

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](#)
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- [Rental income from conversion of a Primary Residence to an Investment Property](#)
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(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	<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	<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	<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	<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	<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	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	<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	<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	<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>
Comparable rent data analysis	The Seller's analysis of the rental information must include, at a minimum, the following factors:

Rental income from non-subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year	
Topic	Requirements
	<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 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) ■ If the property was purchased or unit(s) not occupied by the Borrower were converted to a rental property in the prior

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<p>calendar year, the purchase or conversion date, as applicable, must be documented</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"> ❑ 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	<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 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. 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	<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	<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 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	<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	<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	<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	<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

(iii) 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).

(iv) 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	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	<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	<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	<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>
Comparable rent data analysis	The Seller's analysis of the rental information must include, at a minimum, the following factors:

Rental income from non-subject 2- to 4-unit Primary Residence purchased or placed in service in the current calendar year	
Topic	Requirements
	<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 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) ■ If the property was purchased or unit(s) not occupied by the Borrower were converted to a rental property in the prior

Rental income from non-subject 2- to 4-unit Primary Residence owned in the prior calendar year	
Topic	Requirements
	<p>calendar year, the purchase or conversion date, as applicable, must be documented</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"> ❑ 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	<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	<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	<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	<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	<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"> ❑ 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:

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	<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	<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	<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	<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	<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	<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	<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