll API R&W Assessment will only be returned when the Closed Loan is eligible for income representation and warranty relief.

When the AIM Payroll API R&W Assessment indicates the Closed Loan is eligible for income representation and warranty relief, the Seller is relieved from enforcement of representation and warranty for the accuracy of the income calculation related to eligible income types described in Section 5303.4(b) that are on the paystub(s) and W-2 form(s).

(iii) Documentation requirements based on representation and warranty relief result on AIM Payroll API R&W Assessment

When the AIM Payroll API R&W Assessment indicates the Closed Loan is eligible for income representation and warranty relief, the Seller must maintain in the Mortgage file all of the following:

- AIM Payroll API R&W Assessment
- Paystub(s)
- W-2 form(s)

For income source(s) submitted to Loan Product Advisor that are not eligible for representation and warranty relief, the Seller must verify and document the income as required by the Guide.

(f) IRS Form 4506-C requirements

For Mortgages using employed income data obtained from paystub(s) and W-2(s), the IRS form 4506-C documentation requirements for Section 5302.5 apply.

For Mortgages that receive an income representation and warranty result of either “Eligible” or “Partial” with a feedback message indicating that no further documentation is required for the income reflected on the verification report, if all the income of a Borrower is from an eligible income type described in Section 5303.4(b) and is on the verification report, the Seller does not need to obtain the following:

- A signed IRS Form 4506-C (or an alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party), or
- A signed Commonwealth of Puerto Rico Form 2907 or Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party) for income that is derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands and is exempt from federal income taxation under the Internal Revenue Code

5303.5: Automated income assessment with Loan Product Advisor® using account data for employed income (07/02/25)

This section contains:

- [Overview](#)
- [Eligible income types](#)
- [Underwriting requirements](#)
- [Data submission requirements, representation and warranty relief eligibility and documentation requirements](#)
- [Internal Revenue Service \(IRS\) Form 4506-C requirements](#)

(a) Overview

Representation and warranty relief eligibility is contingent on the Seller's compliance with all requirements as set forth in this section.

Asset and income modeler (AIM) automated income assessment using account data, provides Sellers with the option to use Loan Product Advisor® to determine whether the Seller is eligible for relief from enforcement of certain representations and warranties related to the Borrower's income.

The Seller must obtain the Borrower's account data and submit all required data and information to Loan Product Advisor. Based on the data submitted, Loan Product Advisor will assess for representation and warranty relief eligibility and return the results of the assessment on the Feedback Certificate.

(b) Eligible income types

The following table describes income types that are eligible for an automated income assessment using account data:

Eligible income types for an automated income assessment	
Eligible income type	Ineligible employment/income characteristics
<p>The following non-fluctuating employment earnings as described in Section 5303.1(c):</p> <ul style="list-style-type: none"> ■ Base non-fluctuating employment earnings ■ Military earnings (base, entitlements, reserve, National Guard) 	<p>Earnings with the following employment/income characteristics as described in Section 5303.1(e) are not eligible for an automated income assessment using account data:</p> <ul style="list-style-type: none"> ■ Income reported on IRS Form 1099 for services performed ■ Borrowers with business ownership interest(s) less than 25%
<p>The following fluctuating employment earnings as described in Section 5303.1(d):</p> <ul style="list-style-type: none"> ■ Base fluctuating hourly earnings ■ Bonus ■ Commission ■ Overtime 	

(c) Underwriting requirements

(i) General underwriting requirements

The Seller must have no knowledge, information or documentation that contradicts an expectation that the income will continue for at least the next three years.

The Seller must confirm:

- Each account on the verification report is owned by at least one Borrower
- All assets shown on the verification report are in U.S. dollars located in a U.S. or State-regulated financial institution

- That the payor(s) is the Borrower's current employer by using the information in the Mortgage file

(ii) Age of documentation

For the age of the documentation, the expiration date of the verification report and any paystub(s) reflected on the Last Feedback Certificate complies with the requirements in Section 5102.4.

(d) Data submission requirements, representation and warranty relief eligibility and documentation requirements

(i) Data submission requirements

For Mortgages with an automated income assessment using Loan Product Advisor, the Seller must:

- Submit the income amount used to underwrite the Mortgage to Loan Product Advisor
- Investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, Uniform Residential Loan Application (including the Borrower's income and employment representations), and the Mortgage file and, if applicable, resubmit the correct information to Loan Product Advisor
- If after the initial submission, the Seller obtains an updated verification report or paystub(s), the Seller must resubmit the account data to Loan Product Advisor

(ii) Representation and warranty relief results on Feedback Certificate

If multiple Loan Product Advisor submissions are made, Seller's eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the representation and warranty relief available is described in the following table:

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
Eligible	The Seller is relieved from enforcement of the following representations and warranties: <ol style="list-style-type: none"> 1. Accuracy of the income calculation related to eligible income types on the verification report, and 2. Accuracy and integrity of the data on the verification report
Partial	When partial income representation and warranty relief is granted for a source(s) as confirmed by the feedback message, the Seller is relieved from enforcement of the following representations and warranties: <ol style="list-style-type: none"> 1. Accuracy of the income calculation related to eligible income types on the verification report, and 2. Accuracy and integrity of the data on the verification report
Not eligible	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.
Unavailable	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.

(iii) Documentation requirements based on representation and warranty relief result on Feedback Certificate

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on the Feedback Certificate	
Eligibility result	Income documentation requirements
Eligible	<p>The verification report and paystub(s), as applicable, must be maintained in the Mortgage file.</p> <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the Seller must either:</p> <ol style="list-style-type: none"> 1. Verify and document the income as required by the Guide, or 2. Remove the income and resubmit the Mortgage to Loan Product Advisor
Partial	<p>The verification report and paystub(s), as applicable, must be maintained in the Mortgage file.</p> <p>When there are multiple income source(s) and one or more income sources are needed to qualify the Borrower, document the income source(s) as required by the feedback messages.</p>
Not eligible	The income must be verified and documented as required by the Guide.
Unavailable	The income must be verified and documented as required by the Guide.

(e) IRS Form 4506-C requirements

For Mortgages that receive an income representation and warranty result of either “Eligible” or “Partial” with a feedback message indicating that no further documentation is required for the income reflected on the verification report, if all of the Borrower’s income is from an eligible income type described in Section 5303.5(b), the Seller does not need to obtain the following:

- A signed IRS Form 4506-C (or alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party), or

- A signed Commonwealth of Puerto Rico Form 2907 or Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party), for income that is derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands and is exempt from federal income taxation under the Internal Revenue Code

For all other Mortgages, the IRS form 4506-C documentation requirements of Section 5302.5 apply.

Chapter 5304: Self-Employed Income

5304.1: Stable monthly income and documentation requirements for self-employed Borrowers (05/11/25)

This chapter provides the requirements to determine the appropriate qualifying income for a self-employed Borrower.

This section contains requirements and guidance related to:

- [Self-employed Borrower definition, business structure and verification of ownership interest percentage](#)
- [Loan Product Advisor[®]](#)
- [Self-employment history requirements](#)
- [Business review and analysis](#)
- [Business income: access and use](#)
- [Income calculation and fluctuation analysis](#)
- [Additional supporting documentation for business and income analysis](#)
- [Borrower debt paid by business](#)
- [Business structure change](#)
- [Internal Revenue Service \(IRS\) Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation](#)
- [Self-employment income not used for qualification](#)
- [Business assets used for closing](#)
- [Verification of current existence of the business](#)
- [Documentation requirements](#)

Refer to Section 5301.1 for additional information with respect to income stability and continuance.

(a) Self-employed Borrower definition, business structure and verification of ownership interest percentage

The business structure determines the reporting method of both the business and self-employment income to the IRS. The federal income tax returns for the business usually document the percentage of ownership interest in the business.

The following table contains requirements and guidance for determining self-employment and verifying the Borrower's business ownership percentage:

Business structure¹	Self-employment definition and verification of ownership interest percentage
Partnerships, S-corporations and corporations	<ul style="list-style-type: none">■ A Borrower who has an ownership interest of 25% or more in a Partnership (general or limited), S-corporation and/or corporation is considered to be self-employed■ The ownership interest percentage must be verified by a review of the federal income tax returns for the business, including the IRS Schedule K-1(s) or IRS Form 1125-E, Compensation of Officers. If these documents do not provide this information, the ownership interest percentage must be verified with a letter from the accountant for the business or similar documents.■ If the Borrower has ownership interest in one or more businesses, but the ownership interest is not 25% or more for any business, refer to the requirements and guidance in Section 5303.1(e) for employment/income characteristics or use the requirements in this chapter
Sole proprietorships and Schedule C	<p>Sole proprietorships are unincorporated businesses. A sole proprietor owns 100% of the business and reports the income and expenses from that business on Schedule C of the federal individual income tax return. There is no associated federal business tax return.</p> <p>Note: For IRS Form 1099 income received for services performed and reported on Schedule C, Sellers may refer to Section 5303.1(e) for additional information with respect to determining whether this income may be treated as non-self-employed income.</p>

¹If the Seller is aware of a business structure change in the past five years (e.g., sole proprietorship to S-Corporation), refer to the business structure change requirements in Section 5304.1(i).

(b) Loan Product Advisor

The Seller must indicate to Loan Product Advisor that a Borrower is self-employed when the Borrower meets Freddie Mac's definition of self-employed as stated above in Section 5304.1(a). This is required in all cases where the self-employment income and/or loss is used to determine the Borrower's stable monthly income for qualifying.

For Borrowers with self-employed income assessed using automated income assessment using tax data, refer to Section 5304.2.

(c) Self-employment history requirements

The following table contains requirements and guidance pertaining to self-employment history:

Self-employment history	
Topic	Requirements and guidance
Length of history requirement	In most cases, a two-year history of current self-employment is required to ensure income stability. The self-employment must be documented on Form 65, Uniform Residential Loan Application, and verified in accordance with this chapter.
Self-employment less than two years	<p>In certain instances, a Borrower may not have a current two-year history of self-employment; yet, the income and employment may still be considered stable.</p> <p>When the Borrower has been self-employed for less than two years, the Seller must obtain supporting documentation sufficient to determine whether the income is stable. At a minimum, the Seller must:</p> <ul style="list-style-type: none">■ Consider and evaluate the Borrower's experience in the business■ Document that the Borrower has a combined two-year history of receipt of income from the current self-employment and the prior job in the same or similar occupation or industry■ Determine qualifying income by using the lesser of:<ul style="list-style-type: none"><input type="checkbox"/> The stable monthly income from the new business, or<input type="checkbox"/> The stable monthly income earned in the previous occupation

Self-employment history	
Topic	Requirements and guidance
	<ul style="list-style-type: none"> ■ Include a written analysis justifying the determination of stability of the income in the Mortgage file ■ Consider the overall layering of risk, including the Borrower's demonstrated ability to repay obligations <p>Analysis of current business activity through a review of the year-to date (YTD) financial statement and/or the most recent three months of business bank statements may provide support to this evaluation.</p>
Minimum history of receipt of income	The Borrower's federal income tax returns must reflect at least one year of self-employment income
Geographical relocation	<p>If the Borrower is relocating to a different geographic area, at a minimum the Seller must:</p> <ul style="list-style-type: none"> ■ Consider and evaluate the acceptance of the company's service or products in the marketplace. Additional information, such as market studies or relevant industry research, may support this evaluation. ■ Provide a written analysis justifying the Borrower's income will continue at the same level in the new location

(d) Business review and analysis

The following table contains requirements and guidance pertaining to review and analysis of the business that produces the stable monthly income for the Borrower.

Business review and analysis	
Topic	Requirements and guidance
Business review and analysis	<p>The Seller's analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower.</p> <ul style="list-style-type: none">■ The analysis must include a review of the business tax returns■ The Seller's review must include, at a minimum, an analysis of gross receipts or sales, cost of goods sold and gross profits. All should be typical for the type of business and reflect consistent year over year trends. In addition, the business expenses should be reasonable for the type of business activity and level of business income. Business tenure should be considered.■ The Seller may determine that review and analysis of the business financial statements, business asset statements, and in the case of Partnerships and S-corporations, an analysis of the historical cash distributions, is necessary to establish the financial and liquidity standing of the business. In addition, the Seller may calculate and consider the liquidity ratios of the business using generally accepted accounting practices when analyzing the liquidity of the business.

(e) Business income: access and use

The following table contains requirements and guidance pertaining to verification of access to and use of business income:

Business income: access and use	
Topic	Requirements and guidance
Access to business income	Documentation is not required to verify access to business income for the following: <ul style="list-style-type: none">■ Sole proprietorships■ Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S-corporations■ W-2 income received from S-corporations and corporations,■ Corporations, if the Borrower holds 100% ownership interest
	Documentation is required to verify access to business income as follows: <p>If business income not reported on the Borrower's federal individual income tax returns is being used to qualify and none of the categories above apply for when documentation is not required, then the Seller must verify that the Borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document.</p>
Use of business income	Use of business income reported on the Borrower's federal individual income tax returns <ul style="list-style-type: none">■ For sole proprietorships, stable monthly income must be based on the income reported on Schedule C of the Borrower's federal individual income tax returns■ For partnerships and S-corporations, stable monthly income may be based on the Borrower's proportionate share of income (e.g., ordinary income, guaranteed payments) carried from the Form 1065 or 1120 S, through the Schedule K-1 and onto the Borrower's federal individual income tax returns. Although cash distributions reported on the Schedule K-1 may not be used as qualifying income, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary

Business income: access and use	
Topic	Requirements and guidance
	<p>income.</p> <ul style="list-style-type: none"> ■ For S-corporations and corporations, stable monthly income may be based on the income reported on the Borrower's W-2 from the business. The corporate tax returns and Form 1125-E if applicable, must be reviewed for confirmation of the Borrower's W-2 income from the business.
	<p>Use of business income not reported on the Borrower's federal individual income tax returns</p> <p>Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the Seller's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business</p>

(f) Income calculation and fluctuation analysis

The following table contains requirements and guidance pertaining to self-employed income calculation and fluctuation analysis:

Income calculation and fluctuation analysis	
Topic	Requirements and guidance
Income calculation	<p>The Seller's calculation of a self-employed Borrower's average monthly income must be based on a review of the Borrower's complete federal individual income tax returns (Form 1040), including W-2s and Schedule K-1's (if applicable), and the Borrower's complete federal income tax returns for the business (Forms 1120, 1120 S and 1065), when applicable.</p> <p>The Seller must analyze the tax returns and document the calculation of the Borrower's self-employed income on Form 91, Income Calculations, or a similar alternative form.</p> <p>If the self-employment history is less than two years: Refer to Section 5304.1(c) for additional requirements.</p>
Income calculation adjustments (examples)	<p>The following list includes common examples of items that may be considered for inclusion in income when performing the self-employed income calculations on Form 91, or a similar alternative form.</p> <ul style="list-style-type: none"> ■ Non-cash deductions (e.g., depreciation, depletion, amortization) ■ Non-recurring losses (e.g., casualty loss) ■ Loss carry-over(s) from previous tax years ■ Mortgages and notes payable in less than one year <ul style="list-style-type: none"> □ The Seller must analyze the terms of the Mortgages and notes payable in less than one year and determine whether the income should be reduced by the debt when performing the income analysis □ The analysis must include factors such as whether the business has sufficient liquidity to pay off the debt without a negative impact to the business, if the business type is indicative of debt that would continually roll over, and/or if the debt is a line of credit that is consistently renewable. If these factors are present, the income does not need to be reduced by the debt when performing the income analysis.

Income calculation and fluctuation analysis	
Topic	Requirements and guidance
Income fluctuation	<p>As part of the analysis, the Seller must consider whether the Borrower's self-employed income has increased or decreased over the previous two years when the Seller's analysis includes a review of documentation covering a history greater than one year</p> <p>If the analysis reflects that the Borrower's income has significantly increased or decreased:</p> <ul style="list-style-type: none"> ■ The Seller must provide sufficient documentation and justification to support the determination that the income used to qualify the Borrower is stable and likely to continue for the next three years ■ It may be necessary to obtain additional years' tax returns when the Borrower's self-employment income fluctuates in order to determine the stability of the income. <p>Refer to Section 5304.1(g) for more information about additional supporting documentation for business and income analysis.</p>

(g) Additional supporting documentation for business and income analysis

The following table contains requirements and guidance pertaining to additional supporting documentation that may be used to determine whether a borrower has stable monthly income when evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, continued income stability when tax returns are on extension or are over 120 days old, evaluating a newer business and the impact of business fund withdrawals.

Additional supporting documentation for business and income analysis	
Topic	Requirements and guidance
Business financial statements	<p>Business financial statements typically consist of a profit and loss statement and a balance sheet for the business that cover a specified period of time (e.g., YTD, quarterly, annual).</p> <ul style="list-style-type: none"> ■ Financial statements for the business may be prepared by multiple parties, including but not limited to, the Certified Public Accountant, accountant or tax preparer that prepares the tax returns for the business, or the Borrower ■ Financial statements may not be used for the calculation of stable monthly income (unless audited); however, they may provide additional support for the Seller's business and income analysis ■ Financial statements for the business may be used to assist in evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, continued income stability when tax returns are on extension or are over 120 days old, evaluating a newer business and the impact of business fund withdrawals
Business and/or individual tax return(s) - most recent calendar year not yet available	<p>If the Borrower's federal individual and/or business income tax returns for the most recent calendar year, or fiscal year as applicable, are not available (e.g., Borrower and/or Borrower's business filed an IRS extension, tax returns are not yet filed with the IRS), examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following:</p> <ul style="list-style-type: none"> ■ Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s) ■ Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements ■ Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return ■ Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s) ■ Review of W-2s, 1099s and/or K-1s from the most recent calendar

Additional supporting documentation for business and income analysis	
Topic	Requirements and guidance
	<p>year, if available</p> <p>If the continued stability of the income cannot be determined, then the Borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination.</p> <p>Note: Refer to Section 5302.4(b) for additional information about age of tax return requirements, including, but not limited to, the requirement to document evidence of continued income stability using at least one of the examples listed above when the Seller has not obtained the IRS confirmation verifying tax transcript(s) are not yet available for the business tax return(s).</p>

(h) Borrower debt paid by business

Refer to Section 5401.2(c)(v) for requirements for self-employed Borrower's debt paid by the Borrower's business.

(i) Business structure change

The following table contains requirements and guidance pertaining to a business structure change:

Business structure change	
Topic	Requirements and guidance
Business structure change	<p>If the Borrower changed their business structure (e.g., sole proprietorship to S-corporation, S-corporation to corporation), the Borrower's ownership interest percentage must not change in order for the current and prior business structures to be considered the same business. Additionally, the Seller must not have knowledge, information or documentation that other changes occurred (e.g., change of products and/or services, location), and there must be no indication the change had a negative impact on business revenue or expenses. The Seller must document their evaluation in the written income analysis. If any of these requirements are not met, then the current and prior business structures must be treated as different businesses.</p>

(j) IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation

The following table contains requirements and guidance pertaining to rental real estate income and expenses reported on IRS Form 8825:

Rental real estate income and expenses reported on IRS Form 8825	
Topic	Requirements and guidance
IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation	<p>All rental real estate income and expenses reported on IRS Form 8825 for partnerships and S-corporations are to be treated as self-employment income, regardless of whether or not the Borrower is personally obligated on the Note and regardless of the Borrower's percentage of ownership interest in the partnership or S-corporation. The requirements of Section 5401.2(c)(v) are not applicable.</p> <p>Refer to Form 91 for the appropriate treatment and calculation of the Borrower's proportionate share of the net rental real estate income or loss.</p>

(k) Self-employment income not used for qualification

The following table contains requirements and guidance pertaining to self-employment income not used for qualification:

Self-employment income not used for qualification	
Topic	Requirements and guidance
Self-employment disclosed on Form 65 (or other documentation) but not used to qualify	<p>The Seller is not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each Borrower on the Mortgage who:</p> <ul style="list-style-type: none"> ■ Has a primary source of income, other than self-employment, used for qualifying for the Mortgage (e.g., salaried income from primary employment), and ■ Is self-employed and self-employment income is a secondary source of income <p>For each Borrower on the Mortgage who is self-employed and does not have another source of income that is used in qualifying for the Mortgage, the following requirements apply:</p> <ul style="list-style-type: none"> ■ The Seller must obtain pages 1 and 2 of the Borrower's federal individual income tax returns, and the applicable schedules (e.g., Schedule C, Schedule E), to determine if there is a business loss that may have an impact on the stable monthly income. Refer to Section 5302.4(b) for information about using IRS tax transcripts to meet certain portions of this requirement. <ul style="list-style-type: none"> □ If a business loss is reported and the Borrower qualifies with the loss, then the Seller is not required to obtain any additional documentation relating to the business loss □ If a business loss is reported and the Borrower does not qualify with the loss, then the Seller must perform a business and income analysis to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss when calculating the stable monthly income. The Seller must obtain additional documentation needed in order to fully evaluate the loss and support the analysis (e.g., business tax returns (final or otherwise), evidence of a one-time non-recurring event). ■ If the tax returns or other documentation in the Mortgage file (e.g., IRS tax transcripts, additional Schedule K-1's) reflect positive income from self-employment but that

Self-employment income not used for qualification	
Topic	Requirements and guidance
	income is not used to qualify, additional documentation (e.g., complete business or federal individual income tax return(s)) is not required

(l) Business assets used for closing

The following table contains requirements and guidance pertaining to business assets used for closing:

Business assets used for closing	
Subject	Requirements and guidance
Business assets used for closing	<ul style="list-style-type: none"> ■ Withdrawals of assets from the business may have a negative impact on the ability of the business to continue operating. When business assets are being used for the Down Payment, Closing Costs and/or reserves, the Seller must determine that the withdrawal of the funds will not have a detrimental effect on the business. In addition to a review and analysis of the personal and business tax returns, the Seller may review and analyze the current financial statement and/or the last three months of the business bank statements to confirm the deposits, withdrawals and balances are supportive of a viable business and are aligned with the level and type of income and expenses reported on the business tax returns. ■ The factors contributing to the determination that the withdrawal will not negatively impact the business must be included on the Seller's written analysis of the income source and amount <p>The business assets must be verified in accordance with the documentation requirements in Sections 5102.3, 5102.4 and 5501.3.</p>

(m) Verification of current existence of the business

The following table contains requirements and guidance pertaining to verification of current existence of the business:

Verification of current existence of the business	
Topic	Requirements and guidance
Verification of current existence of business	Verification of the current existence of the business is required when positive income from the business is used as stable monthly income.
Acceptable third-party sources	<p>Acceptable third-party sources include, but are not limited to:</p> <ul style="list-style-type: none"> ■ Regulatory agency ■ Phone directory ■ Internet source (e.g., Better Business Bureau) ■ Directory assistance ■ Applicable licensing bureau <p>Verification of current existence of the business obtained verbally from an acceptable third-party source must be documented and include all of the following:</p> <ul style="list-style-type: none"> ■ Name and address of the business ■ Name of individual and entity contacted to obtain the verification ■ Date information verified ■ Name and title of the individual who completed the verification for the Seller
Alternative sources	<p>The Seller may consider alternative sources if the above are not available, such as:</p> <ul style="list-style-type: none"> ■ Preparer of the tax returns for the business (e.g., accountant), provided the preparer has an arm's length relationship with the Borrower ■ At least one months' business bank statement that supports the current existence of the business and the level and type of income and expenses reported on the business tax returns
Date requirements	The verification must be completed prior to the Delivery Date, but no more than 120 days prior to the Note Date.

(n) Documentation requirements

The Seller must establish and calculate the stable monthly income using at least the following required documentation. Additional documentation may be needed to support income stability, as described within this chapter.

- Form 91 or a similar alternative form (e.g., Income Calculation Report or Freddie Mac Income Calculator Certificate, both as described in Section 5304.2)
- Verification of the current existence of the business as described in Section 5304.1(m)
- Federal income tax returns, as required in the table below, including all applicable schedules and forms must reflect at least 12 months of self-employed income
- Verification of how long the business has been in existence:
 - ☐ For partnerships, S-corporations and corporations, the federal income tax return(s) for the business must indicate the number of years that the business has been in existence
 - ☐ For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on Form 65

Business structure	Streamlined Accept and Standard Documentation levels	
	Business in existence greater than or equal to five years ¹	Business in existence less than five years
Sole proprietorship	Complete signed federal individual (Form 1040) income tax return for the most recent year	Complete signed federal individual (Form 1040) income tax returns for the most recent two years
Partnership	Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent year	Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent two years
S-corporation	Complete signed federal individual and S-corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent year	Complete signed federal individual and S-corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent two years
Corporation	Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent year	Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent two years

¹ The Borrower must be self-employed (i.e., have an ownership interest of 25% or more) in the same business for at least five years

5304.2: Automated income assessment using tax data (07/02/25)

This section contains:

- [Overview](#)
- [Eligible self-employed income](#)
- [Underwriting requirements](#)

- [Data submission requirements](#)
- [Representation and warranty relief eligibility and documentation requirements](#)

(a) Overview

Asset and income modeler (AIM) automated income assessment using tax data provides Sellers with the option to use certain Systems (as defined in Section 2401.1(b)) to determine whether the Seller is eligible for relief from enforcement of certain representations and warranties related to the Borrower's self-employed income.

The Seller must obtain the Borrower's tax data and submit all required data and information to the applicable System. Based on the data submitted, the System will assess for representation and warranty relief eligibility and return the results of the assessment.

Representation and warranty relief eligibility is contingent on the Seller's compliance with the requirements of this section.

References in this section to "service provider" mean a third-party service provider designated by Freddie Mac.

(i) Tax returns uploaded to a service provider

If the Seller obtains federal income tax returns from the Borrower, the Seller will upload the tax returns to a service provider, which will produce a report ("Income Calculation Report") consisting of data extracted from the Borrower's tax returns.

The Seller may also request from the Internal Revenue Service (IRS), via the service provider, a tax transcript of the Borrower's federal individual income tax return(s). If both tax returns and tax transcripts are obtained, Loan Product Advisor[®] will compare data from the Borrower's tax return to data from the tax transcript for assessment of tax return data representation and warranty relief eligibility and return the results of the assessment on the Feedback Certificate.

(ii) Tax transcripts obtained from a service provider

Alternatively, the Seller may request from the IRS, via a service provider, a tax transcript of the Borrower's federal individual income tax return(s). Loan Product Advisor will retrieve the tax transcript data from the service provider and assess for income and data representation and warranty relief eligibility and return the results of the assessment on the Feedback Certificate.

(iii) Freddie Mac Income Calculator using tax return or tax transcript data

The Seller may enter data from the Borrower's federal individual income tax returns or tax transcripts into the Freddie Mac Income Calculator which will produce a Freddie Mac

Income Calculator Certificate that details the results of the Freddie Mac Income Calculator submission, including the calculated income and representation and warranty relief eligibility.

(b) Eligible self-employed income

(i) Tax return

Self-employed income is an eligible income type for an automated assessment using tax return data if it is derived from the following business structures:

- Sole proprietorships reported on IRS Schedule C
- S corporations reported on IRS Form 1120S (including compensation of officers reported on IRS Form W-2), IRS Form 8825 and IRS Schedule K-1 (Form 1120S)
- Partnerships reported on IRS Form 1065, IRS Form 8825 and IRS Schedule K-1 (Form 1065)

(ii) Tax transcript

Self-employed income is an eligible income type for an automated assessment using tax transcript data when it is derived from a sole proprietorship and reported on IRS Schedule C.

Note: If other self-employed income is reflected on other tax schedules (e.g., Schedule E or Schedule F), the Mortgage is not eligible for an automated assessment using tax transcripts.

(c) Underwriting requirements

(i) General underwriting requirements

The Borrower must have been self-employed and received income from the same eligible income source (i.e., business) on the Income Calculation Report, the Freddie Mac Income Calculator Certificate or Form 91, Income Calculations (or a similar alternative form as described in Section 5304.1) for the most recent two years.

If the Borrower's business has been in existence for less than five years or the Borrower has owned the business for less than five years, the Borrower's federal income tax returns or tax transcripts must reflect at least two years of receipt of income and/or losses from the business. Income reported on the business tax returns but not on personal tax returns must not be considered as stable monthly income.

The Seller must have no knowledge, information or documentation that contradicts an expectation that the income will continue for at least the next three years.

(ii) Federal income tax return and tax transcript requirements

The tax returns or tax transcripts used in the automated income assessment must be the Borrower's individual and business, if applicable, U.S. federal income tax return(s) that were most recently filed with the IRS. Sellers are encouraged to always confirm with the Borrower that the tax return(s) or tax transcripts provided are the most recent filed with the IRS.

The individual tax return year most recently filed with the IRS must correspond to the business tax return year most recently filed with the IRS for all businesses (e.g., when the most recently filed individual tax return year is 2024, the most recently filed business tax return year must also be 2024).

The income and/or loss reflected in the federal income tax returns or tax transcripts must be reported for the same business on the same tax form structure (e.g., the business cannot be reported as a sole proprietorship and then converted to a partnership).

The tax returns must not be any of the following:

- Filed on a fiscal year basis
- Handwritten
- An amended return
- From a U.S. Territory

If the Borrower has amended their tax returns, then tax transcripts are not acceptable for assessment through the applicable System.

(iii) Inconsistent or contradictory information

The Seller is responsible for investigating and resolving any inconsistent or contradictory information contained in the Income Calculation Report, the Freddie Mac Income Calculator Certificate, Form 91 (or a similar alternative form), federal income tax returns, tax transcripts and/or the Mortgage file. For example:

- If the Seller determines that a business from which positive Borrower income is calculated is no longer in operation, the Seller must exclude it from the qualifying income, or
- If the Mortgage receives a tax return data representation and warranty relief result of "Not Eligible," as described in Section 5304.2(e)(iii) below, due to inconsistencies between the tax transcript returned by the IRS via the service provider and the tax return(s) uploaded to the service provider, the Seller is required to resolve the discrepancy

If the Seller finds discrepancies, it must update the information in the applicable System and/or the Income Calculation Report and resubmit the data as necessary.

Note: For Mortgages that receive a tax return data representation and warranty relief result of “Eligible” as described in Section 5304.2(e)(iii) below, Loan Product Advisor has compared the data from uploaded tax return(s) to data from IRS tax transcripts and has found the data to be consistent; therefore, for eligible income, the Seller is not responsible for investigating inconsistent information between these documents.

(iv) Other Guide provisions related to an automated income assessment using tax data

Refer to the following Guide provisions for additional requirements related to the automated income assessment using tax data:

Guide provision	Guide location
Verification of current existence of the business	Section 5304.1(m)
Business assets used for closing	Section 5304.1(l)
Age of tax return requirements	Section 5302.4(b)

(d) Data submission requirements

(i) Tax returns uploaded to a service provider

When tax returns are obtained and uploaded to a service provider, the Seller must:

1. Review and verify the Income Calculation Report, if applicable, against information in the Mortgage file to determine if any adjustments must be made. If so, the Seller must update the Income Calculation Report and upload it to the service provider, along with any additional documentation necessary to support the updates
2. Submit the most current version of the Income Calculation Report to Loan Product Advisor. Loan Product Advisor will assess, on an individual Borrower-level and an individual business-level basis, the calculation of income and/or losses from the eligible self-employed income based on data from the federal income tax returns and the Income Calculation Report.

Note: If the Income Calculation Report is updated or additional income documentation is provided, the Seller must upload the updated report and/or income documentation to the service provider and submit the updated information to Loan Product Advisor.

3. Indicate in Loan Product Advisor that the Borrower is self-employed

(ii) Tax transcripts obtained from a service provider

When tax transcripts are obtained from a service provider and not used with the Freddie Mac Income Calculator, the Seller must:

1. Submit the Mortgage to Loan Product Advisor, which assesses, on an individual Borrower-level and an individual business-level basis, the calculation of income and/or losses from the eligible self-employed income reported on Schedule C based on data from the federal income tax transcripts
2. Indicate in Loan Product Advisor that the Borrower is self-employed

(iii) Freddie Mac Income Calculator using tax data

When the Seller uses the Freddie Mac Income Calculator with tax data, the Seller must:

1. Submit accurate tax return data or tax transcript data, as applicable, to the Freddie Mac Income Calculator, which will assess, on an individual Borrower-level and an individual business-level basis, the calculation of income and/or losses from the eligible self-employed income.

Note: When using tax transcripts, the only eligible self-employed income is from a sole proprietorship, reported on IRS Schedule C as described in Section 5304.2(b).

2. Indicate in Loan Product Advisor that a Borrower is self-employed if the data from the Freddie Mac Income Calculator Certificate is submitted to Loan Product Advisor

(e) Representation and warranty relief eligibility and documentation requirements

(i) Representation and warranty relief overview

Two types of relief from enforcement of representations and warranties are available through an automated income assessment using tax data. Eligibility for each type of representation and warranty relief is determined separately.

- Income representation and warranty relief
- Tax data representation and warranty relief
 - When using tax returns uploaded to a service provider, data representation and warranty relief may be available when the tax transcript is requested via a service provider and Loan Product Advisor compares the data from uploaded tax returns(s) to data from the IRS tax transcripts

- ❑ When using tax transcripts obtained from a service provider, data representation and warranty relief may be available when the tax data is assessed by Loan Product Advisor

If multiple Loan Product Advisor submissions are made, Seller's eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.

(ii) Income representation and warranty relief results on Feedback Certificate

When income representation and warranty relief eligibility results are provided on the Last Feedback Certificate, the relief available is described in the following table:

Income representation and warranty relief based on Feedback Certificate results	
Eligibility result	Representation and warranty relief
Eligible	<p>The Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> 1. Accuracy of the income calculation related to eligible self-employed income shown on the Income Calculation Report, the Freddie Mac Income Calculator Certificate or Form 91 (or a similar alternative form), as applicable, and 2. The business review and analysis described in Section 5304.1(d), including the analysis of the eligible self-employed income to support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower
Partial	<p>When partial income representation and warranty relief is granted for a source(s) as confirmed by the feedback message, the Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> 1. Accuracy of the income calculation related to eligible self-employed income shown on the Income Calculation Report, the Freddie Mac Income Calculator Certificate or Form 91 (or a similar alternative form), as applicable, and 2. The business review and analysis described in Section 5304.1(d), including the analysis of the eligible self-employed income to support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower
Not eligible	<p>The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.</p> <p>Exception: The Seller is relieved from enforcement of representations</p>

Income representation and warranty relief based on Feedback Certificate results	
Eligibility result	Representation and warranty relief
	and warranties related to the Borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and warranty relief based on Freddie Mac Income Calculator Certificate result".
Unavailable	<p>The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.</p> <p>Exception: The Seller is relieved from enforcement of representations and warranties related to the Borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and warranty relief based on Freddie Mac Income Calculator Certificate result".</p>

(iii) Data representation and warranty relief results on the Feedback Certificate

When data representation and warranty relief eligibility results are provided on the Last Feedback Certificate, the relief available is described in the following table:

Data representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
Eligible	<p>Tax returns uploaded to a service provider</p> <p>The Seller is relieved from enforcement of representations and warranties related to the accuracy and integrity of the data from tax return(s) uploaded to the service provider for eligible self-employed income shown on the Income Calculation Report or Form 91 (or a similar alternative form).</p> <p>Tax transcripts obtained from a service provider</p> <p>The Seller is relieved from enforcement of representations and warranties related to the accuracy and integrity of the data from tax transcripts obtained from a service provider for eligible Schedule C income.</p>
Not eligible	The Seller is not eligible for relief from enforcement of representations and warranties related to the accuracy and integrity of the data from the tax return(s) uploaded to the service provider.

Unavailable	The Seller is not eligible for relief from enforcement of representations and warranties related to the accuracy and integrity of the data from the tax return(s) uploaded to the service provider.
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(iv) Income representation and warranty relief results on the Freddie Mac Income Calculator Certificate

When income representation and warranty relief eligibility results are provided on the Freddie Mac Income Calculator Certificate, the relief available is described in the following table:

Income representation and warranty relief based on the Freddie Mac Income Calculator Certificate result	
Eligibility result	Representation and warranty relief
Eligible	<p>The Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> 1. Accuracy of the income calculation related to eligible self-employed income shown on the Freddie Mac Income Calculator Certificate, and 2. The business review and analysis described in Section 5304.1(d), including the analysis of the eligible self-employed income to support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower
Not eligible	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.

(v) Documentation requirements based on representation and warranty relief result on Feedback Certificate

When income representation and warranty relief eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on Feedback Certificate	
Eligibility result	Income documentation requirements
Eligible	<p>The Seller must maintain in the Mortgage file:</p> <ul style="list-style-type: none"> ■ The most recent Income Calculation Report, the last Freddie Mac Income Calculator Certificate or Form 91 (or a similar alternative form), as applicable ■ The Borrower's federal income tax returns or tax transcripts as applicable in accordance with Section 5304.1(n) ■ Documentation to support adjustments as described in Section 5304.2(d)(i) above, if applicable ■ All documentation submitted to the service provider, including the most recent uploaded Income Calculation Report used by Loan Product Advisor ■ IRS Form 4506-C in accordance with Section 5302.5. <p>Note: IRS Form 8821 is an acceptable alternate form in lieu of IRS Form 4506-C.</p> <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the Seller must either:</p> <ol style="list-style-type: none"> 1. Verify and document the income as required by the Guide, or 2. Remove the income and resubmit the Mortgage to Loan Product Advisor
Partial	<p>The Seller must maintain in the Mortgage file:</p> <ul style="list-style-type: none"> ■ The most recent Income Calculation Report, the last Freddie Mac Income Calculator Certificate or Form 91 (or a similar alternative form), as applicable ■ The Borrower's federal income tax returns uploaded to the service provider or tax transcripts as applicable in accordance with Section 5304.1(n) ■ Documentation to support adjustments as described in Section 5304.2(d)(i) above, when applicable ■ All documentation submitted to the service provider, including the most recent uploaded Income Calculation Report used by Loan Product Advisor ■ IRS form 4506-C in accordance with Section 5302.5.

Documentation requirements based on representation and warranty relief result on Feedback Certificate	
Eligibility result	Income documentation requirements
	<p>Note: IRS Form 8821 is an acceptable alternate form in lieu of IRS Form 4506-C.</p> <p>When there are multiple income sources and one or more income source(s) are needed to qualify the Borrower, document the income source(s) as required by the feedback messages.</p>
Not eligible	The income must be verified and documented as required by the Guide.
Unavailable	The income must be verified and documented as required by the Guide.

(vi) Documentation requirements based on representation and warranty relief result on the Freddie Mac Income Calculator Certificate

When income representation and warranty relief eligibility results are provided on the Freddie Mac Income Calculator Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on the Freddie Mac Income Calculator Certificate	
Eligibility result	Income documentation requirements
Eligible	<p>The Seller must maintain in the Mortgage file:</p> <ul style="list-style-type: none"> ■ The Freddie Mac Income Calculator Certificate reflecting the calculated income amount for each income source used to underwrite the Mortgage ■ The Borrower's federal income tax returns or tax transcripts as applicable in accordance with Section 5304.1(n) ■ IRS Form 4506-C in accordance with Section 5302.5. <p>Note: IRS Form 8821 is an acceptable alternate form in lieu of IRS Form 4506-C.</p> <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the Seller must verify and document the income as required by the Guide.</p>

Documentation requirements based on representation and warranty relief result on the Freddie Mac Income Calculator Certificate

Eligibility result	Income documentation requirements
Not eligible	The income must be verified and documented as required by the Guide.

Chapter 5305: Other Income

5305.1: Requirements for all other income (non-employment/non-self-employment) (05/07/25)

This section contains:

- [Requirements applicable to all other income types](#)
- [Alimony, child support or separate maintenance payments requirements](#)
- [Capital gains requirements](#)
- [Dividend and interest requirements](#)
- [Foster-care income requirements](#)
- [Housing Choice Voucher \(HCV\) homeownership program \(also referred to as Section 8\) requirements](#)
- [Housing or parsonage allowance requirements](#)
- [Long-term disability income requirements](#)
- [Mortgage Credit Certificates requirements](#)
- [Notes receivable requirements](#)
- [Public assistance income \(e.g., Temporary Assistance for Needy Families \(TANF\)\) requirements](#)
- [Retirement account distributions as income requirements](#)

- [Retirement income requirements](#)
- [Royalty payments requirements](#)
- [Social Security Supplemental Security Income \(SSI\) requirements](#)
- [Survivor and dependent benefit income requirements](#)
- [Trust income requirements](#)
- [Tax-exempt income requirements](#)
- [Additional requirements for income from a foreign source \(i.e., non-employment/non-self-employment income\)](#)

(a) Requirements applicable to all other income types

The Seller must evaluate the stability, consistency and continued receipt of all other income (i.e., non-employment/non-self-employment income) used for qualifying, including income types not specifically addressed in this section. The Seller must:

- Determine whether documentable continuance is applicable
- Consider factors that include, but are not limited to:
 - ☐ Whether the payments are received pursuant to a written agreement, court decree, government program, law and/or regulation
 - ☐ The length of time the payments have been received
 - ☐ The regularity of receipt of the income
 - ☐ The consistency of the amount of income
 - ☐ The availability of procedures to compel payment

- ☐ Whether full or partial payments have been made
- ☐ The age of each child for which support and/or benefit payments are made (if applicable)
- ☐ Applicable eligibility criteria governing the continued receipt of the income

For general requirements with respect to income history, stability and continuance, refer to Section 5301.1.

(b) Alimony, child support or separate maintenance payments requirements

The following table contains the requirements for income from alimony, child support and separate maintenance payments:

Alimony, child support or separate maintenance payments	
Topic	Stable monthly income requirements
Minimum history of receipt	<p>Payments in the full amount must have been consistently received for the most recent six months.</p> <p>The income must not be considered for qualifying if any of the following apply:</p> <ul style="list-style-type: none"> ■ The payor has been obligated to make payments for less than six months ■ The payments are not for the full amount ■ The payments are not received on a consistent basis
Continuance	<p>Document the payor is obligated to make payments to the Borrower for at least the next three years</p>

Alimony, child support or separate maintenance payments	
Topic	Stable monthly income requirements
Documentation	<ul style="list-style-type: none"> ■ Documentation of the payor's obligation(s) for the previous six months, including the amount and the duration of the obligation, with one or more of the following: <ul style="list-style-type: none"> ❑ Signed court order ❑ Final divorce decree ❑ Legally binding separation agreement ❑ Legally binding child support agreement ❑ Other legally binding documentation ■ For child support income, evidence of the ages of the children for which child support is received ■ Receipt of the alimony, child support and/or separate maintenance payments for the most recent six months. Documentation of receipt must include one or more of the following: <ul style="list-style-type: none"> ❑ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution ❑ Evidence that the payments were transferred into a third-party money transfer application account owned by the Borrower ❑ Statement from a government agency (e.g., child support agency) reflecting the Borrower's name as the recipient and the amounts paid
Monthly income amount	The documented fixed monthly payment amount

(c) Capital gains requirements

The following table contains the requirements for income from capital gains:

Capital gains	
Topic	Stable monthly income requirements
Eligibility	Assets used to support the qualifying income amount and continuance must not be in the form of cryptocurrency.
Minimum history of receipt	Most recent two years of realized capital gains
Continuance	Must document continuance at the level used for qualifying for at least the next three years
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ Complete federal individual income tax returns for the most recent two-year period reflecting capital gains income ■ Evidence of sufficient assets after the Note Date to support continuance of the income at the level used for qualifying
Calculation of monthly income amount	Use a 24-month average

(d) Dividend and interest requirements

The following table contains the requirements for dividend and interest income:

Dividend and interest	
Topic	Stable monthly income requirements
Eligibility	Assets used to support the qualifying income amount and continuance must not be in the form of cryptocurrency.
Minimum history of receipt	Most recent two years
Continuance	Must document continuance at the level used for qualifying for at least the next three years
Documentation	<p>One of the following:</p> <ul style="list-style-type: none"> ■ Complete federal individual income tax returns for the most recent two-year period ■ Year-end asset account statements for the most recent two years evidencing all dividend and interest income for each year for the income producing asset(s) <p>Additionally, document sufficient assets remaining after the Note Date to support three-year continuance of the income at the level used for qualifying.</p>
Calculation of monthly income amount	Use a 24-month average

(e) Foster-care income requirements

The following table contains the requirements for foster-care income:

Foster-care income received from a State- or county- sponsored organization	
Topic	Stable monthly income requirements
Minimum history of receipt	Most recent two years
Continuance	Must be likely to continue for at least the next three years. The Seller is not required to obtain documentation to verify income continuance as long as the Seller doesn't have any knowledge, information or documentation that the income is no longer being received or is likely to cease.
Documentation requirements	Evidence of receipt of foster-care income for the most recent two-year period
Calculation of monthly income amount	Use a 24-month average

(f) Housing Choice Voucher homeownership program (also referred to as Section 8) requirements

The following table contains the requirements for income from Housing Choice Voucher (HCV) homeownership program payments:

Housing Choice Voucher homeownership program (also referred to as Section 8) payments	
Topic	Stable monthly income requirements
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	Document that the HCV homeownership program assistance term limit has a remaining term of at least three years.
Documentation	Documentation from the public housing agency that issued the homeownership voucher verifying the terms, including the source, benefit type, payment frequency, payment amount and duration of the term limit of at least three years
Monthly payment amount	The documented fixed monthly payment amount. The payments may not be used to offset the monthly housing payment amount used for qualification.

(g) Housing or parsonage allowance requirements

The following table contains the requirements for income from housing or parsonage allowance:

Housing or parsonage allowance*	
Topic	Stable monthly income requirements
Minimum history of receipt	Payments must have been received for the most recent 12 months.
Continuance	<p>Must be likely to continue for at least the next three years.</p> <p>The Seller is not required to obtain documentation to verify income continuance as long as the Seller doesn't have any knowledge, information or documentation that the income is no longer being received or is likely to cease.</p>
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ Written verification of employment (VOE), a letter from the employer or paystubs documenting the amount of the housing or parsonage allowance and the terms under which it is paid ■ Evidence of the most recent 12 months' receipt of the housing or parsonage allowance
Monthly income amount	<p>The documented fixed monthly payment amount.</p> <p>The housing allowance may not be used to offset the monthly housing payment.</p>

*Refer to Section 5303.1(c)(ii) for military housing entitlements. Refer to Section 4408.1(d)(iv)(A) for housing allowance received pursuant to an employee relocation program.

(h) Long-term disability income requirements

The following table contains the requirements for long-term disability income:

Long-term disability income (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)	
Topic	Stable monthly income requirements
	Existing and established sources of long-term disability income:
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	<p>Long-term disability income may be considered to have a reasonable expectation of continuance without obtaining any additional documentation unless there is a pre-determined insurance and/or benefit expiration date that is less than three years (e.g., stated termination of a private disability insurance policy).</p> <p>Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</p>
Documentation	<ul style="list-style-type: none"> ■ Document all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Income type <input type="checkbox"/> Source <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount <input type="checkbox"/> Current receipt ■ Acceptable documentation includes one or more of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Benefit verification letter

Long-term disability income (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> Award letter <input type="checkbox"/> Pay statement <input type="checkbox"/> Internal Revenue Service (IRS) Form 1099 <input type="checkbox"/> Form W-2 <input type="checkbox"/> Bank statement(s) <input type="checkbox"/> Other equivalent documentation ■ For Social Security disability benefits, the Seller must obtain one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> The Social Security Administration benefit verification letter <input type="checkbox"/> IRS Form 1099-SSA for the most recent calendar year <input type="checkbox"/> Pages 1 and 2 of the Borrower's most recent federal individual income tax returns (or pages 1–3 if filing 1040-SR). If the tax returns were filed jointly with an individual who is not a Borrower on the transaction, the Seller must obtain additional documentation supporting the amount of Social Security income used for qualifying. <input type="checkbox"/> Evidence of current receipt ■ If the disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers and private insurers), obtain a copy of the certificate of coverage or other equivalent documentation evidencing the policy term ■ Age of documentation requirements as described in Section 5102.4 do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount ■ Age of documentation requirements as described in Section 5102.4 must be met for verification of current receipt

Long-term disability income (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)	
Topic	Stable monthly income requirements
	Newly established long-term disability income:
Eligibility	<p>The income must start on or before the first Mortgage payment due date.</p> <p>Exception: Long-term disability income that will start after the first Mortgage payment due date is acceptable for qualifying the Borrower if all of the following apply:</p> <ul style="list-style-type: none"> ■ The Borrower is currently receiving short-term disability benefits that will subsequently convert to long-term benefits ■ The Borrower is qualified on the lesser amount of either the long-term or short-term disability payments
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	<p>Long-term disability income may be considered to have a reasonable expectation of continuance without obtaining any additional documentation unless there is a pre-determined insurance and/or benefit expiration date that is less than three years (e.g., stated termination of a private disability insurance policy).</p> <p>Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</p>

Long-term disability income (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)	
Topic	Stable monthly income requirements
Documentation	<ul style="list-style-type: none"> ■ Document all of the finalized terms of the newly established income: <ul style="list-style-type: none"> <input type="checkbox"/> Income source <input type="checkbox"/> Benefit type <input type="checkbox"/> Duration of benefit eligibility <input type="checkbox"/> Effective start date of income <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount ■ Acceptable documentation includes: <ul style="list-style-type: none"> <input type="checkbox"/> Benefit verification letter <input type="checkbox"/> Notice of award letter <input type="checkbox"/> Other equivalent documentation from the payor that provides and establishes these terms ■ The documentation must be dated no more than 120 days before the Note Date ■ Verification of current receipt is not required ■ If the disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers, private insurers), obtain a copy of the certificate of coverage or other equivalent documentation evidencing the policy term
Monthly income amount	The pre-determined payment amount

Long-term disability income (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)	
Topic	Stable monthly income requirements
	Future long-term disability income:
Eligibility	Long-term disability income that will start after the first Mortgage payment due date is acceptable for qualifying the Borrower only if the Borrower is currently receiving short-term disability benefits that will subsequently convert to long-term benefits.
Continuance	<p>Long-term disability income may be considered to have a reasonable expectation of continuance without obtaining any additional documentation unless there is a pre-determined insurance and/or benefit expiration date that is less than three years (e.g., stated termination of a private disability insurance policy).</p> <p>Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</p>
Documentation	<ul style="list-style-type: none"> ■ Document all of the following for both the short-term and long-term payments: <ul style="list-style-type: none"> <input type="checkbox"/> Source <input type="checkbox"/> Type <input type="checkbox"/> Amount <input type="checkbox"/> Payment frequency ■ Obtain verification of current receipt of the short-term disability payments and verification that the Borrower will continue to receive the payments until the date of conversion to long-term disability

Long-term disability income (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> ■ The documentation must be dated no more than 120 days prior to the Note Date.
Monthly income amount	The lesser of either the long-term or short-term disability payment amount

(i) Mortgage Credit Certificate (MCC) requirements

The following table contains the requirements for income from an MCC:

MCC	
Topic	Stable monthly income requirements
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	<p>Must be likely to continue for at least the next three years.</p> <p>The Seller is not required to obtain documentation to verify income continuance as long as the Seller doesn't have any knowledge, information or documentation that the income is no longer being received or is likely to cease.</p>
Documentation	The MCC
Calculation of monthly income amount	<ul style="list-style-type: none"> ■ Use the (Mortgage amount) x (Note Rate) x (MCC rate %) divided by 12 ■ The amount used as qualifying income must not exceed the maximum Mortgage interest credit permitted by the IRS

(j) Notes receivable requirements

The following table contains the requirements for income from notes receivable:

Notes receivable	
Topic	Stable monthly income requirements
Minimum history of receipt	Payments must have been received on a regular monthly basis for the most recent 12 months.
Continuance	The note must have a remaining term of at least three years.
Documentation	All of the following: <ul style="list-style-type: none">■ A copy of the note evidencing the terms, including the scheduled amount and duration of payments■ Proof of receipt of payments for the most recent 12 months
Monthly income amount	The full scheduled payment amount documented on the note

(k) Public assistance income (e.g., TANF) requirements

The following table contains the requirements for public assistance income:

Public assistance income (e.g., TANF)	
Topic	Stable monthly income requirements
	Existing and established public assistance income:
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	Document duration of benefit eligibility for at least the next three years.

Public assistance income (e.g., TANF)	
Topic	Stable monthly income requirements
Documentation	<ul style="list-style-type: none"> ■ Document all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Income source <input type="checkbox"/> Benefit type <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount <input type="checkbox"/> Duration of benefit eligibility ■ Acceptable documentation includes benefit verification letter or other equivalent documentation from applicable agency. ■ Document current receipt with a copy of the bank statement, benefit verification letter from applicable agency or other equivalent documentation that provides and establishes these terms ■ Age of documentation requirements as described in Section 5102.4 do not have to be met for income source, benefit type, payment frequency, pre-determined payment amount and duration of benefit eligibility ■ Age of documentation requirements as described in Section 5102.4 must be met for verification of current receipt
Monthly income amount	The documented public assistance benefit amount
	Newly established public assistance income:

Public assistance income (e.g., TANF)	
Topic	Stable monthly income requirements
Eligibility	The income must start on or before the first Mortgage payment due date.
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	Document duration of benefit eligibility for at least the next three years
Documentation	<ul style="list-style-type: none"> ■ Document all of the finalized terms of the newly established income: <ul style="list-style-type: none"> <input type="checkbox"/> Income source <input type="checkbox"/> Benefit type <input type="checkbox"/> Duration of benefit eligibility <input type="checkbox"/> Effective start date of income <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount ■ Acceptable documentation includes benefit verification letter or other equivalent documentation from applicable agency that provides and establishes these terms ■ The documentation must be dated no more than 120 days before the Note Date ■ Verification of current receipt is not required
Monthly income amount	The documented public assistance benefit amount

(I) Retirement account distributions as income requirements

The following table contains the requirements for retirement account distributions as income:

Retirement account distributions as income (e.g., 401(k), Individual Retirement Account (IRA))	
Topic	Stable monthly income requirements
Eligibility	<p>Distributions from retirement accounts recognized by the IRS (e.g., 401(k), IRA) that are not subject to penalty (e.g., early withdrawal penalty) may be considered stable monthly qualifying income.</p> <p>Assets used to support the qualifying income amount and continuance must not be in the form of cryptocurrency.</p>
Minimum history of receipt	<p>The history of receipt necessary to justify a stable monthly qualifying income amount may vary due to the multiple variables inherent with distributions from retirement accounts. This may include a range of history from zero to 24 months, depending on the individual circumstances.</p> <p>Factors the Seller must consider when determining the history of receipt necessary to justify a stable monthly qualifying income amount include, but are not limited to, the following:</p> <ul style="list-style-type: none">■ Frequency and regularity of receipt of the distributions■ Length of time the distributions have been taken and whether they establish a stable pattern of receipt over a given period. <p>Example: Consider whether the distributions are fixed amounts occurring with regular frequency or are fluctuating amounts occurring with or without regular frequency. For fixed amounts occurring with regular frequency, a lesser history of receipt may be needed to determine the amount and stability of the qualifying income than would be needed for fluctuating amounts. For fluctuating amounts, it may be necessary to obtain a longer history of receipt to determine the amount and stability of the qualifying income while taking into</p>

Retirement account distributions as income (e.g., 401(k), Individual Retirement Account (IRA))	
Topic	Stable monthly income requirements
	<p>consideration whether the overall payments are similar when viewed year over year or with another similar measure, such as quarter over quarter.</p> <ul style="list-style-type: none"> Rules governing distributions (e.g., IRS rules governing exceptions to early withdrawal penalties and Required Minimum Distributions, employer retirement plan rules and designs governing scheduled distribution terms). Certain rules may provide support for the frequency and regularity of receipt as well as continued receipt, thereby enabling a lesser amount of history to justify a stable monthly qualifying income amount. <p>History of receipt is not required when all of the following apply:</p> <ul style="list-style-type: none"> Distributions are being taken in accordance with certain IRS rules, such as the Required Minimum Distributions rule (i.e., excise tax penalty applies if distributions are not taken) Evidence of current receipt of the required minimum distribution amount is obtained
Continuance	<p>Document that the Borrower has sufficient eligible retirement assets remaining in the retirement account(s) to support the amount of qualifying income for at least the next three years.</p> <p>If the retirement account(s) from which the Borrower is currently taking distribution is projected to be depleted within three years, the Borrower's additional retirement account(s) may be considered when determining continuance of income used for qualifying if the additional retirement accounts in aggregate support the amount of qualifying income for at least three years after the Note Date. The additional retirement accounts used to verify continuance may not be used as a source of funds for closing or reserves, as a current source of income for the Borrower or for the calculation of assets as a basis for repayment of obligations described in Section 5307.1.</p>
Documentation	All of the following:

Retirement account distributions as income (e.g., 401(k), Individual Retirement Account (IRA))	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> ■ Most recent retirement account statement(s), documentation from financial institution holding retirement account that verifies regularly scheduled distribution arrangements, IRS Form 1099(s) and/or other equivalent documentation showing income source, type, distribution frequency, distribution amounts and history of receipt (as applicable). <p>Note: If the retirement distributions are not scheduled monthly payments (e.g., annual, semi-annual, quarterly), the most recent distribution verified through a copy of the retirement account statement, IRS Form 1099 and/or other equivalent documentation, as applicable, is sufficient in lieu of current receipt. However, verification of receipt of multiple distributions may be necessary to determine frequency of distributions, history of receipt and amount of stable monthly qualifying income.</p> <ul style="list-style-type: none"> ■ Bank statement(s) or other equivalent documentation evidencing current receipt (as applicable) ■ Evidence of sufficient assets among all retirement accounts used to support the qualifying income amount and continuance ■ Seller's written analysis used to determine the qualifying income
Monthly income amount	The amount of the stable monthly distributions established and documented in accordance with the requirements above

(m)Retirement income requirements

The following table contains the requirements for retirement income:

Retirement income (e.g., social security, pension, annuity, other similar benefits; not including retirement account distributions as income)	
Topic	Stable monthly income requirements
	For existing and established sources of retirement income:
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	<p>Retirement income may or may not have documentable continuance of at least three years, depending on the income source. The Seller must make this determination based on factors such as whether the payments are received pursuant to a written agreement, government program, law and/or regulation, as well as the applicable eligibility criteria governing the continued receipt of the income.</p> <p>Examples:</p> <ul style="list-style-type: none"> ■ If the source of retirement income is Social Security retirement benefits, no additional documentation of continuance is required ■ If the source is a retirement annuity from an insurance company, there will generally be a defined term, in which case continuance for at least the next three years must be documented
Documentation	<ul style="list-style-type: none"> ■ Document all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Income type <input type="checkbox"/> Source <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount

Retirement income (e.g., social security, pension, annuity, other similar benefits; not including retirement account distributions as income)	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> Current receipt ■ Acceptable documentation includes one or more of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Benefit verification letter <input type="checkbox"/> Award letter <input type="checkbox"/> Pay statement <input type="checkbox"/> IRS Form 1099 for the most recent calendar year <input type="checkbox"/> Bank statement(s) <input type="checkbox"/> Other equivalent documentation ■ Age of documentation requirements described in Section 5102.4 do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount ■ Age of documentation requirements described in Section 5102.4 must be met for verification of current receipt. <p>Exception: For pension income, when IRS Form 1099 is used to document current receipt, and verifies income type and source, the age of documentation requirements described in Section 5102.4 do not apply.</p> <ul style="list-style-type: none"> ■ For Social Security retirement benefits, obtain one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Social Security Administration benefit verification letter <input type="checkbox"/> IRS Form 1099-SSA for the most recent calendar year <input type="checkbox"/> Pages 1 and 2 of the Borrower's most recent federal individual income tax returns (or pages 1–3 if filing Form 1040-SR). If the tax returns were filed jointly with an individual

Retirement income (e.g., social security, pension, annuity, other similar benefits; not including retirement account distributions as income)	
Topic	Stable monthly income requirements
	<p>who is not a Borrower on the transaction, the Seller must obtain additional documentation supporting the amount of Social Security income used for qualifying.</p> <ul style="list-style-type: none"> ■ Evidence of current receipt that meets the age of documentation requirements described in Section 5102.4
Monthly income amount	The documented fixed monthly payment amount
	For newly established sources of retirement income:
Eligibility	The income must start on or before the first Mortgage payment due date.
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	<p>Retirement income may or may not have documentable continuance of at least three years, depending on the income source. The Seller must make this determination based on factors such as whether the payments are received pursuant to a written agreement, government program, law and/or regulation, as well as the applicable eligibility criteria governing the continued receipt of the income.</p> <p>Examples:</p> <ul style="list-style-type: none"> ■ If the source of retirement income is Social Security retirement benefits, no additional documentation of continuance is required

Retirement income (e.g., social security, pension, annuity, other similar benefits; not including retirement account distributions as income)	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> ■ If the source is a retirement annuity from an insurance company, there will generally be a defined term in which case continuance for at least the next three years must be documented
Documentation	<ul style="list-style-type: none"> ■ Document all of the finalized terms of the newly established income: <ul style="list-style-type: none"> <input type="checkbox"/> Income source <input type="checkbox"/> Income type <input type="checkbox"/> Effective start date of income <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount ■ Acceptable documentation includes one or more of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Benefit verification letter <input type="checkbox"/> Notice of award letter <input type="checkbox"/> Other equivalent documentation from the payor that provides and establishes these terms ■ The documentation must be dated no more than 120 days before the Note Date ■ Verification of current receipt is not required
Monthly income amount	The pre-determined payment amount

(n) Royalty payments requirements

The following table contains the requirements for income from royalty payments:

Royalty payments	
Topic	Stable monthly income requirements
	For Borrowers who have less than a two-year history:
Minimum history of receipt	Payments must have been received on a regular basis for the most recent 12 months.
Continuance	Must document eligibility for payment continuance for at least the next three years
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ Complete federal individual income tax return for the most recent one-year period ■ Royalty contract(s) or lease agreement(s) evidencing the terms including the duration of payment eligibility for at least the next three years
Calculation of monthly income amount	Use a 12-month average
	For Borrowers who have a history of two years or more:
Minimum history of receipt	Most recent two-years receipt of payments on a regular basis

Royalty payments	
Topic	Stable monthly income requirements
Continuance	<p>Must be likely to continue for at least the next three years</p> <p>The Seller is not required to obtain documentation to verify income continuance as long as the Seller doesn't have any knowledge, information or documentation that the income is no longer being received or is likely to cease.</p>
Documentation	Complete federal individual income tax returns for the most recent two-year period
Calculation of monthly income amount	Use a 24-month average

(o) Social Security SSI requirements

The following table contains the requirements for Social Security SSI:

Social Security SSI	
Topic	Stable monthly income requirements
	Existing and established SSI benefits:
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.

Social Security SSI	
Topic	Stable monthly income requirements
Continuance	<p>Social Security SSI may be considered to have a reasonable expectation of continuance unless there is evidence that the benefits will not continue.</p> <p>Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</p>
Documentation requirements	<ul style="list-style-type: none"> ■ Document all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Income type <input type="checkbox"/> Source, <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount <input type="checkbox"/> Current receipt ■ Acceptable documentation includes one or more of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Benefit verification letter <input type="checkbox"/> Award letter <input type="checkbox"/> Pay statement <input type="checkbox"/> IRS Form 1099 <input type="checkbox"/> Form W-2 <input type="checkbox"/> Bank statement(s) <input type="checkbox"/> Other equivalent documentation

Social Security SSI	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> ■ Age of documentation requirements as described in Section 5102.4 do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount ■ Age of documentation requirements as described in Section 5102.4 must be met for verification of current receipt
Monthly income amount	The documented Social Security SSI benefit amount
	Newly established Social Security SSI benefits:
Eligibility	The income must start on or before the first Mortgage payment due date.
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	<p>Social Security SSI may be considered to have a reasonable expectation of continuance unless there is evidence that the benefits will not continue.</p> <p>Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</p>
Documentation	<ul style="list-style-type: none"> ■ Document all the finalized terms of the newly established income including: <ul style="list-style-type: none"> □ Income source

Social Security SSI	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> Benefit type <input type="checkbox"/> Effective start date of income <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount ■ Acceptable documentation includes one or more of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Benefit verification letter <input type="checkbox"/> Notice of award letter <input type="checkbox"/> Other equivalent documentation from the payor that provides and establishes these terms ■ The documentation must be dated no more than 120 days before the Note Date ■ Verification of current receipt is not required
Monthly income amount	The documented Social Security SSI benefit amount

(p) Survivor and dependent benefit income requirements

The following table contains the requirements for survivor and dependent benefit income:

Survivor and dependent benefit income (e.g., Social Security Survivor benefits, Survivors' VA benefits, other similar benefits)	
Topic	Stable monthly income requirements
	Existing and established sources of survivor and/or dependent benefit income:
Minimum history of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	Survivor and dependent benefit income may or may not have documentable continuance of at least three years, depending on the income source. The Seller must make this determination based on factors such as whether the payments are received pursuant to a written agreement, government program, law and/or regulation, as well as the applicable eligibility criteria governing the continued receipt of the income.
Documentation	<ul style="list-style-type: none"> ■ Document all of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Income type <input type="checkbox"/> Source <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment <input type="checkbox"/> Current receipt ■ Acceptable documentation includes: <ul style="list-style-type: none"> <input type="checkbox"/> Benefit verification letter <input type="checkbox"/> Award letter

Survivor and dependent benefit income (e.g., Social Security Survivor benefits, Survivors' VA benefits, other similar benefits)	
Topic	Stable monthly income requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> IRS Form 1099 <input type="checkbox"/> Bank statement(s) <input type="checkbox"/> Other equivalent documentation ■ Age of documentation requirements as described in Section 5102.4 do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount. ■ Age of documentation requirements as described in Section 5102.4 must be met for verification of current receipt.
Monthly income amount	The documented fixed monthly payment amount
	Newly established sources of survivor and/or dependent benefit income:
Eligibility	The income must start on or before the first Mortgage payment due date.
History of receipt	A history of receipt is not required for the income to be considered stable.
Continuance	Survivor and dependent benefit income may or may not have documentable continuance of at least three years, depending on the income source. The Seller must make this determination based on factors such as whether the payments are received pursuant to a written agreement, government program, law and/or regulation, as well as the applicable eligibility criteria governing the continued receipt of the income.

Survivor and dependent benefit income (e.g., Social Security Survivor benefits, Survivors' VA benefits, other similar benefits)	
Topic	Stable monthly income requirements
Documentation	<ul style="list-style-type: none"> ■ Document all the finalized terms of the newly established income including: <ul style="list-style-type: none"> <input type="checkbox"/> Income source <input type="checkbox"/> Benefit type <input type="checkbox"/> Effective start date of income <input type="checkbox"/> Payment frequency <input type="checkbox"/> Pre-determined payment amount ■ Acceptable documentation includes: <ul style="list-style-type: none"> <input type="checkbox"/> Benefit verification letter <input type="checkbox"/> Notice of award letter <input type="checkbox"/> Other equivalent documentation from the payor that provides and establishes these terms ■ The documentation must be dated no more than 120 days before the Note Date ■ Verification of current receipt is not required
Monthly income amount	The pre-determined payment amount

(q) Trust income requirements

The following table contains the requirements for trust income:

Trust income	
Topic	Stable monthly income requirements
	For trust income based on historical fluctuating payments from a trust asset:
Eligibility	Trust income must be generated by a financial asset. Assets used to support the qualifying income amount and continuance must not be in the form of cryptocurrency.
Minimum history of receipt	Most recent two years when the income is based on historical fluctuating payments from a trust asset (e.g., dividends and interest)
Continuance	Must document continuance at the level used for qualifying for at least the next three years
Documentation	All of the following: <ul style="list-style-type: none"> ■ Fully executed trust agreement outlining payment terms ■ Complete federal individual income tax returns for the most recent two-year period verifying receipt of income for the most recent two years ■ Evidence sufficient assets remain after the Note Date to support the qualifying income (e.g., bank statements, letter from trustee). When the Borrower is the trustee, a letter from the trustee is not acceptable documentation.
Calculation	Use a 24-month average

Trust income	
Topic	Stable monthly income requirements
	For trust income based on a pre-determined fixed payment amount:
Eligibility	Trust income must be generated by a financial asset. Assets used to support the qualifying income amount and continuance must not be in the form of cryptocurrency.
Minimum history of receipt	Most recent one year when the trust specifies pre-determined fixed payment amounts occurring at regular intervals for a duration of at least three years
Continuance	Must document continuance at the level used for qualifying for at least the next three years
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ Fully executed trust agreement specifying fixed payment amount occurring at set intervals (e.g., monthly, quarterly) and duration of payments ■ Bank statements or equivalent documentation verifying receipt payments for the most recent one year ■ Evidence sufficient assets remain after the Note Date to support the qualifying income (e.g., bank statements, letter from trustee). When the Borrower is the trustee, a letter from the trustee is not acceptable documentation.
Monthly income amount	The fixed payment amount documented in the trust agreement

(r) Tax-exempt income requirements

When income is tax exempt, the Seller may adjust the monthly income amount for qualifying purposes by “grossing up” the verified monthly amount, in accordance with the following requirements in the table below.

The following table contains stable monthly income and documentation requirements for tax-exempt income:

Tax-exempt income	
Topic	Stable monthly income requirements
Minimum history of receipt	No minimum history requirement for the tax-exempt status
Continuance	Must be likely to continue to remain tax exempt. The Seller must not have any knowledge, information or documentation that the income will not remain tax exempt.
Documentation	<p>Complete federal individual income tax return for the most recent one-year period or other documentation evidencing that the income, or a portion of the income, is tax exempt.</p> <p>Exceptions: Evidence the income is tax exempt is not required to be documented for:</p> <ul style="list-style-type: none">■ Child support income■ Housing Choice Voucher Homeownership Program (also referred to as Section 8)■ 15% of Social Security income (i.e., retirement income, disability benefits, survivor benefits and SSI) <p>Example: If the Borrower’s Social Security income is \$1,000/month, the Seller can gross up \$150 (i.e., 15% of \$1,000) without obtaining documentation that this portion of the income is tax exempt. The Seller must obtain additional documentation to gross up the entire amount of income (i.e., \$1,000) for use in qualifying the Borrower.</p>

Tax-exempt income	
Topic	Stable monthly income requirements
Calculation	<p>The Seller may increase (i.e. “gross-up”) the income amount used for qualifying by one of the following:</p> <ul style="list-style-type: none"> ■ 25% of the tax-exempt income (or the tax-exempt portion of the income) ■ The tax rate from the current federal and State income tax withholding tables

(s) Additional requirements for income from a foreign source (i.e., non-employment/non-self-employment income)

The following requirements apply to other income (i.e., non-employment/non-self-employment) from a foreign source in addition to the requirements for the applicable income type in this chapter:

Income from a foreign source (i.e., non-employment/non-self-employment income)	
Topic	Stable monthly income requirements
Eligibility	Must be reported on the Borrower’s most recent U.S. federal individual income tax return
Minimum history of receipt	Refer to the income type(s) listed in this chapter for the requirements applicable to the income type received from the foreign source.
Continuance	Refer to the income type(s) listed in this chapter for the requirements applicable to the income type received from the foreign source.

Income from a foreign source (i.e., non-employment/non-self-employment income)	
Topic	Stable monthly income requirements
Documentation	<p>All of the following:</p> <ul style="list-style-type: none"> ■ The Borrower's most recent complete U.S. federal individual income tax return ■ Documentation for the applicable income type meeting the requirements of this chapter
Monthly income amount	Refer to the income type(s) listed in this chapter for the requirements applicable to the income type received from the foreign source.

5305.2: Automated income assessment with Loan Product Advisor[®] using account data for other income (07/02/25)

This section contains:

- [Overview](#)
- [Eligible income types](#)
- [Underwriting requirements](#)
- [Data submission requirements, representation and warranty relief eligibility and documentation requirements](#)
- [Internal Revenue Service \(IRS\) Form 4506-C requirements](#)

(a) Overview

Representation and warranty relief eligibility is contingent on the Seller's compliance with all requirements as set forth in this section.

Asset and income modeler (AIM) automated income assessment using account data, provides Sellers with the option to use Loan Product Advisor® to determine whether the Seller is eligible for relief from enforcement of certain representations and warranties related to the Borrower's income.

The Seller must obtain the Borrower's account data and submit all required data and information to Loan Product Advisor. Based on the data submitted, Loan Product Advisor will assess for representation and warranty relief eligibility and return the results of the assessment on the Feedback Certificate.

(b) Eligible income types

The following income types, as described in Section 5305.1, are eligible for an automated income assessment using account data:

- Alimony, child support or separate maintenance payments
- Retirement income from social security and pensions
- Social Security disability benefits
- Social Security Supplemental Security Income (SSI)
- Social Security Survivors benefits
- VA disability compensation

(c) Underwriting requirements

(i) General underwriting requirements

The Seller must have no knowledge, information or documentation that contradicts an expectation that the income will continue for at least the next three years.

The Seller must confirm:

- Each account on the verification report is owned by at least one Borrower
- All assets shown on the verification report are in U.S. dollars located in a U.S. or State-regulated financial institution
- That the payor(s) is one of the following by using the information in the Mortgage file:
 - ☐ The pension fund(s)
 - ☐ The Social Security Administration or VA, and/or
 - ☐ For alimony, child support or maintenance payments, that the payments are made either by, or on behalf of, the responsible party identified in the legally binding documentation (i.e., signed court order, final divorce decree, legally binding separation agreement, legally binding child support agreement or other legally binding documentation).

Note: For alimony, child support or separate maintenance payments documentation requirements, see Section 5305.2(d)(iii) below.

(ii) Age of documentation

For the age of the documentation, the expiration date of the verification report reflected on the Last Feedback Certificate complies with the requirements in Section 5102.4.

(d) Data submission requirements, representation and warranty relief eligibility and documentation requirements

(i) Data submission requirements

For Mortgages with an automated income assessment using Loan Product Advisor, the Seller must:

- Submit the income amount used to underwrite the Mortgage to Loan Product Advisor
- Investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, Uniform Residential Loan Application (including the Borrower's income and employment representations), and the Mortgage file and, if applicable, resubmit the correct information to Loan Product Advisor
- If after the initial submission, the Seller obtains an updated verification report, the Seller must resubmit the account data to Loan Product Advisor

(ii) Representation and warranty relief results on Feedback Certificate

If multiple Loan Product Advisor submissions are made, Seller's eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the representation and warranty relief available is described in the following table:

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
Eligible	The Seller is relieved from enforcement of the following representations and warranties: <ol style="list-style-type: none">1. Accuracy of the income calculation related to eligible income types on the verification report, and2. Accuracy and integrity of the data on the verification report

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
Partial	<p>When partial income representation and warranty relief is granted for a source(s) as confirmed by the feedback message, the Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> 1. Accuracy of the income calculation related to eligible income types on the verification report, and 2. Accuracy and integrity of the data on the verification report
Not eligible	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.
Unavailable	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.

(iii) Documentation requirements based on representation and warranty relief result on Feedback Certificate

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on the Feedback Certificate	
Eligibility result	Income documentation requirements
Eligible	<p>The verification report must be maintained in the Mortgage file.</p> <p>When alimony, child support or separate maintenance payment income is used, the Seller must maintain in the Mortgage file:</p>

Documentation requirements based on representation and warranty relief result on the Feedback Certificate	
Eligibility result	Income documentation requirements
	<ul style="list-style-type: none"> ■ A copy of the legally binding documentation verifying the payor's obligation for the previous six months, including the amount and the duration of the obligation, and ■ For child support income, evidence of the ages of the children for which child support is received <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the Seller must either:</p> <ol style="list-style-type: none"> 1. Verify and document the income as required by the Guide, or 2. Remove the income and resubmit the Mortgage to Loan Product Advisor
Partial	<p>The verification report and paystub(s), as applicable, must be maintained in the Mortgage file.</p> <p>When alimony, child support or separate maintenance payment income is used, the Seller must maintain in the Mortgage file:</p> <ul style="list-style-type: none"> ■ A copy of the legally binding documentation verifying the payor's obligation for the previous six months, including the amount and the duration of the obligation, and ■ For child support income, evidence of the ages of the children for which child support is received <p>When there are multiple income source(s) and one or more income sources are needed to qualify the Borrower, document the income source(s) as required by the feedback messages.</p>
Not eligible	The income must be verified and documented as required by the Guide.
Unavailable	The income must be verified and documented as required by the Guide.

(e) IRS Form 4506-C requirements

For Mortgages that receive an income representation and warranty result of either “Eligible” or “Partial” with a feedback message indicating that no further documentation is required for the income reflected on the verification report, if all of the Borrower’s income is from an eligible income type described above in Section 5305.2(b), the Seller does not need to obtain the following:

- A signed IRS Form 4506-C (or alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party), or
- A signed Commonwealth of Puerto Rico Form 2907 or Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party), for income that is derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands and is exempt from federal income taxation under the Internal Revenue Code

For all other Mortgages, the IRS form 4506-C documentation requirements of Section 5302.5 apply.

Chapter 5306: Rental Income

5306.1: Rental income (03/05/25)

This section contains requirements and guidance for the calculation, documentation, analysis, history and determination of stable monthly net rental income when used to qualify the Borrower.

- [General eligibility requirements](#)
- [Rental income from subject 1- to 4-unit Investment Property](#)
- [Rental income from non-subject investment property](#)
- [Rental income from conversion of a Primary Residence to an Investment Property](#)
- [Rental income from subject 2- to 4-unit Primary Residence](#)
- [Rental income from non-subject 2- to 4-unit Primary Residence](#)
- [Rental income from an ADU on a subject 1-unit Primary Residence](#)
- [Rental income from a live-in aide residing in a 1-unit Primary Residence](#)
- [Other provisions related to rental income](#)

(a) General eligibility requirements

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three years. For each income source used to qualify the Borrower, the Seller must determine that both the source and the amount of the income are stable. Refer to Section 5301.1 for additional information about income stability and continuance.

(i) Rental income eligibility

Rental income generated from the following property and occupancy types may be considered when determining the stable monthly income:

- 1-unit Primary Residence:
 - ☐ Rental income from a live-in aide, regardless of the type of housing provided, or
 - ☐ Rental income from an ADU

- 2- to 4-unit Primary Residence (rental income is eligible from units that are not occupied by the Borrower)
- Subject 1- to 4-unit Investment Property
- Non-subject investment property owned by the Borrower (not restricted to residential property (e.g., commercial permitted))

Rental income generated from the Borrower's second home may not be used as stable monthly income.

(ii) Rental income generated from ADUs

When determining stable monthly income, rental income generated from an ADU may be considered for:

- Subject 1-unit Primary Residence
- Subject 1-unit Investment Property

In addition, rental income generated from one or more ADUs on a non-subject investment property may be considered when determining stable monthly income.

Note: Refer to Section 5306.1(g) below for requirements related to rental income eligibility for a 1-unit Primary Residence with an ADU. Refer to Section 4501.6(a) for requirements related to rental income eligibility for a 1-unit Primary Residence with an ADU for Home Possible[®] Mortgages.

Note: Refer to Section 5601.2 for the property eligibility and appraisal requirements related to the subject property with an ADU.

(b) Rental income from subject 1- to 4-unit Investment Property

(i) Eligibility

Rental income generated from a subject 1- to 4-unit Investment Property is eligible for use in qualifying the Borrower provided it meets the requirements of this subsection (b).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from the subject 1- to 4-unit Investment Property.

Rental income from subject 1- to 4-unit Investment Property
Purchase transaction Mortgage

Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> ❑ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal report, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method ❑ The existing lease(s) must be current and fully executed in the property seller's name as the landlord ■ Form 72, Small Residential Income Property Appraisal Report, or Form 1000, Single-Family Comparable Rent Schedule, as applicable
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease when the lease is available, or ■ Gross monthly market rent from Form 72 or Form 1000, as applicable, when the lease is not available <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>

Rental income from subject 1- to 4-unit Investment Property Purchase transaction Mortgage	
Topic	Requirements
Limitations on use of rental income	<p>To use rental income to qualify:</p> <ul style="list-style-type: none"> ■ Each Borrower must currently own a Primary Residence or have a current rental housing payment documented in accordance with Section 5401.1(d). <p>Exception: For Borrowers currently residing in the same property, at least one Borrower must own a Primary Residence or have a current rental housing payment to use rental income to qualify.</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the principal, interest, taxes and insurance (PITI) and, when applicable, mortgage insurance premiums, leasehold payments, homeowners association (HOA) dues (excluding unit utility charges) and payments on secondary financing on the subject Investment Property.
Use of net rental income in the debt payment-to-income (DTI) calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Form 72 or Form 1000, as applicable ■ Lease

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year

Refinance Mortgage

Topic	Requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Form 72 or Form 1000, as applicable <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income.

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year

Refinance Mortgage

Topic	Requirements
	<p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year

Refinance Mortgage

Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (Internal Revenue Service (IRS) Form 1040), including Schedule E for the most recent year as described in Section 5302.4(b). ■ Form 72 or Form 1000, as applicable ■ If the property was purchased or converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented. <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the</p>

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year

Refinance Mortgage

Topic	Requirements
	<p>row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> ❑ Form 72 or Form 1000, as applicable ❑ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month’s rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower’s depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower’s name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower’s personal depository account at a financial institution
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller’s analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled “Calculation of net rental income using lease” are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance ■ Mortgage interest paid to banks, etc. ■ Real estate taxes ■ HOA dues ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92, Net Rental Income Calculations – Schedule E, or similar alternative form.</p> <p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12.

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date, as applicable. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E <p>Use 75% of the gross monthly rent from the lease.</p>

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year	
Refinance Mortgage	
Topic	Requirements
	Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Use of net rental income in the DTI calculation	Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income: <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

(c) Rental income from non-subject investment property

(i) Eligibility

Rental income generated from non-subject investment property is eligible provided it meets the requirements of this subsection (c).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a non-subject investment property.

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Lease <ul style="list-style-type: none"> □ The lease must be current and fully executed □ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> □ Form 72 or Form 1000, as applicable

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	<p><input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.</p> <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution <p>Exception: For a property purchased on or up to 45 days before the Note Date of the subject transaction, when the property is not yet rented, a lease is not required and market rent may be documented using Form 72 or Form 1000, as applicable.</p>
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Exception: When the property was purchased on or up to 45 days before the Note Date of the subject transaction and is not yet rented, use 75% of the gross monthly market rent from Form 72 or Form 1000, as applicable.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	<p>When the property was purchased on or up to 45 days before the Note Date of the subject transaction and is not yet rented:</p> <ul style="list-style-type: none"> ■ To use rental income to qualify, each Borrower must currently own a Primary Residence or have a current rental housing payment documented in accordance with Section 5401.1(a). <p>Exception: For Borrowers currently residing in the same property, at least one Borrower must own a Primary Residence or have a current rental housing payment to use rental income to qualify.</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA dues (excluding unit utility charges) and payments on secondary financing on the non-subject Investment Property
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	<p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p> <ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income ■ If the combined result is negative, add it to the monthly liabilities

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including Schedule E for the most recent year as described in Section 5302.4(b) ■ If the property was purchased or converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled "Calculation of net rental income using a lease", the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Form 72 or Form 1000 <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	<p>institution (e.g., bank statements evidencing deposit or canceled checks)</p> <ul style="list-style-type: none"> ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of net rental income using lease" are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p>

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Insurance* ■ Mortgage interest paid to banks, etc.* ■ Real estate taxes* ■ HOA dues* ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form.</p> <p>* These expenses may be added back if they are included in the monthly payment amount used to establish the DTI ratio.</p> <p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses costs on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p>

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities <p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p> <ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income ■ If the combined result is negative, add it to the monthly liabilities

(d) Rental income from conversion of a Primary Residence to an Investment Property

(i) Eligibility

Rental income generated from the conversion of a Primary Residence to an Investment Property is eligible provided it meets the requirements of this subsection (d).

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from the conversion of a Primary Residence to an Investment Property.

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
Income documentation	<ul style="list-style-type: none">■ Lease<ul style="list-style-type: none">❑ The lease must be current and fully executed❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage■ Income reflected on the lease must be supported by one of the following:<ul style="list-style-type: none">❑ Form 72 or Form 1000❑ Documentation verifying receipt of two months rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none">■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account)■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Forms 72 and 1000	The Seller's analysis of the rental information must include, at a minimum, the following factors:

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	<p>When using net rental income to qualify:</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA dues (excluding unit utility charges) and payments on secondary financing on the converted Primary Residence
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <p>If the result is positive, add it to the stable monthly income</p> <ul style="list-style-type: none"> ■ If the result is negative, add it to the monthly liabilities <p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p>

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
	<ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income ■ If the combined result is negative, add it to the monthly liabilities

(e) Rental income from subject 2- to 4-unit Primary Residence

(i) Eligibility

Rental income generated from units not occupied by the Borrower for a subject 2- to 4-unit Primary Residence is eligible provided it meets the requirements of this subsection (e).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a subject 2- to 4-unit Primary Residence.

Rental income from subject 2- to 4-unit Primary Residence	
Purchase transaction Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> ❑ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal report, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method ❑ The existing lease must be current and fully executed in the property seller's name as the landlord ■ Form 72
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property

Rental income from subject 2- to 4-unit Primary Residence Purchase transaction Mortgage	
Topic	Requirements
	<ul style="list-style-type: none"> ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease, when the lease is available, or ■ Gross monthly market rent from Form 72 when the lease is not available <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Form 72 ■ Lease(s)

Rental income from subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year

Refinance Mortgage

Topic	Requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> The lease(s) must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Form 72 <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution

Rental income from subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross monthly lease income, if applicable. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including the Schedule E for the most recent year as described in Section 5302.4(b).

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Form 72 ■ If the property was purchased or unit(s) not occupied by the Borrower were converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Form 72 <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month’s rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower’s depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower’s name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of net rental income using lease" are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance ■ Mortgage interest paid to banks, etc. ■ Real estate taxes ■ HOA dues ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form</p>

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date, as applicable. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI ratio calculation	<p>The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income.</p> <p>The net rental income may be added to the stable monthly income.</p>

(f) Rental income from non-subject 2- to 4-unit Primary Residence

(i) Eligibility

Rental income generated from units not occupied by the Borrower for a non-subject 2- to 4-unit Primary Residence is eligible provided it meets the requirements of this subsection (f).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a non-subject 2- to 4-unit Primary Residence.

Rental income from non-subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year

Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Lease <ul style="list-style-type: none"> □ The lease must be current and fully executed □ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> □ Form 72 □ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution <p>Exception: For a property purchased on or up to 45 days before the Note Date for the subject transaction, market rent may be documented using Form 72 if the property is not yet rented.</p>

Rental income from non-subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year	
Topic	Requirements
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Exception: Use 75% of the gross monthly market rent from Form 72 when the property was purchased on or up to 45 days before the Note Date for the subject transaction and is not yet rented.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including the Schedule E for the most recent year as described in Section 5302.4(b)

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<ul style="list-style-type: none"> ■ If the property was purchased or unit(s) not occupied by the Borrower were converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> ❑ Form 72 ❑ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month’s rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower’s depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower’s name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower’s personal depository account at a financial institution

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of net rental income using lease" are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance* ■ Mortgage interest paid to banks, etc.* ■ Real estate taxes* ■ HOA dues* ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form.</p> <p>* These expenses may be added back if they are included in the monthly payment amount used to establish the DTI ratio.</p>

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<p>supported by a reduced number of days in use and repair/renovation expenses on Schedule E</p> <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

(g) Rental income from an ADU on a subject 1-unit Primary Residence

(i) Eligibility

Rental income generated from an ADU on a subject 1-unit Primary Residence that does not meet the requirements in Section 5306.1(h) below for live-in aides or 4501.6(a) for Home Possible Mortgages is eligible provided it meets the requirements of this subsection (g).

The Mortgage must be a purchase transaction or “no cash-out” refinance Mortgage.

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from an ADU on a subject 1-unit Primary Residence.

Rental income from an ADU on a subject 1-unit Primary Residence
Purchase transaction Mortgage

Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> ❑ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ ADU rental analysis, which must support the income reflected on the lease <p>The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.</p> <p>See Section 5601.2 for additional requirements for a property with an ADU.</p>
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease when the lease is available, or ■ Gross monthly market rent from the ADU rental analysis when the lease is not available <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	<p>The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.</p>

Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income
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Rental income from an ADU on a subject 1-unit Primary Residence “No cash-out” refinance Mortgage	
Topic	Requirements
Income documentation	<p>The Borrower’s complete federal income tax returns (IRS Form 1040), including Schedule E, for the most recent year, as described in Section 5302.4(b).</p> <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ ADU rental analysis, which must support the income reflected on the lease. <p>The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.</p> <p>See Section 5601.2 for additional requirements for a property with an ADU.</p>
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled “Calculation of net rental income using lease” are met.</p> <p>Calculate the net rental income from Schedule E using Form 92 or a similar alternative form.</p>

Rental income from an ADU on a subject 1-unit Primary Residence “No cash-out” refinance Mortgage	
Topic	Requirements
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when one of the following applies:</p> <ul style="list-style-type: none"> ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E ■ The property was purchased later in the calendar year and Schedule E supports this by a reduced number of days in use ■ The property was placed in service in the current calendar year as documented in the Mortgage file <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.
Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

(iii) Landlord education

For purchase transactions, at least one qualifying Borrower must participate in a landlord education program prior to the Note Date, or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages.

Landlord education must not be provided by an interested party to the transaction, the originating lender or the Seller. A copy of a certificate evidencing successful completion of the landlord education program must be retained in the Mortgage file.

Exception: Landlord education is not required if at least one Borrower has a minimum of one-year investment property management experience or ADU rental management experience.

(iv) Special delivery requirements for Mortgages with rental income from an ADU

The Seller must deliver ULDD Data Point *Investor Feature Identifier* valid value “J66” for each Mortgage where rental income from an ADU on a 1-unit Primary Residence is used to qualify the Borrower. See Section 6302.8(a) for more information.

(h) Rental income from live-in aide residing in a 1-unit Primary Residence

(i) Eligibility

Rental income generated from the Borrower’s 1-unit Primary Residence, including rental income from an ADU may be used to qualify a Borrower with a disability provided the rental income is from a live-in aide and the requirements of this subsection (h) are met. Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the Borrower.

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from a live-in aide residing in a subject 1-unit Primary Residence.

Rental income from a live-in aide residing in a 1-unit Primary Residence	
Topic	Requirements
Income documentation	The Seller must include in the Mortgage file evidence that the Borrower has received stable rental income from a live-in aide for the most recent 12 months.
Limitations on the use of rental income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.

Note: Refer to Section 4501.6(a) for use of rental income generated from the Borrower’s 1-unit Primary Residence for a Home Possible Mortgage.

(i) Other provisions related to rental income

(i) IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Refer to Chapter 5304 for the treatment of all rental real estate income or loss reported on IRS Form 8825, which reflects all income and expenses for the rental property and IRS Schedule K-1, which reflects the Borrower's proportionate share of the net rental income or loss.

The requirements of Chapter 5304 are applicable regardless of the Borrower's percentage of ownership interest in the partnership or S corporation and regardless of whether the Borrower is personally obligated on the Note.

(ii) Delivery requirements for all subject Investment Properties and 2- to 4-unit Primary Residences

Regardless of whether rental income from the subject Investment Property or 2- to 4-unit Primary Residence is being used to qualify the Borrower, the Seller must deliver ULDD Data Point *Property Dwelling Unit Eligible Rent Amount*.

Note: See Section 6302.8 for delivery requirements for rental income.

(iii) Other Guide provisions related to rental income

Refer to the following Guide provisions for additional information related to the rental income topic:

Other Guide provisions related to rental income	
Guide provision	Guide location
Age of documentation	Section 5102.4
Appraisal form rental information	Section 3401.12
General requirements for all stable monthly income	Section 5301.1
General requirements for documentation used to verify employment and income	Chapter 5302
General requirements for verifying documents	Section 5102.3
Property eligibility and appraisal requirements	Topic 5600

5306.1: Rental income (Future effective date 01/26/26)

Refer to Bulletin 2025-7, which announced the policy requirements for Uniform Appraisal Dataset (UAD) 3.6. Sellers may submit to the Uniform Collateral Data Portal® appraisal reports that use UAD 3.6 before the mandatory effective November 2, 2026 version of this section.

This section contains requirements and guidance for the calculation, documentation, analysis, history and determination of stable monthly net rental income when used to qualify the Borrower.

- [General eligibility requirements](#)
- [Rental income from subject 1- to 4-unit Investment Property](#)
- [Rental income from non-subject investment property](#)
- [Rental income from conversion of a Primary Residence to an Investment Property](#)
- [Rental income from subject 2- to 4-unit Primary Residence](#)
- [Rental income from non-subject 2- to 4-unit Primary Residence](#)
- [Rental income from an ADU on a subject 1-unit Primary Residence](#)
- [Rental income from a live-in aide residing in a 1-unit Primary Residence](#)
- [Other provisions related to rental income](#)

(a) General eligibility requirements

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three years. For each income source used to qualify the Borrower, the Seller must determine that both the source and the amount of the income are stable. Refer to Section 5301.1 for additional information about income stability and continuance.

(i) Rental income eligibility

Rental income generated from the following property and occupancy types may be considered when determining the stable monthly income:

- 1-unit Primary Residence:
 - ❑ Rental income from a live-in aide, regardless of the type of housing provided, or

- ❑ Rental income from an ADU
- 2- to 4-unit Primary Residence (rental income is eligible from units that are not occupied by the Borrower)
- Subject 1- to 4-unit Investment Property
- Non-subject investment property owned by the Borrower (not restricted to residential property (e.g., commercial permitted))

Rental income generated from the Borrower's second home may not be used as stable monthly income.

(ii) Rental income generated from ADUs

When determining stable monthly income, rental income generated from an ADU may be considered for:

- Subject 1-unit Primary Residence
- Subject 1-unit Investment Property

In addition, rental income generated from one or more ADUs on a non-subject investment property may be considered when determining stable monthly income.

Note: Refer to Section 5306.1(g) below for requirements related to rental income eligibility for a 1-unit Primary Residence with an ADU. Refer to Section 4501.6(a) for requirements related to rental income eligibility for a 1-unit Primary Residence with an ADU for Home Possible® Mortgages.

Note: Refer to Section 5601.2 for the property eligibility and appraisal requirements related to the subject property with an ADU.

(b) Rental income from subject 1- to 4-unit Investment Property

(i) Eligibility

Rental income generated from a subject 1- to 4-unit Investment Property is eligible for use in qualifying the Borrower provided it meets the requirements of this subsection (b).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from the subject 1- to 4-unit Investment Property.

Rental income from subject 1- to 4-unit Investment Property Purchase transaction Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> ❑ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal report, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method ❑ The existing lease(s) must be current and fully executed in the property seller's name as the landlord ■ Form 72, Small Residential Income Property Appraisal Report, or Form 1000, Single-Family Comparable Rent Schedule, as applicable
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease when the lease is available, or ■ Gross monthly market rent from Form 72 or Form 1000, as applicable, when the lease is not available <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>

Rental income from subject 1- to 4-unit Investment Property Purchase transaction Mortgage	
Topic	Requirements
Limitations on use of rental income	<p>To use rental income to qualify:</p> <ul style="list-style-type: none"> ■ Each Borrower must currently own a Primary Residence or have a current rental housing payment documented in accordance with Section 5401.1(d). <p>Exception: For Borrowers currently residing in the same property, at least one Borrower must own a Primary Residence or have a current rental housing payment to use rental income to qualify.</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the principal, interest, taxes and insurance (PITI) and, when applicable, mortgage insurance premiums, leasehold payments, homeowners association (HOA) dues (excluding unit utility charges) and payments on secondary financing on the subject Investment Property.
Use of net rental income in the debt payment-to-income (DTI) calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Form 72 or Form 1000, as applicable ■ Lease

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year

Refinance Mortgage

Topic	Requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Form 72 or Form 1000, as applicable <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income.

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
	<p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (Internal Revenue Service (IRS) Form 1040), including Schedule E for the most recent year as described in Section 5302.4(b). ■ Form 72 or Form 1000, as applicable ■ If the property was purchased or converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented. <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the</p>

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year

Refinance Mortgage

Topic	Requirements
	<p>row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> ❑ Form 72 or Form 1000, as applicable ❑ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month’s rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower’s depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower’s name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower’s personal depository account at a financial institution
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller’s analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled “Calculation of net rental income using lease” are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance ■ Mortgage interest paid to banks, etc. ■ Real estate taxes ■ HOA dues ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92, Net Rental Income Calculations – Schedule E, or similar alternative form.</p> <p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12.

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date, as applicable. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E <p>Use 75% of the gross monthly rent from the lease.</p>

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year	
Refinance Mortgage	
Topic	Requirements
	Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Use of net rental income in the DTI calculation	Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income: <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

(c) Rental income from non-subject investment property

(i) Eligibility

Rental income generated from non-subject investment property is eligible provided it meets the requirements of this subsection (c).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a non-subject investment property.

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Lease <ul style="list-style-type: none"> □ The lease must be current and fully executed □ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> □ Form 72 or Form 1000, as applicable

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	<p><input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.</p> <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution <p>Exception: For a property purchased on or up to 45 days before the Note Date of the subject transaction, when the property is not yet rented, a lease is not required and market rent may be documented using Form 72 or Form 1000, as applicable.</p>
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Exception: When the property was purchased on or up to 45 days before the Note Date of the subject transaction and is not yet rented, use 75% of the gross monthly market rent from Form 72 or Form 1000, as applicable.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	<p>When the property was purchased on or up to 45 days before the Note Date of the subject transaction and is not yet rented:</p> <ul style="list-style-type: none"> ■ To use rental income to qualify, each Borrower must currently own a Primary Residence or have a current rental housing payment documented in accordance with Section 5401.1(a). <p>Exception: For Borrowers currently residing in the same property, at least one Borrower must own a Primary Residence or have a current rental housing payment to use rental income to qualify.</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA dues (excluding unit utility charges) and payments on secondary financing on the non-subject Investment Property
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	<p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p> <ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income ■ If the combined result is negative, add it to the monthly liabilities

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including Schedule E for the most recent year as described in Section 5302.4(b) ■ If the property was purchased or converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled "Calculation of net rental income using a lease", the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Form 72 or Form 1000 <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	<p>institution (e.g., bank statements evidencing deposit or canceled checks)</p> <ul style="list-style-type: none"> ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Forms 72 and 1000	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of net rental income using lease" are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p>

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Insurance* ■ Mortgage interest paid to banks, etc.* ■ Real estate taxes* ■ HOA dues* ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form.</p> <p>* These expenses may be added back if they are included in the monthly payment amount used to establish the DTI ratio.</p> <p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses costs on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p>

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities <p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p> <ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income ■ If the combined result is negative, add it to the monthly liabilities

(d) Rental income from conversion of a Primary Residence to an Investment Property

(i) Eligibility

Rental income generated from the conversion of a Primary Residence to an Investment Property is eligible provided it meets the requirements of this subsection (d).

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from the conversion of a Primary Residence to an Investment Property.

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
Income documentation	<ul style="list-style-type: none">■ Lease<ul style="list-style-type: none">❑ The lease must be current and fully executed❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage■ Income reflected on the lease must be supported by one of the following:<ul style="list-style-type: none">❑ Form 72 or Form 1000❑ Documentation verifying receipt of two months rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none">■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account)■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Forms 72 and 1000	The Seller's analysis of the rental information must include, at a minimum, the following factors:

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	<p>When using net rental income to qualify:</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA dues (excluding unit utility charges) and payments on secondary financing on the converted Primary Residence
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <p>If the result is positive, add it to the stable monthly income</p> <ul style="list-style-type: none"> ■ If the result is negative, add it to the monthly liabilities <p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p>

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
	<ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income ■ If the combined result is negative, add it to the monthly liabilities

(e) Rental income from subject 2- to 4-unit Primary Residence

(i) Eligibility

Rental income generated from units not occupied by the Borrower for a subject 2- to 4-unit Primary Residence is eligible provided it meets the requirements of this subsection (e).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a subject 2- to 4-unit Primary Residence.

Rental income from subject 2- to 4-unit Primary Residence	
Purchase transaction Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> ❑ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal report, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method ❑ The existing lease must be current and fully executed in the property seller's name as the landlord ■ Form 72
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property

Rental income from subject 2- to 4-unit Primary Residence Purchase transaction Mortgage	
Topic	Requirements
	<ul style="list-style-type: none"> ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease, when the lease is available, or ■ Gross monthly market rent from Form 72 when the lease is not available <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Form 72 ■ Lease(s)

Rental income from subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year

Refinance Mortgage

Topic	Requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> The lease(s) must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Form 72 <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution

Rental income from subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross monthly lease income, if applicable. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including the Schedule E for the most recent year as described in Section 5302.4(b).

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Form 72 ■ If the property was purchased or unit(s) not occupied by the Borrower were converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Form 72 <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month’s rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower’s depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower’s name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of net rental income using lease" are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance ■ Mortgage interest paid to banks, etc. ■ Real estate taxes ■ HOA dues ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form</p>

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date, as applicable. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI ratio calculation	<p>The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income.</p> <p>The net rental income may be added to the stable monthly income.</p>

(f) Rental income from non-subject 2- to 4-unit Primary Residence

(i) Eligibility

Rental income generated from units not occupied by the Borrower for a non-subject 2- to 4-unit Primary Residence is eligible provided it meets the requirements of this subsection (f).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a non-subject 2- to 4-unit Primary Residence.

Rental income from non-subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year

Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Lease <ul style="list-style-type: none"> □ The lease must be current and fully executed □ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> □ Form 72 □ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution <p>Exception: For a property purchased on or up to 45 days before the Note Date for the subject transaction, market rent may be documented using Form 72 if the property is not yet rented.</p>

Rental income from non-subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year	
Topic	Requirements
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Exception: Use 75% of the gross monthly market rent from Form 72 when the property was purchased on or up to 45 days before the Note Date for the subject transaction and is not yet rented.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including the Schedule E for the most recent year as described in Section 5302.4(b)

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<ul style="list-style-type: none"> ■ If the property was purchased or unit(s) not occupied by the Borrower were converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> ❑ Form 72 ❑ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month’s rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower’s depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower’s name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower’s personal depository account at a financial institution

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
Comparable rent data analysis when using Form 72	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of net rental income using lease" are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance* ■ Mortgage interest paid to banks, etc.* ■ Real estate taxes* ■ HOA dues* ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form.</p> <p>* These expenses may be added back if they are included in the monthly payment amount used to establish the DTI ratio.</p>

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<p>supported by a reduced number of days in use and repair/renovation expenses on Schedule E</p> <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

(g) Rental income from an ADU on a subject 1-unit Primary Residence

(i) Eligibility

Rental income generated from an ADU on a subject 1-unit Primary Residence that does not meet the requirements in Section 5306.1(h) below for live-in aides or 4501.6(a) for Home Possible Mortgages is eligible provided it meets the requirements of this subsection (g).

The Mortgage must be a purchase transaction or “no cash-out” refinance Mortgage.

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from an ADU on a subject 1-unit Primary Residence.

Rental income from an ADU on a subject 1-unit Primary Residence
Purchase transaction Mortgage

Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> ❑ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ ADU rental analysis, which must support the income reflected on the lease <p>The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.</p> <p>See Section 5601.2 for additional requirements for a property with an ADU.</p>
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease when the lease is available, or ■ Gross monthly market rent from the ADU rental analysis when the lease is not available <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	<p>The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.</p>

Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income
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Rental income from an ADU on a subject 1-unit Primary Residence “No cash-out” refinance Mortgage	
Topic	Requirements
Income documentation	<p>The Borrower’s complete federal income tax returns (IRS Form 1040), including Schedule E, for the most recent year, as described in Section 5302.4(b).</p> <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ ADU rental analysis, which must support the income reflected on the lease. <p>The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.</p> <p>See Section 5601.2 for additional requirements for a property with an ADU.</p>
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled “Calculation of net rental income using lease” are met.</p> <p>Calculate the net rental income from Schedule E using Form 92 or a similar alternative form.</p>

Rental income from an ADU on a subject 1-unit Primary Residence “No cash-out” refinance Mortgage	
Topic	Requirements
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when one of the following applies:</p> <ul style="list-style-type: none"> ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E ■ The property was purchased later in the calendar year and Schedule E supports this by a reduced number of days in use ■ The property was placed in service in the current calendar year as documented in the Mortgage file <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.
Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

(iii) Landlord education

For purchase transactions, at least one qualifying Borrower must participate in a landlord education program prior to the Note Date, or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages.

Landlord education must not be provided by an interested party to the transaction, the originating lender or the Seller. A copy of a certificate evidencing successful completion of the landlord education program must be retained in the Mortgage file.

Exception: Landlord education is not required if at least one Borrower has a minimum of one-year investment property management experience or ADU rental management experience.

(iv) Special delivery requirements for Mortgages with rental income from an ADU

The Seller must deliver ULDD Data Point *Investor Feature Identifier* valid value “J66” for each Mortgage where rental income from an ADU on a 1-unit Primary Residence is used to qualify the Borrower. See Section 6302.8(a) for more information.

(h) Rental income from live-in aide residing in a 1-unit Primary Residence

(i) Eligibility

Rental income generated from the Borrower’s 1-unit Primary Residence, including rental income from an ADU may be used to qualify a Borrower with a disability provided the rental income is from a live-in aide and the requirements of this subsection (h) are met. Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the Borrower.

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from a live-in aide residing in a subject 1-unit Primary Residence.

Rental income from a live-in aide residing in a 1-unit Primary Residence	
Topic	Requirements
Income documentation	The Seller must include in the Mortgage file evidence that the Borrower has received stable rental income from a live-in aide for the most recent 12 months.
Limitations on the use of rental income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.

Note: Refer to Section 4501.6(a) for use of rental income generated from the Borrower’s 1-unit Primary Residence for a Home Possible Mortgage.

(i) Other provisions related to rental income

(i) IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Refer to Chapter 5304 for the treatment of all rental real estate income or loss reported on IRS Form 8825, which reflects all income and expenses for the rental property and IRS Schedule K-1, which reflects the Borrower's proportionate share of the net rental income or loss.

The requirements of Chapter 5304 are applicable regardless of the Borrower's percentage of ownership interest in the partnership or S corporation and regardless of whether the Borrower is personally obligated on the Note.

(ii) Delivery requirements for all subject Investment Properties and 2- to 4-unit Primary Residences

Regardless of whether rental income from the subject Investment Property or 2- to 4-unit Primary Residence is being used to qualify the Borrower, the Seller must deliver ULDD Data Point *Property Dwelling Unit Eligible Rent Amount*.

Note: See Section 6302.8 for delivery requirements for rental income.

(iii) Other Guide provisions related to rental income

Refer to the following Guide provisions for additional information related to the rental income topic:

Other Guide provisions related to rental income	
Guide provision	Guide location
Age of documentation	Section 5102.4
Appraisal form rental information	Section 3401.12
General requirements for all stable monthly income	Section 5301.1
General requirements for documentation used to verify employment and income	Chapter 5302
General requirements for verifying documents	Section 5102.3
Property eligibility and appraisal requirements	Topic 5600

5306.1: Rental income (Future effective date 11/02/26)

This section contains requirements and guidance for the calculation, documentation, analysis, history and determination of stable monthly net rental income when used to qualify the Borrower.

- [General eligibility requirements](#)
- [Rental income from subject 1- to 4-unit Investment Property](#)
- [Rental income from non-subject investment property](#)
- [Rental income from conversion of a Primary Residence to an Investment Property](#)
- [Rental income from subject 2- to 4-unit Primary Residence](#)
- [Rental income from non-subject 2- to 4-unit Primary Residence](#)
- [Rental income from an ADU on a subject 1-unit Primary Residence](#)
- [Rental income from a live-in aide residing in a 1-unit Primary Residence](#)
- [Other provisions related to rental income](#)

(a) General eligibility requirements

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three years. For each income source used to qualify the Borrower, the Seller must determine that both the source and the amount of the income are stable. Refer to Section 5301.1 for additional information about income stability and continuance.

(i) Rental income eligibility

Rental income generated from the following property and occupancy types may be considered when determining the stable monthly income:

- 1-unit Primary Residence:
 - ☐ Rental income from a live-in aide, regardless of the type of housing provided, or
 - ☐ Rental income from an ADU
- 2- to 4-unit Primary Residence (rental income is eligible from units that are not occupied by the Borrower)

- Subject 1- to 4-unit Investment Property
- Non-subject investment property owned by the Borrower (not restricted to residential property (e.g., commercial permitted))

Rental income generated from the Borrower's second home may not be used as stable monthly income.

(ii) Rental income generated from ADUs

When determining stable monthly income, rental income generated from an ADU may be considered for:

- Subject 1-unit Primary Residence
- Subject 1-unit Investment Property

In addition, rental income generated from one or more ADUs on a non-subject investment property may be considered when determining stable monthly income.

Note: Refer to Section 5306.1(g) below for requirements related to rental income eligibility for a 1-unit Primary Residence with an ADU. Refer to Section 4501.6(a) for requirements related to rental income eligibility for a 1-unit Primary Residence with an ADU for Home Possible[®] Mortgages.

Note: Refer to Section 5601.2 for the property eligibility and appraisal requirements related to the subject property with an ADU.

(b) Rental income from subject 1- to 4-unit Investment Property

(i) Eligibility

Rental income generated from a subject 1- to 4-unit Investment Property is eligible for use in qualifying the Borrower provided it meets the requirements of this subsection (b).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from the subject 1- to 4-unit Investment Property.

Rental income from subject 1- to 4-unit Investment Property Purchase transaction Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> □ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal report, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method □ The existing lease(s) must be current and fully executed in the property seller's name as the landlord ■ Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units) with rental information provided
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. If the current market rents do not reasonably support the gross monthly lease income, the Seller must: <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease when the lease is available, or ■ Gross monthly market rent from the appraisal report <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>

Rental income from subject 1- to 4-unit Investment Property Purchase transaction Mortgage	
Topic	Requirements
Limitations on use of rental income	<p>To use rental income to qualify:</p> <ul style="list-style-type: none"> ■ Each Borrower must currently own a Primary Residence or have a current rental housing payment documented in accordance with Section 5401.1(d). <p>Exception: For Borrowers currently residing in the same property, at least one Borrower must own a Primary Residence or have a current rental housing payment to use rental income to qualify.</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the principal, interest, taxes and insurance (PITI) and, when applicable, mortgage insurance premiums, leasehold payments, homeowners association (HOA) dues (excluding unit utility charges) and payments on secondary financing on the subject Investment Property.
Use of net rental income in the debt payment-to-income (DTI) calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units) ■ Lease

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year

Refinance Mortgage

Topic	Requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units) <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income.

Rental income from subject 1- to 4-unit Investment Property purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
	<p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (Internal Revenue Service (IRS) Form 1040), including Schedule E for the most recent year as described in Section 5302.4(b). ■ Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units) with rental information provided ■ If the property was purchased or converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented.

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year

Refinance Mortgage

Topic	Requirements
	<p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> ❑ Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units) ❑ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month’s rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower’s depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower’s name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower’s personal depository account at a financial institution

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year

Refinance Mortgage

Topic	Requirements
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of net rental income using lease" are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance ■ Mortgage interest paid to banks, etc. ■ Real estate taxes ■ HOA dues ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92, Net Rental Income Calculations – Schedule E, or similar alternative form.</p>

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year

Refinance Mortgage

Topic	Requirements
	<p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date, as applicable. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a

Rental income from subject 1- to 4-unit Investment Property owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<p>reduced number of days in use and repair/renovation expenses on Schedule E</p> <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities

(c) Rental income from non-subject investment property

(i) Eligibility

Rental income generated from non-subject investment property is eligible provided it meets the requirements of this subsection (c).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a non-subject investment property.

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> ❑ Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units) ❑ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution <p>Exception: For a property purchased on or up to 45 days before the Note Date of the subject transaction, when the property is not yet rented, a lease is not required and market rent may be documented using a Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units).</p>
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross monthly lease income.

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	<p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Exception: When the property was purchased on or up to 45 days before the Note Date of the subject transaction and is not yet rented, use 75% of the gross monthly market rent from a Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units).</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	<p>When the property was purchased on or up to 45 days before the Note Date of the subject transaction and is not yet rented:</p> <ul style="list-style-type: none"> ■ To use rental income to qualify, each Borrower must currently own a Primary Residence or have a current rental housing payment documented in accordance with Section 5401.1(a). <p>Exception: For Borrowers currently residing in the same property, at least one Borrower must own a Primary Residence or have a current rental housing payment to use rental income to qualify.</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA

Rental income from non-subject investment property purchased or placed in service in the current calendar year	
Topic	Requirements
	dues (excluding unit utility charges) and payments on secondary financing on the non-subject Investment Property
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities <p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p> <ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income ■ If the combined result is negative, add it to the monthly liabilities

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including Schedule E for the most recent year as described in Section 5302.4(b) ■ If the property was purchased or converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled "Calculation of net rental income using a lease", the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following:

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	<ul style="list-style-type: none"> <input type="checkbox"/> Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units) <input type="checkbox"/> Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	to qualify the Borrower is stable and reasonably expected to continue
Calculation of rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled “Calculation of net rental income using lease” are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance* ■ Mortgage interest paid to banks, etc.* ■ Real estate taxes* ■ HOA dues* ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form.</p> <p>* These expenses may be added back if they are included in the monthly payment amount used to establish the DTI ratio.</p> <p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses costs on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date.

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	<p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2</p>
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <ul style="list-style-type: none"> ■ If the result is positive, add it to the stable monthly income ■ If the result is negative, add it to the monthly liabilities <p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p> <ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income

Rental income from non-subject investment property owned in the prior calendar year	
Topic	Requirements
	<ul style="list-style-type: none"> ■ If the combined result is negative, add it to the monthly liabilities

(d) Rental income from conversion of a Primary Residence to an Investment Property

(i) Eligibility

Rental income generated from the conversion of a Primary Residence to an Investment Property is eligible provided it meets the requirements of this subsection (d).

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from the conversion of a Primary Residence to an Investment Property.

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> □ The lease must be current and fully executed □ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> □ Traditional Appraisal Report or Hybrid Appraisal Report (as permitted based on the number of units) □ Documentation verifying receipt of two months rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	<p>When using net rental income to qualify:</p> <ul style="list-style-type: none"> ■ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that

Rental income from conversion of a Primary Residence to an Investment Property	
Topic	Requirements
	<p>at least one Borrower has a minimum of one year of investment property management experience</p> <ul style="list-style-type: none"> ■ If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA dues (excluding unit utility charges) and payments on secondary financing on the converted Primary Residence
Use of net rental income in the DTI calculation	<p>Subtract the monthly payment amount (as described in Section 5401.2(b)(8)) from the net rental income:</p> <p>If the result is positive, add it to the stable monthly income</p> <ul style="list-style-type: none"> ■ If the result is negative, add it to the monthly liabilities <p>For multiple non-subject investment properties, apply the calculation above to each property, and:</p> <ul style="list-style-type: none"> ■ If the combined result is positive, add it to the stable monthly income ■ If the combined result is negative, add it to the monthly liabilities

(e) Rental income from subject 2- to 4-unit Primary Residence

(i) Eligibility

Rental income generated from units not occupied by the Borrower for a subject 2- to 4-unit Primary Residence is eligible provided it meets the requirements of this subsection (e).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a subject 2- to 4-unit Primary Residence.

Rental income from subject 2- to 4-unit Primary Residence Purchase transaction Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> ❑ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal report, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method ❑ The existing lease must be current and fully executed in the property seller's name as the landlord ■ A Traditional Appraisal Report with rental income provided when the lease is not available
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> ❑ Determine if additional documentation is necessary to support income stability, and ❑ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease, when the lease is available, or ■ Gross monthly market rent from a Traditional Appraisal Report when the lease is not available <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>

Rental income from subject 2- to 4-unit Primary Residence Purchase transaction Mortgage	
Topic	Requirements
Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ A Traditional Appraisal Report ■ Lease(s) <ul style="list-style-type: none"> □ The lease(s) must be current and fully executed □ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> □ A Traditional Appraisal Report □ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a

Rental income from subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year Refinance Mortgage	
Topic	Requirements
	<p>screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account)</p> <ul style="list-style-type: none"> ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross monthly lease income, if applicable. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including the Schedule E for the most recent year as described in Section 5302.4(b). ■ A Traditional Appraisal Report ■ If the property was purchased or unit(s) not occupied by the Borrower were converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled "Calculation of net rental income using lease", the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> □ The lease must be current and fully executed □ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> □ A Traditional Appraisal Report □ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<p>that evidences transfer of the payments and ties the account to the Borrowers bank account)</p> <ul style="list-style-type: none"> ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower’s personal depository account at a financial institution
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller’s analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled “Calculation of net rental income using lease” are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance ■ Mortgage interest paid to banks, etc. ■ Real estate taxes ■ HOA dues

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
	<ul style="list-style-type: none"> ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form</p> <p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date, as applicable. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>

Rental income from subject 2- to 4-unit Primary Residence owned in the prior calendar year Refinance Mortgage	
Topic	Requirements
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI ratio calculation	<p>The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income.</p> <p>The net rental income may be added to the stable monthly income.</p>

(f) Rental income from non-subject 2- to 4-unit Primary Residence

(i) Eligibility

Rental income generated from units not occupied by the Borrower for a non-subject 2- to 4-unit Primary Residence is eligible provided it meets the requirements of this subsection (f).

(ii) Rental income documentation and calculation requirements

The following tables contain requirements for establishing net rental income from a non-subject 2- to 4-unit Primary Residence.

Rental income from non-subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year

Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ Purchase date or conversion date, as applicable, must be documented ■ Lease <ul style="list-style-type: none"> □ The lease must be current and fully executed □ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> □ A Traditional Appraisal Report □ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution <p>Exception: For a property purchased on or up to 45 days before the Note Date for the subject transaction, market rent may be documented using a Traditional Appraisal Report if the property is not yet rented.</p>

Rental income from non-subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year	
Topic	Requirements
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ When using the lease, whether the current market rents reasonably support the gross monthly lease income. <p>If the current market rents do not reasonably support the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> □ Determine if additional documentation is necessary to support income stability, and □ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation	<p>Use 75% of the gross monthly rent from the lease.</p> <p>Exception: Use 75% of the gross monthly market rent from a Traditional Appraisal Report when the property was purchased on or up to 45 days before the Note Date for the subject transaction and is not yet rented.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The Borrower's complete federal income tax returns (IRS Form 1040), including the Schedule E for the most recent year as described in Section 5302.4(b)

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<ul style="list-style-type: none"> ■ If the property was purchased or unit(s) not occupied by the Borrower were converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> ❑ A Traditional Appraisal Report ❑ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month’s rental payment. <p>Documentation must include one of the following:</p> <ul style="list-style-type: none"> ■ Evidence that the payments were cashed or deposited into the Borrower’s depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks) ■ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the Borrower’s name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ■ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower’s personal depository account at a financial institution

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
Comparable rent data analysis when using Traditional Appraisal Report or Hybrid Appraisal Report	<p>The Seller's analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> ■ Rental market viability and income producing potential for subject property ■ Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable. <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller must:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Determine if additional documentation is necessary to support income stability, and <input type="checkbox"/> Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the Borrower is stable and reasonably expected to continue
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of net rental income using lease" are met.</p> <p>Step 1: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:</p> <ul style="list-style-type: none"> ■ Insurance* ■ Mortgage interest paid to banks, etc.* ■ Real estate taxes* ■ HOA dues* ■ Depreciation and/or depletion ■ One-time losses (e.g., casualty loss) if documented ■ Non-cash deduction (e.g., amortization) <p>Use Form 92 or similar alternative form.</p> <p>* These expenses may be added back if they are included in the monthly payment amount used to establish the DTI ratio.</p>

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<p>Step 2: Determine the applicable number of months for averaging as follows:</p> <ul style="list-style-type: none"> ■ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E provided that the property was out of service for a period of time in the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <ul style="list-style-type: none"> ■ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date. <p>Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E.</p> <p>Step 3: Calculate the qualifying monthly net rental income as follows:</p> <p>Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.</p>
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when either of the following applies:</p> <ul style="list-style-type: none"> ■ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<p>supported by a reduced number of days in use and repair/renovation expenses on Schedule E</p> <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Use of net rental income in the DTI calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

(g) Rental income from an ADU on a subject 1-unit Primary Residence

(i) Eligibility

Rental income generated from an ADU on a subject 1-unit Primary Residence that does not meet the requirements in Section 5306.1(h) below for live-in aides or 4501.6(a) for Home Possible Mortgages is eligible provided it meets the requirements of this subsection (g).

The Mortgage must be a purchase transaction or “no cash-out” refinance Mortgage.

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from an ADU on a subject 1-unit Primary Residence.

Rental income from an ADU on a subject 1-unit Primary Residence Purchase transaction Mortgage	
Topic	Requirements
Income documentation	<ul style="list-style-type: none"> ■ The existing lease, when available <ul style="list-style-type: none"> ❑ The Seller must make reasonable efforts to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method ❑ The lease must be current and fully executed ❑ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ ADU rental analysis provided in the appraisal report, which must support the income reflected on the lease. The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. See Section 5601.2 for additional requirements for a property with an ADU.
Calculation	<p>Use 75% of:</p> <ul style="list-style-type: none"> ■ Gross monthly rent from the lease when the lease is available, or ■ Gross monthly market rent from the ADU rental analysis when the lease is not available <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.
Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income

	<ul style="list-style-type: none"> ■ The net rental income may be added to the stable monthly income
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Rental income from an ADU on a subject 1-unit Primary Residence “No cash-out” refinance Mortgage	
Topic	Requirements
Income documentation	<p>The Borrower’s complete federal income tax returns (IRS Form 1040), including Schedule E, for the most recent year, as described in Section 5302.4(b).</p> <p>When the requirements are met for using a lease in lieu of Schedule E to calculate net rental income as described in the row labeled “Calculation of net rental income using lease”, the following additional documentation is required:</p> <ul style="list-style-type: none"> ■ Lease <ul style="list-style-type: none"> <input type="checkbox"/> The lease must be current and fully executed <input type="checkbox"/> For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage ■ ADU rental analysis provided in the appraisal report, which must support the income reflected on the lease. <p>The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs.</p> <p>See Section 5601.2 for additional requirements for a property with an ADU.</p>
Calculation of net rental income using Schedule E	<p>Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled “Calculation of net rental income using lease” are met.</p> <p>Calculate the net rental income from Schedule E using Form 92 or a similar alternative form.</p>

Rental income from an ADU on a subject 1-unit Primary Residence “No cash-out” refinance Mortgage	
Topic	Requirements
Calculation of net rental income using lease	<p>Lease may be used to calculate the net rental income only when one of the following applies:</p> <ul style="list-style-type: none"> ■ The property was out of service for a period of time during the prior year, and the Mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use and repair/renovation expenses on Schedule E ■ The property was purchased later in the calendar year and Schedule E supports this by a reduced number of days in use ■ The property was placed in service in the current calendar year as documented in the Mortgage file <p>Use 75% of the gross monthly rent from the lease.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p>
Limitations on use of rental income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.
Use of net rental income in the DTI ratio calculation	<ul style="list-style-type: none"> ■ The monthly housing expense (as described in Section 5401.1) must be calculated without the use of rental income ■ The net rental income may be added to the stable monthly income

(iii) Landlord education

For purchase transactions, at least one qualifying Borrower must participate in a landlord education program prior to the Note Date, or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages.

Landlord education must not be provided by an interested party to the transaction, the originating lender or the Seller. A copy of a certificate evidencing successful completion of the landlord education program must be retained in the Mortgage file.

Exception: Landlord education is not required if at least one Borrower has a minimum of one-year investment property management experience or ADU rental management experience.

(iv) Special delivery requirements for Mortgages with rental income from an ADU

The Seller must deliver ULDD Data Point *Investor Feature Identifier* valid value “J66” for each Mortgage where rental income from an ADU on a 1-unit Primary Residence is used to qualify the Borrower. See Section 6302.8(a) for more information.

(h) Rental income from live-in aide residing in a 1-unit Primary Residence

(i) Eligibility

Rental income generated from the Borrower’s 1-unit Primary Residence, including rental income from an ADU may be used to qualify a Borrower with a disability provided the rental income is from a live-in aide and the requirements of this subsection (h) are met. Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the Borrower.

(ii) Rental income documentation and calculation requirements

The following table contains requirements for establishing net rental income from a live-in aide residing in a subject 1-unit Primary Residence.

Rental income from a live-in aide residing in a 1-unit Primary Residence	
Topic	Requirements
Income documentation	The Seller must include in the Mortgage file evidence that the Borrower has received stable rental income from a live-in aide for the most recent 12 months.
Limitations on the use of rental income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the Borrower for the Mortgage.

Note: Refer to Section 4501.6(a) for use of rental income generated from the Borrower’s 1-unit Primary Residence for a Home Possible Mortgage.

(i) Other provisions related to rental income

(i) IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Refer to Chapter 5304 for the treatment of all rental real estate income or loss reported on IRS Form 8825, which reflects all income and expenses for the rental property and IRS Schedule K-1, which reflects the Borrower's proportionate share of the net rental income or loss.

The requirements of Chapter 5304 are applicable regardless of the Borrower's percentage of ownership interest in the partnership or S corporation and regardless of whether the Borrower is personally obligated on the Note.

(ii) Delivery requirements for all subject Investment Properties and 2- to 4-unit Primary Residences

Regardless of whether rental income from the subject Investment Property or 2- to 4-unit Primary Residence is being used to qualify the Borrower, the Seller must deliver ULDD Data Point *Property Dwelling Unit Eligible Rent Amount*.

Note: See Section 6302.8 for delivery requirements for rental income.

(iii) Other Guide provisions related to rental income

Refer to the following Guide provisions for additional information related to the rental income topic:

Other Guide provisions related to rental income	
Guide provision	Guide location
Age of documentation	Section 5102.4
Appraisal report rental information	Section 3401.12
General requirements for all stable monthly income	Section 5301.1
General requirements for documentation used to verify employment and income	Chapter 5302
General requirements for verifying documents	Section 5102.3
Property eligibility and appraisal requirements	Topic 5600

Chapter 5307: Asset Qualification Sources

5307.1: Assets as a basis for repayment of obligations (07/02/25)

This section contains information related to:

- [Mortgage eligibility requirements](#)
- [Asset calculation method for establishing the debt payment-to-income \(DTI\) ratio](#)
- [Asset eligibility and documentation requirements](#)
- [Special delivery requirements](#)

Assets that will be used by the Borrower for the repayment of their monthly obligations may be used to qualify the Borrower for the Mortgage, provided that, regardless of the underwriting path of the Mortgage, the requirements of this section and Section 5301.2 are met. Form 65, Uniform Residential Loan Application, should include information pertaining to the Borrower's employment and income, even if the Borrower qualifies for the Mortgage solely based on assets.

(a) Mortgage eligibility requirements

The assets described in this Section 5307.1 may only be used to qualify the Borrower if the Mortgage meets all of the following requirements:

- The Mortgage is secured by a 1- or 2-unit Primary Residence or a second home
- The Mortgage is either a purchase transaction Mortgage, "no cash-out" refinance Mortgage or Freddie Mac Enhanced Relief Refinance[®] Mortgage
- The Mortgage has a maximum loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio of 80%, unless the Mortgage is a Freddie Mac Enhanced Relief Refinance Mortgage, in which case the maximum ratios in Section 4304.3 apply

(b) Asset calculation method for establishing the DTI ratio

To determine the qualifying asset amount used to establish the DTI ratio, the following asset calculation method must be used:

Asset calculation method	
Step	Requirement
Step 1	Determine the total eligible documented asset amount.
Step 2	<p>Subtract all of the following from the total eligible documented assets:</p> <ul style="list-style-type: none"> ■ Any funds required to be paid by the Borrower to complete the transaction (e.g., Down Payment and Closing Costs), ■ Any gift funds and borrowed funds ■ Any portion of assets pledged as collateral for a loan or otherwise encumbered <p>Net eligible assets: The resulting figure is the “net eligible assets.”</p>
Step 3	<p>Divide the “net eligible assets” by 240.</p> <p>Qualifying asset amount: The resulting figure is the “qualifying asset amount” used to establish the DTI ratio.</p>

(c) Asset eligibility and documentation requirements

The assets described below may be used to qualify the Borrower for the Mortgage, provided that the assets meet the following requirements:

(i) Retirement assets

The following table contains eligibility, documentation and calculation requirements for retirement accounts:

Retirement assets	
Topic	Stable monthly asset qualification requirements
Asset eligibility	<ul style="list-style-type: none"> ■ The retirement assets must be in a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA) ■ Borrower must be the sole owner ■ The asset must not currently be used as a source of income by the Borrower ■ As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion

Retirement assets	
Topic	Stable monthly asset qualification requirements
	<p>pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty or an additional early distribution tax</p> <ul style="list-style-type: none"> ■ The Borrower's rights to the funds in the account must be fully vested ■ Cryptocurrency may not be considered in the calculation of net eligible assets for establishing the DTI ratio described in Section 5307.1(b)
Documentation	<p>Streamlined Accept and Standard Documentation:</p> <ul style="list-style-type: none"> ■ Most recent retirement asset account statement ■ Documentation evidencing asset eligibility requirements are met
Calculation	Refer to asset calculation method in Section 5307.1(b) above.

(ii) Lump-sum distribution funds not deposited into an eligible retirement asset

The following table contains eligibility, documentation and calculation requirements for lump-sum distribution funds not deposited into an eligible retirement asset:

Lump-sum distribution funds not deposited into an eligible retirement asset	
Topic	Stable monthly asset qualification requirements
Asset eligibility	<p>If the lump-sum distribution funds have been deposited into an eligible retirement asset, follow the requirements for retirement assets described in the table above.</p> <p>If the lump-sum distribution funds have been deposited into a depository or non-retirement securities account, the requirements in this table apply.</p> <ul style="list-style-type: none"> ■ Lump-sum distribution funds must be derived from a retirement account recognized by the IRS (e.g., 401(k), IRA) and must be deposited into a depository or non-retirement securities account ■ A Borrower must have been the recipient of the lump-sum distribution funds

Lump-sum distribution funds not deposited into an eligible retirement asset	
Topic	Stable monthly asset qualification requirements
	<ul style="list-style-type: none"> ■ Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the funds from the lump-sum distribution ■ The proceeds from the lump-sum distribution must be immediately accessible in their entirety ■ The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty or early distribution tax
Documentation	Streamlined Accept and Standard Documentation: <ul style="list-style-type: none"> ■ Employer distribution letter(s) and/or check-stub(s) evidencing receipt and type of lump-sum distribution funds; IRS 1099-R (if it has been received) ■ Satisfactorily documented evidence of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Funds verified in the non-retirement account and used for qualification must have been derived from eligible retirement assets <input type="checkbox"/> Lump-sum distribution funds must not have been or currently be subject to a penalty or early distribution tax
Calculation	Refer to the asset calculation method in Section 5307.1(b) above.

(iii) Depository accounts and securities (as described in Section 5501.3)

The following table contains eligibility, documentation and calculation requirements for depository accounts and securities:

Depository accounts and securities (as described in Section 5501.3)	
Topic	Stable monthly asset qualification requirements
Asset eligibility	<ul style="list-style-type: none"> ■ The Borrower must solely own assets or, if the asset is owned jointly, each asset owner must be a Borrower on the Mortgage and/or on the title to the subject property ■ At least one Borrower who is an account owner must be at least 62 years old ■ As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion

Depository accounts and securities (as described in Section 5501.3)		
Topic	Stable monthly asset qualification requirements	
	<p>pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty</p> <ul style="list-style-type: none"> ■ Account funds must be located in a U.S.- or State-regulated financial institution and verified in U.S. dollars ■ Cryptocurrency may not be considered in the calculation of net eligible assets for establishing the DTI ratio described in Section 5307.1(b) 	
Documentation	<p>Streamlined Accept Documentation:</p> <p>Provide an account statement covering a one-month period or a direct account verification (i.e., verification of deposit (VOD))</p> <p>For securities: If the Borrower does not receive a stock/security account statement:</p> <ul style="list-style-type: none"> ■ Provide evidence the security is owned by the Borrower, and ■ Verify value using stock prices from a financial publication or website 	<p>Standard Documentation:</p> <p>Provide account statement(s) covering a two-month period or a direct account verification (i.e., VOD)</p> <p>For securities: If the Borrower does not receive a stock/security account statement:</p> <ul style="list-style-type: none"> ■ Provide evidence the security is owned by the Borrower, and ■ Verify value using stock prices from a financial publication or website
	<p>In addition to the documentation requirements above, the following requirements apply to all Mortgages:</p> <ul style="list-style-type: none"> ■ Documentation evidencing asset eligibility requirements are met ■ Sourcing deposits: <ul style="list-style-type: none"> ❑ The Seller must document the source of funds for any deposit exceeding 10% of the Borrower's total eligible assets in depository accounts and securities and verify the deposit does not include gifts or borrowed funds or reduce the eligible assets used to qualify the Borrower by the amount of the deposit 	

Depository accounts and securities (as described in Section 5501.3)	
Topic	Stable monthly asset qualification requirements
	<input type="checkbox"/> When the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the Mortgage file, the Seller is not required to obtain additional documentation
Calculation	Refer to the asset calculation method in Section 5307.1(b) above

(iv) Assets from the sale of the Borrower's business

The following table contains eligibility, documentation and calculation requirements for assets from the sale of the Borrower's business:

Assets from the sale of the Borrower's business	
Topic	Stable monthly asset qualification requirements
Asset eligibility	<ul style="list-style-type: none"> ■ The Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account ■ Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the proceeds from the sale of the Borrower's business ■ The proceeds from the sale of the business must be immediately accessible in their entirety ■ The sale of the business must not have resulted in the following: retention of business assets, existing secured or unsecured debt, ownership interest or seller-held notes to buyer of business
Documentation	Streamlined Accept and Standard Documentation: <ul style="list-style-type: none"> ■ Most recent three months' depository or securities account statements ■ Fully executed closing documents evidencing final sale of business to include sales price and net proceeds ■ Contract for sale of business ■ Most recent business tax return prior to sale of business

Assets from the sale of the Borrower's business	
Topic	Stable monthly asset qualification requirements
	<ul style="list-style-type: none"> ■ Satisfactorily documented evidence that the funds verified in the non-retirement account and used for qualification were derived from the sale of the Borrower's business
Calculation	Refer to the asset calculation method in Section 5307.1(b) above

(d) Special delivery requirements

The Seller must deliver the ULDD Data Point *Investor Feature Identifier* valid value "H31" for Mortgages using assets as a basis for repayment of obligations.

Note: See Section 6302.33 for special delivery requirements.

Chapter 5401: Evaluation of Monthly Obligations

5401.1: Monthly housing expense-to-income ratio (07/02/25)

This section is effective for Mortgages with Note Dates on or after April 1, 2025.

This section contains requirements related to:

- [Establishing the monthly housing expense for Mortgages secured by Primary Residences](#)
- [Establishing the monthly housing expense for Mortgages secured by second homes and Investment Properties](#)
- [Establishing the monthly housing expense for Mortgages with a non-occupying Borrower](#)
- [Rental payment documentation requirements](#)
- [Housing expense-to-income ratio requirements based on underwriting method](#)
- [Other Guide provisions related to the monthly housing expense-to-income ratio](#)

The housing expense-to-income ratio is determined by dividing the Borrower's monthly housing expense by the Borrower's stable monthly income and/or qualifying asset amount as described in Section 5307.1(b). The monthly housing expense must be documented in the Mortgage file and established as described below.

(a) Establishing the monthly housing expense for Mortgages secured by Primary Residences

- **For Mortgages secured by a Primary Residence, the following expenses must be included in the calculation of the monthly housing expense-to-income ratio:**
 - ☐ Principal and interest payments on the Mortgage
 - ☐ Property hazard insurance premiums
 - ☐ Real estate taxes
- **New construction:** When the actual real estate tax amount is not yet available, the real estate tax amount included in the monthly housing expense must be based on the value of the improvements and the land

- **Transfer of ownership:** If the Mortgaged Premises is in a jurisdiction where transfer of ownership causes or results in a recalculation of the amount of real estate tax, the monthly housing expense must include an estimate of the recalculated tax amount
- **Tax abatements or exemptions:** The real estate tax amount may be reduced or excluded from the monthly housing expense calculation, as applicable.

The Mortgage file must contain evidence of its continuance for at least five years after the Note Date and evidence of:

- ☐ The tax abatement for a reduced real estate tax amount, or
- ☐ The exemption for an excluded real estate tax amount

If the tax exemption is due to the Borrower's age or disability, documentation verifying five years' continuance is not required. However, the exemption must not have a predetermined expiration date within five years of the Note Date.

■ **The following additional expenses must be included when applicable:**

- ☐ Mortgage insurance premiums
- ☐ Flood insurance premiums
- ☐ Leasehold payments
- ☐ Special assessments with more than 10 monthly payments remaining
- ☐ Homeowners association dues (excluding unit utility charges)
- ☐ Maintenance Fees (excluding unit utility charges)
- ☐ Payments on secondary financing, including a Home Equity Line of Credit (HELOC).

HELOC payments must be included when there is an outstanding balance on the account. In the absence of a monthly payment on the credit report for the HELOC, and if there is no documentation in the Mortgage file indicating a monthly payment amount, 1.5% of the outstanding balance is considered the monthly payment amount. Refer to Section 4204.1 for when documentation of HELOC terms is required and to Section 5501.3 when HELOC proceeds are used for the transaction.

- ☐ For properties subject to resale restrictions, recurring monthly payments associated with the financial subsidy that was provided when the property was purchased by the Borrower. See Section 4406.3 for additional requirements related to such payments.

(b) Establishing the monthly housing expense for Mortgages secured by second homes and Investment Properties

For Mortgages secured by second homes and Investment Properties, the monthly housing expense is the sum of the monthly charges described above in Section 5401.1(a) for **each** Borrower's Primary Residence.

If the Borrower does not own but rents their principal domicile, the Borrower's rental payment for that principal domicile must be included in the calculation of the monthly housing expense-to-income ratio.

(c) Establishing the monthly housing expense for Mortgages with a non-occupying Borrower

For Mortgages with a non-occupying Borrower, the monthly housing expense is the sum of the monthly charges described above in Section 5401.1(a) for **each** Borrower's Primary Residence.

If the Borrower does not own but rents their principal domicile, the Borrower's rental payment for that principal domicile must be included in the calculation of the monthly housing expense-to-income ratio.

(d) Rental payment documentation requirements

When the Borrower rents their principal domicile, one of the following is required to verify the monthly rental payment amount:

- Direct verification of rent from a management company
- Direct verification of rent from an individual landlord supported by two months of canceled checks or other evidence of two months' payments
- A copy of the current, fully executed lease agreement supported by two months of canceled checks or other evidence of two months' payments
- Six months of canceled checks or bank statements supporting consistent payments in the amount used in qualifying

(e) Housing expense-to-income ratio requirements based on underwriting method

(i) Mortgages underwritten with Loan Product Advisor®

For Loan Product Advisor Mortgages, Loan Product Advisor calculates and assesses the Borrower's qualifying ratios based on submitted data.

For Accept Mortgages, Loan Product Advisor has determined that the Borrower's qualifying ratios are acceptable.

(ii) Manually Underwritten Mortgages

(A) For all Manually Underwritten Mortgages

For Manually Underwritten Mortgages, the Seller must evaluate the Borrower's ability to pay the monthly housing expense and other obligations. As a guideline, the monthly housing expense-to-income ratio should **not be greater than 28%**.

An exception can be made only with an offset documented in the Mortgage file. Examples of offsets that might support the use of higher monthly payment ratios are found in Section 5401.2(d).

Generally, more flexibility is appropriate for the monthly housing expense-to-income ratio than for the monthly debt payment-to-income ratio. Less flexibility is appropriate for situations involving additional layers of risk (i.e., ARMs, a marginal credit reputation, minimal reserves or maximum financing).

For any Manually Underwritten Mortgage for which either of the ratio guidelines is exceeded, the Seller must prepare and retain in the Mortgage file a written explanation justifying its underwriting decision.

(B) Additional requirements for GreenCHOICE Mortgages® that are Manually Underwritten Mortgages

For **GreenCHOICE Mortgages** that are Manually Underwritten Mortgages, higher qualifying ratios may be appropriate, considering the impact energy efficiency has on the Borrower's utility charges (i.e., an energy-efficient property results in lower utility charges, allowing the homeowner to apply more income to housing expense).

If one or both of the higher qualifying ratios are used for a GreenCHOICE Mortgage, the Seller must provide one of the following to the appraiser, as well as maintain a copy in the Mortgage file, to evidence that the property has a level of energy efficiency greater than that of a "standard" (i.e., non-energy-efficient) property:

- **Home Energy Rating Systems (HERS) report** completed by a certified Residential Energy Services Network (RESNET®) Home Energy Rater reflecting a HERS Index of 90 or below (<http://www.resnet.us/directory/search>)
- **Department of Energy (DOE) Home Energy Score Report** completed by an independent Home Energy Score Certified Assessor™ reflecting a DOE Home Energy Score of six or greater (<https://betterbuildingssolutioncenter.energy.gov/home-energy-score/home-energy-score-map>)

See Section 5601.4 for detailed appraisal requirements for properties with energy-efficient improvements.

(f) Other Guide provisions related to the monthly housing expense-to-income ratio

Refer to the following Guide sections for details on:

Topic	Guide section
ARM qualifying rates	Section 4401.2
Temporary subsidy buydown plans	Section 4204.3(a)
Special underwriting requirements for second home Mortgages	Section 4201.12(b)
Special underwriting requirements for Investment Property Mortgages	Section 4201.13(b)
Mortgages including a non-occupying Borrower	Section 5103.1

5401.2: Monthly debt payment-to-income (DTI) ratio (08/06/25)

This section is effective for Mortgages with Note Dates on or after April 1, 2025.

This section contains requirements related to:

- [General requirements](#)
- [Liabilities included in the monthly debt payment-to-income \(DTI\) ratio](#)
- [Liabilities that may be excluded from the monthly DTI ratio](#)
- [Evaluating debt ratios](#)

The DTI ratio is determined by dividing the total of the Borrower's monthly housing expense described in Section 5401.1(a) plus all monthly payments on the Borrower's liabilities described in Section 5401.2(b) by the Borrower's stable monthly income and/or qualifying asset amount as described in Section 5307.1(b).

(a) General requirements

The Borrower's liabilities must be reflected on the Mortgage application (Form 65, Uniform Residential Loan Application) and considered when qualifying the Borrower. Sellers must review the Mortgage application, credit report, Borrower's paystubs (if provided) and other file documentation for Borrower liabilities.

All of the Borrower's debts incurred through the Note Date must be considered when qualifying the Borrower.

When the Borrower pays off or pays down an existing debt to qualify for the Mortgage, the Seller must document the source of funds used. The source of funds must meet the asset eligibility and documentation requirements in Sections 5501.3 and 5501.4.

(b) Liabilities included in the monthly DTI ratio

Documentation of all monthly payment amounts for the following liabilities must be included in the Mortgage file, and the monthly payment amount must be included in the DTI ratio:

1. **Monthly housing expense** (see Section 5401.1)
2. **Payments on all installment debts with more than 10 months of payments remaining**, including debts that are in a period of either deferment or forbearance.

Installment debt may be excluded if the information on the credit report or other Mortgage file documentation verifies that there are 10 or fewer months of payments remaining.

(i) Student loans

For student loans, the Seller must comply with the requirements in the table below.

Requirements for student loans	
Student loans in deferment, forbearance or repayment, including income-driven repayment plans	Student loan forgiveness, cancelation, discharge and employment-contingent repayment programs

In all cases, **an amount greater than zero must be included** in the monthly DTI ratio for all student loans, as described below:

- If the current monthly payment amount reported on the credit report is greater than zero, the Seller must use the amount reported on the credit report, unless other documentation in the Mortgage file supports a different current payment amount greater than zero, or
- If the current monthly payment amount reported on the credit report is zero, the Seller must use 0.5% of the outstanding loan balance, as reported on the credit report, unless other documentation in the Mortgage file supports a different current payment amount greater than zero

For student loans in **income-driven repayment plans** when documentation in the Mortgage file indicates that prior to or on the first Mortgage payment Due Date the Borrower must recertify their income and/or that the Borrower's payment will increase the Seller may not use the monthly payment amount described above in calculating the DTI ratio and must instead use:

- The greater of the current payment amount or 0.5% of the outstanding loan balance, or
- The documented future payment amount if greater than the current payment amount, or
- The future payment amount that is less than or equal to the current payment amount, provided that the Mortgage file contains documentation that the Borrower has recertified their income and the

The student loan **payment may be excluded** from the monthly DTI ratio provided the Mortgage file contains documentation that indicates the Borrower is eligible or approved, as applicable, for the student loan forgiveness, cancelation, discharge or employment-contingent repayment program, and the Seller is not aware of any circumstances that will make the Borrower ineligible in the future.

Evidence of eligibility or approval must come from the student loan program or the employer, as applicable.

Additionally, the Mortgage file documentation must indicate:

- There are 10 or fewer monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, or
- The monthly payment is deferred or is in forbearance and the full balance of the student loan will be forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, at the end of the deferment or forbearance period

future payment amount has been approved. The future payment amount must be greater than zero.	
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(ii) Internal Revenue Service (IRS) installment agreements

For IRS installment agreements, the Seller must comply with the requirements in the table below.

Requirements for IRS installment agreements	
Approved IRS installment agreements	Installment agreements pending IRS approval
<p>When the Borrower is obligated on an installment agreement approved by the IRS for payment of past-due federal taxes, all of the following requirements must be met:</p> <ul style="list-style-type: none"> ■ The Seller must obtain and retain in the Mortgage file a copy of the installment agreement approved by the IRS reflecting the payment terms and verifying the monthly payment amount and balance ■ The monthly payment must be included in the Borrower's DTI ratio if there are more than 10 months of payments remaining ■ The Seller must document in the Mortgage file that the Borrower is not past due under the terms of the installment agreement 	<p>When the Borrower has applied for an installment agreement with the IRS that is pending IRS approval, all of the following requirements must be met:</p> <ul style="list-style-type: none"> ■ A copy of the application for the installment agreement reflecting the amount of taxes owed and requested payment terms must be included in the Mortgage file ■ The greater of the monthly payment amount requested by the Borrower or the amount of taxes owed divided by 72 must be included in the Borrower's monthly DTI ratio
There must be no indication, and the Seller must have no knowledge, that the IRS has filed a Notice of Federal Tax Lien for the taxes owed by the Borrower.	

(iii) Timeshare loans

Timeshare loans are considered installment debts, regardless of how they are reported on the Borrower's credit report. Associated maintenance fees are not required to be included in the monthly DTI ratio.

(iv) Other installment debt

For other installment debts not reported on the credit report, or listed as deferred or in forbearance, the Seller must maintain in the Mortgage file documentation verifying the monthly payment amount.

3. Alimony or maintenance payments with more than 10 months of payments remaining

The monthly payment amount must be documented in the Mortgage file with a copy of the signed court order, legally binding separation agreement and/or final divorce decree or equivalent documentation.

Instead of including these payments in the calculation of the debt, they must be deducted from the Borrower's stable monthly income, and the reduced stable monthly income must be used to qualify the Borrower.

When entering an alimony obligation in Loan Product Advisor[®], select "Alimony" under "Income Type" and enter it as a negative number. If the Borrower also receives alimony income, select "Alimony" under "Income Type" and enter the amount received.

Note: If the Mortgage file documentation supports that there are 10 or fewer months of payments remaining, the payment may be omitted from the DTI ratio.

4. Child support payments with more than 10 months of payments remaining

The monthly payment amount must be documented with a copy of the signed court order, legally binding separation agreement and/or final divorce decree or equivalent documentation.

Note: If the Mortgage file documentation supports that there are 10 or fewer months of payments remaining, the payment may be omitted from the DTI ratio.

5. Monthly payments on revolving or 30-day accounts

(i) Revolving accounts

If there is no monthly payment reported on the credit report and no documentation in the Mortgage file indicating the monthly payment amount, 5% of the outstanding balance will be considered the required monthly payment.

(ii) 30-day accounts

For 30-day accounts (i.e., accounts that require the balance to be paid in full monthly), the Seller must include the full amount of the outstanding account balance in the DTI ratio.

Exception: The debt may be excluded if the Borrower has sufficient funds to pay off the outstanding account balance. These funds must be verified, in addition to any funds used to qualify the Borrower for the Mortgage transaction, and the source of funds must be an eligible source as described in Chapter 5501.

(iii) Authorized user accounts

When a Borrower is not the primary account holder but is an authorized user on a revolving or 30-day account, the monthly payment, as reported on the credit report, must be included in the DTI ratio only if the Seller is required by Section 5201.1(d) for Loan Product Advisor Mortgages or Section 5202.1(c) for Manually Underwritten Mortgages to include in the Mortgage file documentation evidencing that the Borrower has been making the payments on the account for the last 12 months.

6. Monthly lease payments regardless of the number of payments remaining

Exception: Payments for solar panels subject to a lease agreement, power purchase agreement (PPA) or similar type of agreement that meet the requirements of Section 5401.2(c)(vi) below may be excluded from the DTI ratio.

7. Monthly payment amounts for properties for which rental income is being considered for qualification purposes

Refer to Chapter 5306 for requirements with respect to treatment of debt when using rental income.

Refer to Chapter 5304 for requirements with respect to treatment of debt when all rental income and expenses are reported on IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

8. Monthly payment amounts for other properties

■ The monthly payment amount must include all of the following:

❑ Principal and interest on the First Lien.

For additional information about qualifying rates for the Mortgage secured by the subject property, refer to Section 4401.2 for ARM requirements and Section 4204.3 for temporary subsidy buydown plans.

- ☐ Taxes
- ☐ Insurance (e.g., hazard insurance premium and flood insurance premium)
- The following additional expenses must be included when applicable:
 - ☐ Bridge loan payment
 - ☐ Mortgage insurance premiums
 - ☐ Leasehold payments
 - ☐ Homeowners association dues (excluding unit utility charges)
 - ☐ Special assessments with more than 10 monthly payments remaining
 - ☐ Maintenance Fees (excluding unit utility charges)
 - ☐ Payment on any secondary financing (including a Home Equity Line of Credit (HELOC)).

HELOC payments must be included in the monthly DTI ratio when there is an outstanding balance on the account.

In the absence of a monthly payment on the credit report for the HELOC, and if there's no documentation in the Mortgage file indicating a monthly payment amount, 1.5% of the outstanding balance will be considered to be the HELOC monthly payment amount.

Refer to Section 4204.1 for when documentation of HELOC terms is required and to Section 5501.3 when HELOC proceeds are used for the transaction.

(c) Liabilities that may be excluded from the monthly DTI ratio

(i) Contingent liabilities

A contingent liability may be excluded from the monthly DTI ratio when meeting the requirements in the table below. The documentation used to exclude the liability must meet the age of documentation requirements in Section 5102.4.

Requirements for excluding contingent liabilities	
Debt type	Eligibility and documentation requirements
<ul style="list-style-type: none"> ■ Installment (not including Mortgages) ■ Revolving ■ Monthly lease payment 	<p>Documentation in the Mortgage file must indicate the following:</p> <ul style="list-style-type: none"> ■ A party other than the Borrower has been making timely payments for the most recent 12 months (regardless of whether the party is obligated on the debt) ■ The party making the payments is not an interested party to the subject real estate or Mortgage transaction*
<ul style="list-style-type: none"> ■ Mortgage payment ■ Other property-related expenses (e.g., taxes, insurance, homeowners association dues, etc.) 	<p>Documentation in the Mortgage file must indicate the following:</p> <ul style="list-style-type: none"> ■ A party other than the Borrower has been making timely payments for the most recent 12 months ■ When a Mortgage payment is being excluded, the party making the Mortgage payments must be obligated on the Note ■ The party making the payments is not an interested party to the subject real estate or Mortgage transaction*

* For examples of an interested party, see Section 5501.6.

Note: The Seller must evaluate the validity of circumstances under which the payments are being made by another party. For example, payments on multiple student loans made by the Borrower's parent represent a common situation. However, additional investigation and documentation might be necessary when a Borrower's multiple installment and revolving debts are being paid by the Borrower's spouse who is not on the subject Mortgage.

(ii) Assumed Mortgage

A Mortgage may be excluded from the monthly DTI ratio when the Borrower is listed as the Borrower on a Mortgage that has been assumed by another party.

If the Borrower has not been legally released from liability on the assumed Mortgage by the Servicer or owner of the Mortgage, the monthly payment may only be excluded from the monthly DTI ratio when:

- The Mortgage file contains documentation of the property transfer, evidencing that the Borrower no longer owns the property, and

- The assignee (the party who assumed the Mortgage) has made timely payments for at least the most recent 12 months, as documented by:
 - A copy of the fully executed Mortgage assumption agreement, and
 - Evidence of timely payments on the assumed Mortgage for the most recent 12 months as documented on the Borrower's credit report

(iii) Current Primary Residence pending sale

If the Borrower's current Primary Residence is pending sale and the sale will not close before the Note Date of the Mortgage or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages, the monthly payment amount for the property pending sale may be excluded from the monthly DTI ratio if the Mortgage file contains an executed sales contract for the property pending sale.

If the executed sales contract includes a financing contingency, the Mortgage file must also contain evidence that the financing contingency has been cleared or a lender's commitment to the buyer of the property pending sale.

Employee relocation programs: For Borrowers being relocated pursuant to an employee relocation program, the monthly payment amount for the property pending sale may be excluded from the monthly DTI ratio if the Mortgage meets the requirements in Section 4408.1(d)(iii) for Mortgages made pursuant to employee relocation programs.

(iv) Assigned debt

A liability on a debt, including a Mortgage, may be excluded from the monthly DTI ratio if the following requirements are met:

- The obligation to make the payments has been assigned to another by court order, such as a divorce decree, regardless of whether the Borrower is legally released from liability by the creditor, and
- The Seller documents the order (e.g., provides appropriate pages from the separation agreement or divorce decree) in the Mortgage file

(v) Self-employed Borrower's debt paid by the Borrower's business

When a self-employed Borrower is obligated on a debt that has been paid by the Borrower's business for 12 months or longer, the monthly payment for the debt may be excluded from the monthly DTI ratio if the following requirements are met:

- The Mortgage file contains evidence that the debt has been paid timely by the Borrower's business for no less than the most recent 12 months, and

- The tax returns evidence that business expenses associated with the debt (e.g., interest, lease payments, taxes, insurance) have been reported and support that the debt has been paid by the business

(vi) Payments for solar panels subject to a lease agreement, PPA or similar type of agreement

Lease payments for solar panels may be excluded from the monthly DTI ratio if the lease:

- Provides for delivery of a specific amount of energy for an agreed-upon payment during a given period; and
- Includes a production guarantee compensating the Borrower on a prorated basis when the energy produced by the solar panels is less than the level required in the lease agreement

Payments for solar panels subject to a PPA or similar type of agreement may be excluded from the monthly DTI ratio if the payment is calculated based only on the generated energy. A copy of the lease agreement, PPA or similar type of agreement, as applicable, must be maintained in the Mortgage file.

(vii) Payments on installment debts secured by financial assets

Payments on installment debts secured by financial assets, other than cryptocurrencies, in which repayment may be obtained by liquidating the asset may be excluded from the monthly DTI ratio when qualifying the Borrower, regardless of the payment amount or number of payments remaining.

The loan secured by the financial asset must have been made by a financial institution. The Seller may consider only the portion of the funds that exceeds the loan balance as funds used to qualify the Borrower for the Mortgage transaction. See Chapter 5501 for more information.

(d) Evaluating debt ratios

(i) Mortgages underwritten with Loan Product Advisor

Loan Product Advisor calculates and assesses the Borrower's qualifying ratios based on submitted data.

For Accept Mortgages, Loan Product Advisor has determined that the Borrower's qualifying ratios are acceptable.

(ii) Manually Underwritten Mortgages

For Manually Underwritten Mortgages, the Seller must evaluate the Borrower's ability to pay the monthly housing expense and other obligations.

If the Borrower's monthly DTI ratio exceeds 45%, the Mortgage is ineligible for sale to Freddie Mac.

As a guideline, the monthly DTI ratio should not be greater than 36%.

When the Borrower's monthly DTI ratio exceeds 36%, the Seller must document in the Mortgage file justification for the higher qualifying ratio.

Except in rare circumstances, the Borrower's DTI ratio should not exceed 36% for the following Mortgages:

- Cash-out refinance Mortgages
- Mortgages secured by 2- to 4-unit properties
- Mortgages where there is evidence that the Borrower increases debt and then periodically uses refinance or debt consolidation loans to reduce payments to a manageable level

The following factors may be considered in justifying a DTI ratio that exceeds 36% but is not greater than 45%:

- Energy-efficient property: The Mortgage is secured by an energy-efficient property, as described in Section 5401.1(e)
- Increased earnings probability: The Borrower's probability for increased earnings based on education, job training or time employed or practiced in a profession
- Rent paid by Related Person: Documented rent paid by Related Persons living in the property
- Ability to carry higher expenses: The Borrower demonstrated ability to carry a higher housing expense or higher debt level while maintaining a good credit history for at least 12 months
- Expectation of decreased expenses: The existence of verified income that is not included within the definition of "stable monthly income" in Section 5301.1 when there is an expectation that future expenses will be lower (such as child-support income scheduled to cease in one year when a child becomes an adult with the expectation of either lower future household expenses or additional income provided by the new adult)

In addition, the examples listed below may be used to justify higher qualifying ratios for Non-Loan Product Advisor Mortgages. However, they may not be used to justify higher qualifying ratios for Caution Mortgages because they have already been considered by Loan Product Advisor.

1. The Borrower's verified liquid assets are substantial enough to evidence an ability to repay the Mortgage regardless of income
2. There is a Down Payment on the purchase of the property of at least 25%
3. The Borrower has a strong Credit Score (for example, a 740 or higher FICO[®] score), and the Seller can confirm that the Borrower's credit reputation is excellent

For any Manually Underwritten Mortgage for which either of the ratio guidelines is exceeded, the Seller must prepare and retain in the Mortgage file a written explanation justifying its underwriting decision.

See Section 5103.1 for special ratio requirements when a non-occupying Borrower is present.

See Section 4302.5 for maximum DTI ratio requirements for Refi Possible[®] Mortgages.