

The Basics of Analyzing Rental Income

March 24, 2022



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Topics of Discussion

- **Required Documentation**
- **Analyzing Leases/Fair Market Rents**
- **Analyzing Schedule E Rental Income**
- **How Rental Income and Losses are Treated**
- **Multiple Financed Properties**
- **Using Rental Income to Qualify**
- **Bonus Content!**



Where to Begin

- Determining rental income or losses from a rental property (or properties) is a common challenge.
- Knowing what documentation is required and using a rental analysis worksheet will help make the process easy to follow.
- Rental income can come from a borrower's primary residence (2-4 units), personally held investment properties or from properties held in partnerships or S-corporations.*



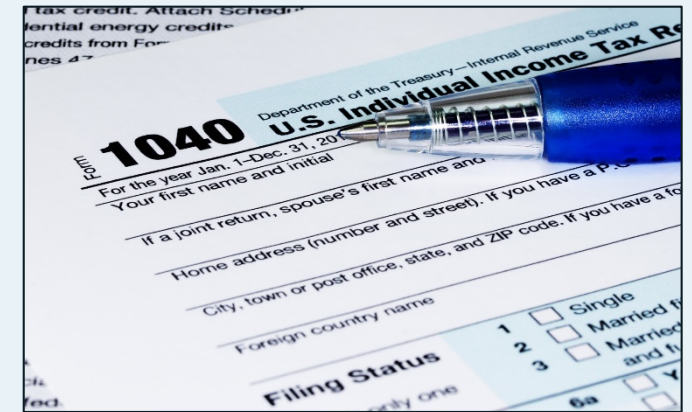
**Income analysis of properties owned through a partnership or s-corporation will not be covered in any detail.*

Reporting Rental Income and Expenses

Most real estate investors report the net income or loss from their rental properties using **Schedule E** on Form 1040. Generally speaking, borrowers use the Schedule E if:

- They own rental property in their own name, with your spouse, or through a single member LLC

Partnerships and S corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships, estates, or trusts.



Knowledge Check

According to Fannie Mae, rental income may **not** be used for qualifying when it is derived from which of the following:

- a. A second home
- b. A one-unit primary residence
- c. Short-term rentals
- d. All of the above



The answer is a.

Borrowers are permitted to rent out a second home for a portion of the year but cannot claim that income for qualifying purposes.

As for b., Fannie Mae may allow certain exceptions when there is boarder income (HomeReady) or there's an eligible accessory dwelling unit (ADU).

Required Documentation for Rental Income Analysis

Knowledge Check

True or False?

When tax returns are needed to analyze rental income, data from two years worth of returns must be used in the calculation.

False.

When tax returns are used to analyze rental income, the last year of returns will generally supply the most accurate snapshot of current income and expenses.

Always follow your findings or guidelines to make sure all required documentation is in the file.



Documentation

Documentation requirements may differ based upon certain characteristics:

- What kind of transaction is it? Purchase? Refinance?
- Is the property currently rented?
- Is the income coming from the subject property or other owned properties?
- How many units are in the property?
- If already owned, how long has the borrower owned the property?



Purchases

Purchase Transactions

**Purchase of a non-owner occupied investment property* (1-4 units) or
an owner-occupied property containing a rental unit/units
(2-4 units)**

First determine: Is the property currently rented out?



****Non-owner occupied subject properties are permitted only under the MPF Xtra® product.***

Purchase Transactions

Is the subject property currently rented out?

YES	NO
<ul style="list-style-type: none">• If it's a 1-unit property, make sure the appraisal includes a Comparable Rent Schedule (Form 1007/1000).• If the property consists of 2-4 units, a Small Residential Income Property Appraisal Report (Form 1025/72) should be requested.• Obtain copies of any current leases to compare with the appraisal data.	<ul style="list-style-type: none">• Use the Comparable Rent Schedule (Form 1007/1000) for a 1-unit property.• Use a Small Residential Income Property Appraisal Report (Form 1025/72) for 2-4 unit properties to determine the fair market rental amount.

Appraisals

Either Fannie Mae Form 1007 or Freddie Mac Form 1000 are used for single family rental properties

Also known as a *Single Family Comparable Rent Schedule*, this form is provided *in addition* to the standard required appraisal (1004/70)

SINGLE FAMILY COMPARABLE RENT SCHEDULE				
This form is intended to provide the appraiser with a familiar format to estimate the market rent of the subject property. Adjustments should be made only for items of significant difference between the comparables and the subject property.				
ITEM	SUBJECT	COMPARABLE NO. 1	COMPARABLE NO. 2	COMPARABLE NO. 3
Address				
Proximity to Subject				
Date Lease Begins Date Lease Expires				
Monthly Rental	If Currently Rented: \$	\$	\$	\$
Less: Utilities Furniture	\$	\$	\$	\$
Adjusted Monthly Rent	\$	\$	\$	\$

Appraisals

Fannie Mae Form 1025 or Freddie Mac Form 72 are used for small residential (two-four unit) income properties.

FEATURE	SUBJECT	COMPARABLE RENTAL # 1				COMPARABLE RENTAL # 2				COMPARABLE RENTAL # 3									
Address																			
Proximity to Subject																			
Current Monthly Rent	\$					\$					\$								
Rent/Gross Bldg. Area	\$ sq. ft.					\$ sq. ft.					\$ sq. ft.								
Rent Control	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No				<input type="checkbox"/> Yes <input type="checkbox"/> No				<input type="checkbox"/> Yes <input type="checkbox"/> No									
Data Source(s)																			
Date of Lease(s)																			
Location																			
Actual Age																			
Condition																			
Gross Building Area																			
Unit Breakdown	Rm Count			Size Sq. Ft.	Rm Count			Size Sq. Ft.	Monthly Rent	Rm Count			Size Sq. Ft.	Monthly Rent	Rm Count			Size Sq. Ft.	Monthly Rent
	Tot	Br	Ba		Tot	Br	Ba			Tot	Br	Ba			Tot	Br	Ba		
Unit # 1									\$					\$					\$
Unit # 2									\$					\$					\$
Unit # 3									\$					\$					\$
Unit # 4									\$					\$					\$
Utilities Included																			

Refinances

Refinance Transactions

Does the borrower have a history of receiving rents on the property?

YES	NO
<ul style="list-style-type: none">• If the subject property, an appraisal with a Comparable Rent Schedule or a Small Residential Income Property Appraisal and;• The borrower's most recent year* of signed federal income tax returns including Schedule 1 and Schedule E or• If the property was acquired after the last tax filing year, a copy of the current lease(s). ✓75% of the gross rents should be used.	<ul style="list-style-type: none">• If the subject property, an appraisal with a Comparable Rent Schedule (1-unit) or a Small Residential Income Property Appraisal (2-4 unit)• Copies of any current leases (if just recently rented out, but not enough to establish a history) ✓75% of the gross rents should be used.

**While only a one-year lookback is required to analyze rental income, two years of returns may be necessary to evaluate the borrower's other income.*

Analyzing Leases or Fair Market Rents

Leases and Fair Market Rents

State of _____ Rev. 133C5EE

RESIDENTIAL RENTAL LEASE AGREEMENT

This Lease Agreement (this "Agreement") is made as of this _____, by and between _____ ("Landlord") and _____ ("Tenant"). Each Landlord and Tenant may be referred to individually as a "Party" and collectively as the "Parties."

1. Premises. The premises leased is _____ located at _____, _____ (the "Premises").

2. Agreement to Lease. Landlord agrees to lease to Tenant and Tenant agrees to lease from Landlord, according to the terms and conditions set forth herein, the Premises.

3. Term. This Agreement will be for a term beginning on _____ and ending on _____ (the "Term").

4. Rent. Tenant will pay Landlord a monthly rent of _____ for the Term. Rent will be payable in advance and due on the _____ day of each month during the Term. The first rent payment is payable to Landlord when Tenant signs this Agreement. Rent for any period during the Term which is for less than one month will be a pro rata portion of the monthly installment. Rent will be paid to Landlord at Landlord's address provided herein (or to such other place as directed by Landlord) by mail or in person by one of the following methods: and will be payable in U.S. Dollars.

5. Guaranty. _____ located at _____ ("Guarantor") promises to unconditionally guarantee to Landlord the full payment and performance by Tenant of all financial duties and obligations arising out of this Agreement. Guarantor agrees to joint and several liability with Tenant for Tenant's financial duties and obligations under this Agreement including rent, damages, fees and costs. Guarantor further agrees that this guaranty shall remain in full force and effect and be binding on Guarantor until this Agreement is terminated.

6. Late Fee. Rent paid after the _____ day of each month will be deemed as late; and if rent is not paid within _____ days after such due date, Tenant agrees to pay a late charge of _____.

7. Additional Rent. There may be instances under this Agreement where Tenant may be required to pay additional charges to Landlord. All such charges are considered additional rent under this Agreement and will be paid with the next regularly scheduled rent payment. Landlord has the same rights and Tenant has the same obligations with respect to additional rent as they do with rent.

8. Utilities. Tenant is responsible for payment of all utility and other services for the Premises.

9. Security Deposit. Upon signing this Agreement, Tenant will pay a security deposit in the amount of _____ to Landlord. The security deposit will be retained by Landlord as security for Tenant's performance of its obligations under this Agreement. The security deposit may not be used or deducted by Tenant as the last month's rent of the Term. Tenant will be entitled to a full refund of the security

Lease Agreement (Rev. 133C5EE) 1 / 6

SINGLE FAMILY COMPARABLE RENT SCHEDULE

This form is intended to provide the appraiser with a familiar format to estimate the market rent of the subject property. Adjustments should be made only for items of significant difference between the comparables and the subject property.

ITEM	SUBJECT	COMPARABLE NO. 1	COMPARABLE NO. 2	COMPARABLE NO. 3			
Address							
Proximity to Subject							
Date Lease Begins							
Date Lease Expires							
Monthly Rental	If Currently Rented: \$	\$	\$	\$			
Less: Utilities Furniture	\$	\$	\$	\$			
Adjusted Monthly Rent	\$	\$	\$	\$			
Data Source							
RENT ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+ (-) \$ Adjustment	DESCRIPTION	+ (-) \$ Adjustment	DESCRIPTION	+ (-) \$ Adjustment
Rent							
Concessions							
Location/View							
Design and Appeal							
Age/Condition							
Above Grade Room Count	Total : Bedrooms : Baths	Total : Bedrooms : Baths		Total : Bedrooms : Baths		Total : Bedrooms : Baths	
Gross Living Area	Sq. Ft.	Sq. Ft.		Sq. Ft.		Sq. Ft.	
Other (e.g., basement, etc.)							
Other:							
Net Adj. (total)	\$	\$		\$		\$	
Indicated Monthly Market Rent	\$	\$		\$		\$	

Comments on market data, including the range of rents for single family properties, an estimate of vacancy for single family rental properties, the general trend of rents and vacancy, and support for the above adjustments. (Rent concessions should be adjusted to the market, not to the subject property.)

Final Reconciliation of Market Rent:

I (WE) ESTIMATE THE MONTHLY MARKET RENT OF THE SUBJECT AS OF _____ TO BE \$ _____

Appraiser(s) SIGNATURE _____ Review Appraiser SIGNATURE (if applicable) _____
NAME _____ NAME _____

Small Residential Income Property Appraisal Report

File # _____

Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? ☐ Yes ☐ No If Yes, describe _____

Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? ☐ Yes ☐ No If No, describe _____

Is the property subject to rent control? ☐ Yes ☐ No If Yes, describe _____

The following properties represent the most current, similar, and proximate comparable rental properties to the subject property. This analysis is intended to support the opinion of the market rent for the subject property.

FEATURE	SUBJECT	COMPARABLE RENTAL # 1	COMPARABLE RENTAL # 2	COMPARABLE RENTAL # 3
Address				
Proximity to Subject				
Current Monthly Rent	\$	\$	\$	\$
Rent/Gross Bldg. Area	\$ sq. ft.	\$ sq. ft.	\$ sq. ft.	\$ sq. ft.
Rent Control	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Data Source(s)				
Date of Lease(s)				
Location				
Actual Age				
Condition				
Gross Building Area				
Unit Breakdown	Rm Count Size Sq. Ft. Monthly Rent	Rm Count Size Sq. Ft. Monthly Rent	Rm Count Size Sq. Ft. Monthly Rent	Rm Count Size Sq. Ft. Monthly Rent
Unit # 1	Tot Br Ba \$	Tot Br Ba \$	Tot Br Ba \$	Tot Br Ba \$
Unit # 2	Tot Br Ba \$	Tot Br Ba \$	Tot Br Ba \$	Tot Br Ba \$
Unit # 3	Tot Br Ba \$	Tot Br Ba \$	Tot Br Ba \$	Tot Br Ba \$
Unit # 4	Tot Br Ba \$	Tot Br Ba \$	Tot Br Ba \$	Tot Br Ba \$
Utilities Included				

Analysis of rental data and support for estimated market rents for the individual subject units reported below (including the adequacy of the comparables, rental concessions, etc.)

Rent Schedule: The appraiser must reconcile the applicable indicated monthly market rents to provide an opinion of the market rent for each unit in the subject property.

Unit #	Leases		Actual Rent		Opinion Of Market Rent	
	Begin Date	End Date	Per Unit Unfurnished	Per Unit Furnished	Per Unit Unfurnished	Per Unit Furnished
1			\$	\$	\$	\$
2						
3						
4						
Comment on lease data		Total Actual Monthly Rent	\$	Total Gross Monthly Rent	\$	
		Other Monthly Income (itemize)	\$	Other Monthly Income (itemize)	\$	
		Total Actual Monthly Income	\$	Total Estimated Monthly Income	\$	
Utilities included in estimated rents <input type="checkbox"/> Electric <input type="checkbox"/> Water <input type="checkbox"/> Sewer <input type="checkbox"/> Gas <input type="checkbox"/> Oil <input type="checkbox"/> Cable <input type="checkbox"/> Trash collection <input type="checkbox"/> Other (describe)						
Comments on actual or estimated rents and other monthly income (including personal property)						

Calculating Using Leases and/or Market Rents

For transactions where there is no history of receiving rent on a property, leases and/or market rents* must be used

- Always use **75%** of the gross rents (to calculate, multiply the gross monthly rent by **.75**).
- The remaining **25%** of the gross rent is considered as vacancy losses and maintenance expenses.



** Market rents are reported on Form 1007 or Form 1025.*

Leases and Fair Market Rents

When analyzing rental income using leases or fair market rents, we suggest using Fannie Mae's worksheet (or an equivalent)

- **Fannie Mae Form 1038** has a specific section to accommodate lease or market rent calculations. Up to four properties will fit on Form 1038.
- **Fannie Mae Form 1038A** offers the same but accommodates up to ten properties.

Freddie Mac and many of the MI companies have similar worksheets that are also acceptable.

Calculating Leases or Market Rents

Fannie Mae's Form 1038 section for leases or market rents

Step 2B. Lease Agreement OR Fannie Mae Form 1007 or Form 1025 For each property complete ONLY 2A or 2B						
This method is used when the transaction is a purchase, the property was acquired subsequent to the most recent tax filing, or the lender has justification for using a lease agreement.						
B1	Enter the gross monthly rent (from the lease agreement) or market rent (reported on Form 1007 or Form 1025). <i>For multi-unit properties, combine gross rent from all rental units.</i>	Enter	1000			
B2	The remaining 25% accounts for vacancy loss, maintenance, and management expenses.	Multiply	x.75	x.75	x.75	x.75
	Equals adjusted monthly rental income.	Total	750	0	0	0
B3	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract	870			
Step 2B. Result: Monthly qualifying rental income (loss):		Result	(120)	0	0	0

Fannie Mae's Form 1038A may also be utilized if there are more than four properties.

Analyzing Rental Income/Loss from Schedule E

Schedule E Calculation Methods

When analyzing rental income listed on Schedule E, we also suggest you use Fannie Mae's worksheet (or an equivalent)

- **Fannie Mae Form 1038** includes a section for Schedule E analysis. It accommodates up to four properties.
- **Fannie Mae Form 1038A** is the same but accommodates up to ten properties.

Freddie Mac and many of the MI companies have similar worksheets that are also acceptable.

Schedule E Analysis

When analyzing rental income listed on Schedule E, Fannie Mae's guidelines refer to this calculation method:

- When using **Schedule E** to calculate qualifying income, you must add back any of the following items:
 - ✓ Depreciation
 - ✓ Interest
 - ✓ Taxes
 - ✓ Insurance
 - ✓ Homeowners' Association Fees (if applicable)
 - ✓ Non-recurring expenses may be added back if documented accordingly.

Schedule E Analysis

SCHEDULE E (Form 1040) **Supplemental Income and Loss** (OMB No. 1545-0074) **2021** Attachment Sequence No. 13

Department of the Treasury Internal Revenue Service (IRS) **2021** Attach to Form 1040, 1040-SR, 1040-NR, or 1041. Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return: Taylor C. Homeowner Your social security number: XXX-XX-XXXX

Part I Income or Loss From Rental Real Estate and Royalties Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2021 that would require you to file Form(s) 1099? ☐ Yes ☒ No

B If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☒ No

1a Physical address of each property (street, city, state, ZIP code)

A 123 Ash Boulevard Unit 4, Mayberry, Kansas 11111

B 4732 South Begonia Path, Mayberry, Kansas 11111

C

1b Type of Property (from list below)

A 1

B 2

C

2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the **QJV** box only if you meet the requirements to file as a qualified joint venture. See instructions.

	Fair Rental Days	Personal Use Days	QJV
A	365		<input type="checkbox"/>
B	335	30	<input type="checkbox"/>
C			<input type="checkbox"/>

Type of Property:
 1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
 2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

Income:	Properties:	A	B	C
3 Rents received	3	13,200	29,400	
4 Royalties received	4			
Expenses:				
5 Advertising	5		800	
6 Auto and travel (see instructions)	6			
7 Cleaning and maintenance	7		5,400	
8 Commissions	8			
9 Insurance	9	650	2,500	
10 Legal and other professional fees	10			
11 Management fees	11	2,490		
12 Mortgage interest paid to banks, etc. (see instructions)	12	4,500	13,200	
13 Other interest	13			
14 Repairs	14	750	2,500	
15 Supplies	15			
16 Taxes	16	2,100	4,000	
17 Utilities	17			
18 Depreciation expense or depletion	18	1,650	3,220	
19 Other (list)	19			
20 Total expenses. Add lines 5 through 19	20	12,140	31,620	
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a loss, see instructions to find out if you must file Form 6198	21	1,060	(2,220)	
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22			
23a Total of all amounts reported on line 3 for all rental properties	23a		42,600	
23b Total of all amounts reported on line 4 for all royalty properties	23b			
23c Total of all amounts reported on line 12 for all properties	23c		17,700	
23d Total of all amounts reported on line 18 for all properties	23d		4,870	
23e Total of all amounts reported on line 20 for all properties	23e		43,790	
24 Income. Add positive amounts shown on line 21. Do not include any losses	24		1,060	
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25		(2,220)	
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26		(1,160)	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11348L Schedule E (Form 1040) 2021

SCHEDULE E (Form 1040) **Supplemental Income and Loss** (OMB No. 1545-0074) **2021** Attachment Sequence No. 13

Department of the Treasury Internal Revenue Service (IRS) **2021** Attach to Form 1040, 1040-SR, 1040-NR, or 1041. Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return: Taylor C. Homeowner Your social security number: XXX-XX-XXXX

Part I Income or Loss From Rental Real Estate and Royalties Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2021 that would require you to file Form(s) 1099? ☐ Yes ☒ No

B If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☒ No

1a Physical address of each property (street, city, state, ZIP code)

A 123 Ash Boulevard Unit 4, Mayberry, Kansas 11111

B 4732 South Begonia Path, Mayberry, Kansas 11111

C

1b Type of Property (from list below)

A 1

B 2

C

2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the **QJV** box only if you meet the requirements to file as a qualified joint venture. See instructions.

	Fair Rental Days	Personal Use Days	QJV
A	365		<input type="checkbox"/>
B	335		<input type="checkbox"/>
C			<input type="checkbox"/>

Type of Property:
 1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
 2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

1. Lists the property address/addresses.
2. Describes the property type.
3. Notes how many days during the tax year the property was rented.

Partial History of Receiving Rents

What if the property was acquired during the most recent tax year or if the property was out of service for an extended period?

- If acquired during the last tax year, confirm the purchase date using the closing disclosure or other documentation.
- If acquired during the last tax year or if the property was out of service for a period of time, refer to **Schedule E** and use the ***Fair Rental Days*** to confirm income and expenses.
- Divide the total amount of fair rental days by **30** to determine how many months the property was in service.
- If **Schedule E** reflects costs for renovation or rehabilitation, additional documentation may be required to ensure that the expenses support the amount of time the property was out of service.

2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.		Fair Rental Days	Personal Use Days	QJV
	A	150		<input type="checkbox"/>
	B			<input type="checkbox"/>
	C			<input type="checkbox"/>

Schedule E Analysis

SCHEDULE E (Form 1040) **Supplemental Income and Loss** OMB No. 1545-0046
 Department of the Treasury Internal Revenue Service (IRS) **2021** **ADDITIONAL** **SEQUENCE NO. 13**
 Attach to Form 1040, 1040-SR, 1040-NR, or 1041. Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return: Taylor C. Homeowner Your social security number: XXX-XX-XXXX

Part I Income or Loss From Rental Real Estate and Royalties Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2021 that would require you to file Form(s) 1099? ☐ Yes ☒ No
B If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☒ No

1a Physical address of each property (street, city, state, ZIP code)
A 123 Ash Boulevard Unit 4, Mayberry, Kansas 11111
B 4732 South Begonia Path, Mayberry, Kansas 11111
C

1b	Type of Property (from list below)	2	For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A	1			365		<input type="checkbox"/>
B	2			325	30	<input type="checkbox"/>
C						<input type="checkbox"/>

Type of Property:
 1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Managed
 2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

Income:	Properties:	A	B	C
3 Rents received	3	13,200	26,400	
4 Royalties received	4			
Expenses:				
5 Advertising	5		800	
6 Auto and travel (see instructions)	6			
7 Cleaning and maintenance	7		5,400	
8 Commissions	8			
9 Insurance	9	650	2,500	
10 Legal and other professional fees	10			
11 Management fees	11	2,490		
12 Mortgage interest paid to banks, etc. (see instructions)	12	4,500	13,200	
13 Other interest	13			
14 Repairs	14	750	2,500	
15 Supplies	15			
16 Taxes	16	2,100	4,000	
17 Utilities	17			
18 Depreciation expense or depletion	18	1,650	3,220	
19 Other (list) ▶	19			
20 Total expenses. Add lines 5 through 19	20	12,140	31,420	
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21	1,060	(2,220)	
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22			
23a Total of all amounts reported on line 3 for all rental properties	23a		42,400	
b Total of all amounts reported on line 4 for all royalty properties	23b		17,700	
c Total of all amounts reported on line 12 for all properties	23c		4,570	
d Total of all amounts reported on line 18 for all properties	23d		43,790	
e Total of all amounts reported on line 20 for all properties	23e		1,060	
24 Income. Add positive amounts shown on line 21. Do not include any losses	24		1,060	
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25		(2,220)	
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26		(1,160)	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11344. Schedule E (Form 1040) 2021

Income:	Properties:	A
3 Rents received	3	13,200
4 Royalties received	4	
Expenses:		
5 Advertising	5	
6 Auto and travel (see instructions)	6	
7 Cleaning and maintenance	7	
8 Commissions	8	
9 Insurance	9	650
10 Legal and other professional fees	10	
11 Management fees	11	2,490
12 Mortgage interest paid to banks, etc. (see instructions)	12	4,500
13 Other interest	13	
14 Repairs	14	750
15 Supplies	15	
16 Taxes	16	2,100
17 Utilities	17	
18 Depreciation expense or depletion	18	1,650
19 Other (list) ▶	19	
20 Total expenses. Add lines 5 through 19	20	12,140
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21	1,060

Using a Worksheet to Analyze Schedule E

Step 2A. Schedule E - Part I		For each property complete ONLY 2A or 2B				
A1	Enter total rents received.	Enter				
A2	Enter total expenses.	Subtract				
A3	Enter insurance expense.	Add				
A4	Enter mortgage interest paid.	Add				
A5	Enter tax expense.	Add				
A6	Enter homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i>	Add				
A7	Enter depreciation expense or depletion.	Add				
A8	Enter any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add				
	Equals adjusted rental income.	Total	0	0	0	0
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	0	0	0	0
	Equals adjusted monthly rental income	Total	0	0	0	0
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
Step 2A. Result: Monthly qualifying rental income (or loss):		Result	0	0	0	0

This is the section of Fannie Mae Form 1038 which helps to analyze Schedule E data.

Analysis Scenario



Justin wants to refinance his primary residence. He also owns a single family home that he rents out.

You are analyzing Schedule E from his 2021 federal tax return.

His current monthly payment on the rental property breaks down as follows:

Principal and Interest:	\$517.00
Real Estate Taxes:	\$260.00
Insurance:	\$92.00
Total PITIA:	\$869.00

Schedule E Analysis

SCHEDULE E
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Supplemental Income and Loss

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041.
▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.

OMB No. 1545-0074

2020

Attachment
Sequence No. 13

Name(s) shown on return
William Homeowner

Your social security number
XXXXXXXXXX

Part I

Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A

Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions

Yes

No

B

If "Yes," did you or will you file required Form(s) 1099? See instructions

Yes

No

1a

Physical address of each property (street, city, state, ZIP code)

A

123 Hudson Street, Anytown, Nebraska

B

C

1b

Type of Property (from list below)

A

1

B

C

2

For each rental real estate property listed above, report the number of fair rental and personal use days. Check the **QJV** box only if you meet the requirements to file as a qualified joint venture. See instructions.

A

365

0

B

C

Type of Property:

1 Single Family Residence

2 Multi-Family Residence

3 Vacation/Short-Term Rental

4 Commercial

5 Land

6 Royalties

7 Self-Rental

8 Other (describe)

Income:

Properties:

A

B

C

3

Rents received

3

14,400

4

Royalties received

4

Expenses:

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

Advertising

Auto and travel (see instructions)

Cleaning and maintenance

Commissions

Insurance

Legal and other professional fees

Management fees

Mortgage interest paid to banks, etc. (see instructions)

Other interest

Repairs

Supplies

Taxes

Utilities

Depreciation expense or depletion

Other (list) ▶

Total expenses. Add lines 5 through 19

Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

1,545

1,100

3,950

2,230

3,120

1,680

2,120

15,745

(1,345)

Rental Income Worksheet

Individual Rental Income from Investment Property(s): Monthly Qualifying Rental Income (or Loss)

Documentation Required:

▪ Schedule E (IRS Form 1040) OR
▪ Lease Agreement or Fannie Mae Form 1007 or Form 1025

Investment Property Address

Investment Property Address

Investment Property Address

Investment Property Address

Enter

123 Hudson Street, Anytown, Nebraska

Step 1. When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30.
If Fair Rental Days are not reported, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.

Step 1. Result: Enter the number of months the property was in service.

Result

12

Fill in the property address and the number of months the property was in service during the last tax year.

Schedule E Analysis Using a Worksheet

Income:		Properties:	A	B	C
3	Rents received	3	14,400		
4	Royalties received	4			
Expenses:					
5	Advertising	5			
6	Auto and travel (see instructions)	6			
7	Cleaning and maintenance	7	1,545		
8	Commissions.	8			
9	Insurance	9	1,100		
10	Legal and other professional fees	10			
11	Management fees	11			
12	Mortgage interest paid to banks, etc. (see instructions)	12	3,950		
13	Other interest.	13			
14	Repairs.	14	2,230		
15	Supplies	15			
16	Taxes	16	3,120		
17	Utilities.	17	1,680		
18	Depreciation expense or depletion	18	2,120		
19	Other (list) ▶	19			
20	Total expenses. Add lines 5 through 19	20	15,745		
21	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21	(1,345)		

Step 2A. Schedule E - Part I			
A1	Enter total rents received.	Enter	14,400
A2	Enter total expenses.	Subtract	15,745
A3	Enter insurance expense.	Add	1,100
A4	Enter mortgage interest paid.	Add	3,950
A5	Enter tax expense.	Add	3,120
A6	Enter homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i>	Add	
A7	Enter depreciation expense or depletion.	Add	2,120
A8	Enter any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add	
	Equals adjusted rental income.	Total	8,545
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	12
	Equals adjusted monthly rental income	Total	712
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract	869
Step 2A. Result: Monthly qualifying rental income (or loss):		Result	(157)

How Income and Losses are Treated

How Rental Income or Loss is Treated

- If the monthly qualifying rental income minus the full PITIA for the property results in a **positive** amount, the positive amount **may be added to the borrower's income**.



Positive income cannot be added to income (only offset the PITIA) if the borrower has less than a one-year history of receiving rental income or documented property management experience. Additionally, borrowers with no primary housing payment cannot use any rental income to qualify.

- If the monthly qualifying rental income minus the full PITIA results in a **negative** amount, the negative amount must be considered as a **monthly obligation/liability**.

Using Rental Income to Qualify

Using Rental Income to Qualify



Albert and Sue currently own a primary residence plus a condo that they have been renting out for the past four years. They want to refinance their primary residence. When reviewing the rental income on the condo, you calculate net income of \$140 per month. Can you add that \$140 to their income?

YES

There is no restriction to the amount of rental income that can be used (it can offset the entire PITIA and still result in additional qualifying income.

But note: In order to give the borrower credit for a rental surplus, they must have a current housing payment (mortgage or rent on their primary residence) and at least a one-year history of receiving rental income or documented property management experience.

Using Rental Income to Qualify

Janice is moving to a new home and plans to rent out her previous residence (condo). She's never been a landlord before but the additional income made it worthwhile.

If Janice has a positive cash flow on the condo, can that extra income be added to her other income?

NO

The income can be used to offset the PITIA on the condo but any surplus rental income cannot be added to her income.

WHY?

She has no experience as a landlord or property management experience. She is also converting her primary residence to a rental property.*

**Freddie Mac requirement*



Using Rental Income to Qualify



Pete lives with and cares for his elderly father. He found a wonderful property that he plans to purchase and rent out*. He crunched the numbers and it looks like he'll pocket an extra \$350 per month.

Can you consider any of the rental income to qualify?

NO

Pete must be able to qualify without any of the rental income being considered.

WHY?

He does not own a primary residence and/or has no current housing payment.

***MPF Xtra only.**

Borrowers with Multiple Properties

Multiple Properties

Depending upon the subject property occupancy type and the underwriting method, there may be limits to the number of **financed properties** a borrower can own.

Subject Property Occupancy Type	Max Number of Financed Properties Using DU MPF Xtra and MPF Traditional	Max Number of Financed Properties Manual UW MPF Xtra**	Max Number of Financed Properties Manual UW MPF Traditional
Primary Residence	No limit	No limit	No limit
Second Home	10*	N/A DU Only	No limit
Investment Property	10 (MPF Xtra Only)	N/A DU Only	N/A

The count must include the subject property.

* A minimum credit score of 720 is required if 7-10 financed properties are owned.

**Does not include Fannie Mae's HomeReady which is limited to 2 financed properties (includes the subject property).

Multiple Properties

When personally financed, which of the following can be omitted from the total **financed property count**?

- a. Commercial real estate
- b. A multi-family property consisting of more than 4 units
- c. Timeshare properties
- d. Vacant lots
- e. All of the above



The answer is e.

Note: While these property types do not have to be included in the overall count, any liabilities associated with the properties may need to be considered in the total DTI ratio.

Multiple Properties

Travis and Judy are purchasing a second home. Their primary residence has a mortgage and they own 7 other residential investment properties that are financed in the name of an LLC. They are 50% owners of the LLC. How many financed properties do they own?

- a. nine
- b. two
- c. one
- d. eight

The answer is b.

The properties financed in the name of the LLC are not included in the property count.

The subject property and their primary residence are both counted.



Reserve Requirements

Borrowers with Multiple Properties

Additional Reserve Requirements

If using DU or LPA, the AUS will determine the adequate amount of reserves based upon the overall risk assessment for the loan and whether the borrower has multiple financed properties.

- If **manually underwriting** a loan with multiple financed properties (max. is six), additional reserves are required and must be calculated and documented using the chart below:

Number of Financed Properties	Amount of Reserves
One to Four	2% of the aggregate unpaid principal balances for any mortgages and HELOCs
Five to Six	4% of the aggregate unpaid principal balances for any mortgages and HELOCs

The calculation does not have to consider mortgages and HELOCs on the subject property, the borrower's primary residence, properties that are sold or pending sale, and accounts that will be paid by closing.

MPF Contacts and Resources

MPF Service Center

Email - MPF-Help@FHLBC.com

Hours - 8:30 am to 4:30 PM CT

Phone: (877) 345-2673

Keep up with MPF product guideline updates by
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www.fhlbmpf.com

