

The Basics of Analyzing Rental Income

February 3, 2026



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Determining income or losses from a rental properties continues to be a challenge

Rental income from **non-subject properties**

- Personally held non-owner-occupied investment properties
- Non-owner-occupied investment properties held in partnerships or S-corporations

Rental income from the **subject property**

- Owner-occupied 2–4-unit properties
- Non-owner-occupied investment properties (**MPF Xtra[®] only**)

Rental Income Calculation Tools

There are many different options to help you calculate rental income

Rental Income Worksheets

- Fannie Mae Forms 1038 or 1038A
- Freddie Mac Form 92 (Schedule E only)
- MI Company worksheets
- Your own worksheets

Fannie Mae's Rental Income Calculator

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

Documentation Required:
• Schedule E (IRS Form 1041) OR
• Lease Agreement or Fannie Mae form 1007 or Form 1035

Step 1. When using Schedule E, determine the number of months the property was in service by dividing the Full Rental Days by 20.
Officer: [Name] Dept: [Dept] Date: [Date] The property is considered to be in service for 12 months unless shown otherwise on a document of service.

Step 2. Calculate monthly qualifying rental income (loss) using Step 2A: Schedule E OR Step 2B: Lease Agreement or Fannie Mae Form 1007 or Form 1035.

Step 2A, Schedule E - Part I	See next page(s) separately (IRS Form 92)
A1 Enter total rents received	Enter
A2 Enter total expenses	Subtract
A3 Enter insurance expense	Subtract
A4 Enter mortgage interest paid	Subtract
A5 Enter the expenses	Subtract
A6 Enter business fees, association dues. This expense is not for specifically identified or Schedule E-eligible rental units.	Subtract
A7 Enter depreciation expense or depletion	Subtract
A8 Enter any other miscellaneous expenses (e.g., casualty loss). This is an allowance of the nature of the expense mentioned in the instructions.	Subtract
A9 Enter the number of months the property was in service (Step 1 Ratio)	Divide
Table: Adjusted monthly rental income	
A10 Enter the number of months the property was in service (Step 1 Ratio)	Divide
Table: Adjusted monthly rental income	
A11 Enter the number of months the property was in service (Step 1 Ratio)	Divide

Step 2B, Lease Agreement OR Fannie Mae Form 1007 or Form 1035

Freddie Mac Form 92
Net Rental Income Calculations – Schedule E

Form 92 is a tool to help the Seller calculate and document the calculation of net rental income from Schedule E. The Seller's calculations must be based on the requirements and guidance for the determination of stable monthly income in Guide Chapter 5306. This form does not replace the requirements and guidance for the analysis and treatment of rental income as described in Chapter 5306.

I. Net Rental Income from Schedule E (1-unit Primary Residence with an ADU or 2- to 4-unit Primary Residence)

1- TO 4-UNIT PRIMARY RESIDENCE NET RENTAL INCOME CALCULATION – SCHEDULE E ¹		
Reference: Mortgage of property owned in the prior year(s)		
Internal Revenue Service (IRS) 1040 Schedule E – Supplemental Income and Loss	Year:	Year:
	2024	2023
Rents received	(+)	(+)
Loss: total expenses	(-)	(-)
Insurance ²	(+)	(+)
Mortgage interest paid to borrow, etc. ³	(+)	(+)
Taxes (local, state, and federal) ⁴	(+)	(+)
Depreciation and/or depletion	(+)	(+)
*Homeowners association (HOA) dues (if specifically reported as an expense) ⁵	(+)	(+)
One-time losses (e.g., casualty loss) if documented	(+)	(+)
Non-cash deductions (e.g., amortization)	(+)	(+)

Income Calculator
Input Data: Rental Income Form 1040 - Sch E (2025)

For the property you want Income Calculator to evaluate, find Part I of Schedule E.
A separate Income Calculator evaluation is required for each income-producing property used for loan qualification. Provide all requested data exactly as it appears on the tax returns. Do not create an Income Calculator evaluation for a property the borrower will not own at the time of loan closing.

Line 1 (Rental) Physical address of property: [Address]

Borrower's principal residence (Disoccupancy)
 Yes, the property is the borrower's principal residence.
 No, the property is not the borrower's principal residence.

Lease will influence this property?
 Yes, the lease will influence this property.
 No, the lease will not influence this property.

Annual Property-Wearing Expense (PWE)
Provide the current property-wearing expense (principal, interest, taxes, insurance, and homeowner's association dues) for the rental property.
Must be greater or equal to 0.

Line 1 (R) Enter type of property: [Dropdown]
Line 1 (R) Enter the Rental Days: [Input]
Line 1 (R) Enter Rents received: [Input]

Documentation



Rental income and losses from *personally held* properties are reported on IRS 1040 using Schedule E*

- Properties owned by an individual
- Personally owned with a spouse or other individual(s)
- Single-member LLC

SCHEDULE E (Form 1040) Supplemental Income and Loss
 (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)
 Department of the Treasury Internal Revenue Service
 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
2025
 Attachment Sequence No. 13

Name(s) shown on return _____ Your social security number _____

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 2025 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? Yes No

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

A	
B	
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		A		<input type="checkbox"/>
B		B		<input type="checkbox"/>
C		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) _____

	Properties:		
	A	B	C
Income:			
3 Rents received	3		
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		
10 Legal and other professional fees	10		
11 Management fees	11		
12 Mortgage interest paid to banks, etc. (see instructions)	12		
13 Other interest	13		
14 Repairs	14		
15 Supplies	15		
16 Taxes	16		
17 Utilities	17		
18 Depreciation expense or depletion	18		
19 Other (list)	19		
20 Total expenses. Add lines 5 through 19	20		
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		
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		
b Total of all amounts reported on line 4 for all royalty properties	23b		
c Total of all amounts reported on line 12 for all properties	23c		
d Total of all amounts reported on line 18 for all properties	23d		
e Total of all amounts reported on line 20 for all properties	23e		
24 Income. Add positive amounts shown on line 21. Do not include any losses	24		
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25		
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, and 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		

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11344L Schedule E (Form 1040) 2025 Created 5/6/25

Non-personally owned properties held in partnerships or S-corporations use IRS Form 8825

Net rental income or losses from Form 8825 are carried over to Schedule K-1 (Form 1065) and then to Part II of Schedule E

Schedule E (Form 1040) 2025 Attachment Sequence No. 13 Page 2

Name(s) shown on return. Do not enter name and social security number if shown on other side. Your social security number

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations

Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you must check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which any amount is not at risk, you must check the box in column (f) on line 28 and attach Form 6198. See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section Yes No

	(a) Name	(b) Enter P for partnership or S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A						
B						
C						
D						

Passive Income and Loss		Nonpassive Income and Loss	
(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562
A			
B			
C			
D			
29a Totals			30
b Totals			31

30 Add columns (h) and (k) of line 29a 30

31 Add columns (g), (i), and (j) of line 29b 31

32 Total partnership and S corporation income or (loss). Combine lines 29a and 31 32

Part III Income or Loss From Estates and Trusts

(a) Name	(b) Employer identification number
A	
B	

Passive Income and Loss		Nonpassive Income and Loss	
(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1
A			
B			
34a Totals			35
b Totals			36

35 Add columns (d) and (f) of line 34a 35

36 Add columns (c) and (e) of line 34b 36

37 Total estate and trust income or (loss). Combine lines 35 and 36 37

Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder

(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b
38				

39 Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below 39

Part V Summary

40 Net farm rental income or (loss) from Form 4835. Also, complete line 42 below 40

41 Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 5 41

42 Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120-S), box 17, code AN; and Schedule K-1 (Form 1041), box 14, code F. See instructions 42

43 Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040, Form 1040-SR, or Form 1040-NR from all rental real estate activities in which you materially participated under the passive activity loss rules 43

8825 Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Form (Rev. December 2025) Department of the Treasury Internal Revenue Service Attach to Form 1065 or 1120-S. Go to www.irs.gov/Form8825 for instructions and the latest information. OMB No. 1545-0123

Name Employer identification number

1 Enter the address and type of each rental real estate property. For each rental real estate property listed, report the number of days rented at fair rental value and number of days of personal use. Attach page 2 to list additional properties. See instructions.

	(a) Physical address of each property (street, city, state, ZIP code)	(b) Type (Enter code 1-8; see page 2 for list.)	(c) Type (Enter code A-I; see page 2 for list.)	(d) Fair rental days	(e) Personal-use days
A					
B					
C					
D					

Rental Real Estate Income		Properties			
		A	B	C	D
2a Gross rents	2a				
b Other income related to rental real estate activity	2b				
c Total rental real estate income for each property. Add lines 2a and 2b	2c				
Rental Real Estate Expenses					
3 Advertising	3				
4 Auto and travel	4				
5 Cleaning and maintenance	5				
6 Commissions	6				
7 Insurance	7				
8 Interest (see instructions)	8				
9 Legal and other professional fees	9				
10 Real estate taxes	10				
11 Repairs	11				
12 Utilities	12				
13 Wages and salaries	13				
14 Depreciation (see instructions)	14				
15 Reserved for future use	15				
16 Reserved for future use	16				
17 Other deductions (attach Schedule A (Form 8825))	17				
18 Total rental real estate expenses for each property. Add lines 3 through 17	18				
19 Income or (loss) from each rental real estate property. Subtract line 18 from line 2c	19				
20a Total rental real estate income. Add total rental real estate income from line 2c. See instructions	20a				
b Total rental real estate expenses. Add total rental real estate expenses from line 18. See instructions	20b				
21 Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities	21				
22a Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1)	22a				
b Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 22a. Attach a statement if more space is needed.					
(1) Name (2) Employer identification number					
23 Net rental real estate income (loss). Combine lines 20a through 22a. Enter the result here and on Schedule K, line 2, of Form 1065 or 1120-S	23				

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 101362 Form 8825 (Rev. 12-2025) Created 9/3/25



Gathering Documentation

Purchase of a property that generates rental income

- If the property is currently being rented by the seller, obtain any **Existing lease(s)**
- 2-4-unit properties: **Small Residential Income Property Appraisal Report (Form 1025/72)***
- 1-unit properties: **Single Family Comparable Rent Schedule (Form 1007/1000)***

***Heads-up!** These forms are in the process of being replaced with a new Uniform Residential Appraisal Report. The new URAR becomes mandatory starting November 2, 2026.

Gathering Documentation

Refinance of a property that generates rental income

- Most recent federal personal tax returns and when applicable, business returns
- 2-4-unit properties: Small Residential Income Property Appraisal Report (Form 1025/72)*
- 1-unit properties: Single Family Comparable Rent Schedule (Form 1007/1000)*
- In some cases, **leases** are necessary for properties acquired or placed into service after the last tax filing year, or when a property experienced a significant rental interruption (renovations, etc.)

*These forms are in the process of being replaced with a new Uniform Residential Appraisal Report. The new URAR is mandatory starting November 2, 2026.

Gathering Documentation

The borrower owns a **non-subject** rental property or properties

- Most recent federal personal tax return and when applicable, business returns
- In some cases, **leases** are necessary for properties acquired or placed into service after the last tax filing year, or when a property experienced a significant rental interruption (renovations, etc.)

How to Apply Rental Income or Losses



Owner-Occupied Properties with Rental Income

Purchase

- Calculate 75% of the gross monthly rental income (using leases or market rent(s) from the appraisal)
- Add the net rental income to the borrower's income (per guidelines)
- Calculate the borrower's DTI using the proposed PITIA

Refinance

- Analyze income and expenses using Schedule E of the borrower's federal tax return
- Positive monthly rental income is added to the borrower's income (per guidelines)
- Negative monthly rental income is added as a monthly liability
- Calculate the borrower's DTI using the full PITIA

Non-Subject Rental Properties

Income and expenses from non-subject rental properties should be analyzed using borrower's federal tax returns

- Borrower's most recent federal tax return that includes Schedule 1 and Schedule E
- For properties held by a partnership or S corporation, the most recent business tax return

- Analyze income and expenses for any non-subject rental properties using the most recent tax returns (IRS 1040 (and business returns when applicable))
- Positive monthly rental income is added to the borrower's income
- Negative monthly rental income is added as a monthly liability
- **Do not include the PITIA for the property in the DTI calculation**

Investment Properties (MPF Xtra Product Only)

Purchase

- Calculate 75% of the gross monthly rental income (using leases or market rent from the appraisal)
- Subtract the proposed monthly PITIA for the property from the net monthly rent
- If the result is a positive amount, add the income (per guidelines) to the borrower's monthly qualifying income
- If the result is a negative amount, include the amount in the borrower's liabilities
- Do not include the proposed PITIA for the property in the DTI calculation

Refinance

- Analyze income and expenses for the property using the most recent tax returns (IRS 1040 or business returns when applicable)
- Positive monthly rental income is added to the borrower's income
- Negative monthly rental income is added as a monthly liability
- **Do not include the proposed PITIA for the property in the DTI calculation**

Using Positive Rental Income from a Subject Property

Property Type	Current Primary Housing Payment?	Property Management Experience?	How much positive rental income can I use to qualify?
2-4 Unit Primary	Yes	Yes	No restrictions
		No	No more than the total PITIA for the property
	No	N/A	None
1-Unit Primary with an ADU	Yes	Yes	Limited to 30% of the total qualifying income
		No	Limited to 30% of the total qualifying income which cannot exceed the total PITIA for the property
	No	N/A	None
1-4-Unit Investment Property (MPF Xtra)	Yes	Yes	No restrictions
		No	No more than the total PITIA for the property
	No	N/A	None

Using Positive Rental Income from a Non-Subject Property

Property Type	Current Primary Housing Payment?	Property Management Experience?	How much positive rental income can I use to qualify?
2-4 Unit Primary	Yes	Yes	No restrictions
		No	No more than the total PITIA for the property
1-Unit Investment Property (new or newly placed in service including a departure residence)	Yes	Yes	No restrictions
		No	No more than the total PITIA for the property
	No	N/A	None
1-4 Unit Investment Property (existing rental with 1+ year of receiving rental income)	Yes	Yes	No restrictions
	No		

Analyzing Rental Income Partial Histories



Properties in Service for Less than One Year

SCHEDULE E (Form 1040) 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.

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2025
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Name(s) shown on return: Sally K Homeowner
 Your social security number: _____

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 2025 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? Yes No

1a Physical address of each property (street, city, state, ZIP code)
A 222 Dudley Lane, Unit 503, Sillytown, MA
B _____
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	B	C	
A 1		120	245		<input type="checkbox"/>
B					<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	12000		
4 Royalties received			
5 Advertising			
6 Auto and travel (see instructions)			
7 Cleaning and maintenance			
8 Commissions			
9 Insurance	600		
10 Legal and other professional fees			
11 Management fees			
12 Mortgage interest paid to banks, etc. (see instructions)	4122		
13 Other interest			
14 Repairs	12400		
15 Supplies	1830		
16 Taxes	3985		
17 Utilities			
18 Depreciation expense or depletion	2100		
19 Other (list HOA Fees)	3180		
20 Total expenses. Add lines 5 through 19	28217		
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	(16,217)		
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)			
23a Total of all amounts reported on line 3 for all rental properties	12000		
23b Total of all amounts reported on line 4 for all royalty properties			
23c Total of all amounts reported on line 12 for all properties	4122		
23d Total of all amounts reported on line 18 for all properties	2100		
23e Total of all amounts reported on line 20 for all properties	28217		
24 Income. Add positive amounts shown on line 21. Do not include any losses			
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here			16217
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, and 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			(16217)

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Sally gutted and replaced the kitchen her rental property resulting in it being out of service for 6 months

Schedule E reflects significant costs for repairs and supplies

Can you assume all repair and supply costs are nonrecurring?

No. More documentation is needed to confirm if the claimed expenses were all related to the renovation and truly nonrecurring

Reconciling Partial or No Rental History on Schedule E

Acquired or placed into service during the most recent tax filing year

- Confirm the purchase date using a settlement statement or other documentation
- **Fair Rental Days** on Schedule E must confirm the partial year of rental income

Acquired or placed into service in the current year

- Confirm the purchase date using a settlement statement or similar
- Schedule E or the most recently filed federal tax return must confirm no rental income or expenses for the property

The property was out of service for an extended period (repairs or renovations, etc.)

- Repair expenses on Schedule E must be consistent with the project scope
- **Fair Rental Days** Schedule E must state the number of days the property was in service

Fair Rental Days

Fannie Mae's Form 1038 states the following about Fair Rental Days:

- 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 have been in service for 12 months unless there is evidence to prove otherwise

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	Enter	Investment Property Address	Investment Property Address	Investment Property Address	Investment Property Address
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				

2	Fair Rental Days	Personal Use Days	QJV
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.	245	0	<input type="checkbox"/>
A			<input type="checkbox"/>
B			<input type="checkbox"/>
C			<input type="checkbox"/>

$$245 / 30 = 8.16 \text{ months}$$

FYI, Fannie Mae's Form 1038 will automatically round the number of months up or down

Reminder: rental income from properties disclosed as a second home cannot be used for qualifying

Using Rental Income from a Departure Residence

Which of the following items could be used along with a lease to confirm rental income for a departure residence

- a. Appraisal with comparable market rental analysis
- b. Documentation verifying receipt and deposit of two months rental payments
- c. Homeowners insurance policy for the property with renters' loss of use coverage
- d. Documentation verifying receipt and deposit of the security deposit and the first month's rental payment

a., b., and d.



Rental Income Calculation Example

- *Purchase*
- *Owner-Occupied*
- *Documentation: Lease*



Owner-Occupied Purchase Using a Lease

Bob and Teri are selling their condo and purchasing a duplex. They plan to live in one unit and rent out the other

The rental unit is currently occupied by a long-term tenant who pays **\$2,100** per month (which is supported by a lease and the rental market data on the appraisal)

The proposed monthly PITIA for the duplex is **\$2,675**



Lease Analysis: Owner-Occupied Purchase

- Enter the gross monthly rental income
- Multiply by .75 (the worksheet calculates this for you)
- The monthly *qualifying* rental income is added to the borrower's total income
- Hold the full PITIA against them

Step 2B. Lease Agreement OR Fannie Mae 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.				
B1	Enter the gross monthly rent (from the lease agreement) or market rent (from Form 1025) for the applicable rental unit	Enter	\$2,100	
B2	Multiply gross monthly rent or market rent by 75% (.75). The remaining 25% accounts for vacancy loss, maintenance, and management expenses.	Multiply	x.75	x.75
	Equals monthly rental income per unit	Total	1575	0
B3	Combine the monthly rental income of all non-owner-occupied rental units (up to a maximum of 3 rental units since rental income is not eligible on the unit occupied by the borrower).	Add		0
Step 2B. Result: Monthly qualifying rental income:		Result		1575
Step 3. Determine the qualifying impact using the combined result of Step 2A or Step 2B.				
3A	Add the monthly qualifying rental income to the borrower's monthly qualifying income.			1575
3B	Identify the full amount of the PITIA as the borrower's primary housing expense and include it in the debt-to-income ratio. <i>Use proposed PITIA when the subject property; existing PITIA when not the subject property.</i>			2675

No, Teri and Bob do not have property management experience, so only an amount equal to or less than the PITIA can be added to their income

What qualifying rental income was higher than the PITIA? Could you add the full amount to their income?

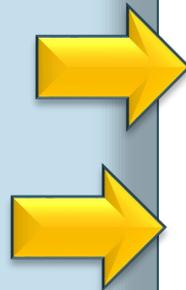
Rental Income Calculation Example

- *Refinance*
- *Non-subject property*
- *Documentation: Schedule E*



Schedule E Overview

- Property Address
- Type of Property
- Fair Rental Days



SCHEDULE E (Form 1040)		Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)			OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, 1040-NR, or 1041. Go to www.irs.gov/ScheduleE for instructions and the latest information.			2025 Attachment Sequence No. 13	
Name(s) shown on return Taylor C Homeowner					Your social security number	
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 2025 that would require you to file Form(s) 1099? See instructions					<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
B If "Yes," did you or will you file required Form(s) 1099?					<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
1a Physical address of each property (street, city, state, ZIP code)						
A	123 Poppy Lane, Anyville, KS 00000					
B						
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	0	<input type="checkbox"/>
B						<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) _____

Schedule E Overview

- Gross Rents
- Homeowners Insurance
- Mortgage Interest
- Repairs/Supplies
- Real Estate Taxes
- Depreciation

Income:	Properties:			
		A	B	C
3 Rents received	3	26,400		
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	2,375		
10 Legal and other professional fees	10			
11 Management fees	11			
12 Mortgage interest paid to banks, etc. (see instructions)	12	13,460		
13 Other interest	13			
14 Repairs	14	3,100		
15 Supplies	15			
16 Taxes	16	4,310		
17 Utilities	17			
18 Depreciation expense or depletion	18	2,449		
19 Other (list)	19			
20 Total expenses. Add lines 5 through 19	20	25,694		
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	706		
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	26,400		
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	13,460		
23d Total of all amounts reported on line 18 for all properties	23d	2,449		
23e Total of all amounts reported on line 20 for all properties	23e	25,694		
24 Income. Add positive amounts shown on line 21. Do not include any losses	24	706		
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25			
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, and 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	706		

Income:	A	
3 Rents received	3	26,400
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	2,375
10 Legal and other professional fees	10	
11 Management fees	11	
12 Mortgage interest paid to banks, etc. (see instructions)	12	13,460
13 Other interest	13	
14 Repairs	14	3,100
15 Supplies	15	
16 Taxes	16	4,310
17 Utilities	17	
18 Depreciation expense or depletion	18	2,449
19 Other (list)	19	
20 Total expenses. Add lines 5 through 19	20	25,694
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	706

Note: if a listed property is a condo/PUD and the HOA fee is missing, it must still be accounted for in the net rental calculation

Refinance with a Non-Subject Rental Property

Taylor is refinancing his primary residence

- He has been renting out his prior residence (detached SFR) for the past 3 years
- The monthly PITIA on the rental home is **\$1,845**

Income:		A
3	Rents received	26,400
4	Royalties received	
Expenses:		
5	Advertising	
6	Auto and travel (see instructions)	
7	Cleaning and maintenance	
8	Commissions	
9	Insurance	2,375
10	Legal and other professional fees	
11	Management fees	
12	Mortgage interest paid to banks, etc. (see instructions)	13,460
13	Other interest	
14	Repairs	3,100
15	Supplies	
16	Taxes	4,310
17	Utilities	
18	Depreciation expense or depletion	2,449
19	Other (list)	
20	Total expenses. Add lines 5 through 19	25,694
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	706

Let's analyze his Schedule E using Fannie Mae's worksheet

Using Fannie Mae Form 1038

1. Enter the number of months the property was in service (this is important)

2. Enter the total rents received and total expenses (the form will subtract the expenses from the rents)

3. Once entered, the following will be added back

- Insurance
- Mortgage Interest
- Real Estate Taxes
- Depreciation
- Any one-time expense

4. The result is divided by the number of months in service (12) to give you the monthly qualifying income/loss

5. Enter the property's PITIA to determine the qualifying impact

FannieMae

For full functionality, download PDF first before entering data. Please download before each calculation as calculators are updated periodically.

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

Enter Investment Property Address: 123 Main St, Anytown, NY

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: The number of months the property was in service: **12**

Step 2. Calculate monthly qualifying rental income (loss) using Step 2A: Schedule E OR Step 2B: Lease Agreement or Fannie Mae Form 1007 or Form 1025.

Step 2 A. Schedule E - Part I		For each property complete ONLY 2A or 2B	
A1	Enter total rents received. <i>Schedule E, Line 3</i>	Enter	\$ 26,400.00
A2	Subtract total expenses. <i>Schedule E, Line 20</i>	Subtract	- 25,694.00
A3	Add back insurance expense. <i>Schedule E, Line 9</i>	Add	+ 2,375.00
A4	Add back mortgage interest paid. <i>Schedule E, Line 12</i>	Add	+ 13,460.00
A5	Add back tax expense. <i>Schedule E, Line 16</i>	Add	+ 4,310.00
A6	Add back homeowners' association dues. <i>Schedule E, Line 19</i> <i>This expense must be specifically identified on Schedule E in order to add it</i>	Add	+
A7	Add back depreciation expense or depletion. <i>Schedule E, Line 18</i>	Add	+ 2,449.00
A8	Add back 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	= \$ 23,300.00 = \$ 0.00
A9	Divide by the number of months the property was in service (Step 1 Result). <i>Click the gray button to calculate the adjusted monthly rental income.</i>	Divide	/ 12 / 0
Equals adjusted monthly rental income <i>If Line A9 is zero, "error" will show.</i>		Total	= \$ 1,941.67 =
A10	Subtract proposed PITIA (for subject property) or existing PITIA (for non-subject property). <i>Verified, inc. taxes, ins. and HOA.</i>	Subtract	-
Step 2A. Result: Monthly qualifying rental income (or loss):		Result	= \$ 1,941.67 = \$ 0.00
Step 2 B. Lease Agreement OR Fannie Mae Form 1007 or Form 1025		For each property complete ONLY 2A or 2B	
<i>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.</i>			
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	
B2	Multiply gross monthly rent or market rent by 75% (.75). <i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75 x.75
Equals adjusted monthly rental income.		Total	= \$ 0.00 = \$ 0.00
B3	Subtract proposed PITIA (for subject property) or existing PITIA (for non-subject property). <i>Verified, inc. taxes, ins. and HOA.</i>	Subtract	- 1,845.00 -
Step 2B. Result: Monthly qualifying rental income (or loss):		Result	= (\$ 1,845.00) = \$ 0.00
Step 3. Determine the qualifying impact using the result of Step 2A or Step 2B.			
If the combined result of Step 2A or 2B is positive , add the positive amount to the borrower's monthly qualifying income. <i>Because the PITIA expense was included in the calculations above, do not add it to the debt-to-income (DTI) ratio.</i>			\$ 96.67
If the combined result of Step 2A or 2B is negative , include the amount of the loss in the borrower's monthly expenses when calculating the DTI ratio.			
DU Data Entry	Monthly Income and Combined Housing Expenses	Mortgage Liabilities	
Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Subject Net Cash."	For refinance transactions, identify the mortgage as a subject property lien.	
Non-Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Net Rental."	Identify the mortgage as a rental property lien.	

Refer to the Rental Income topic in the Selling Guide for additional guidance.

This version of the worksheet is courtesy of Enact MI/Fannie Mae

How would you treat the \$96.67 shown on Taylor's rental property analysis?

- a. Add \$96.67 to his monthly qualifying income and include the PITIA for the property in the DTI calculation
- b. Add \$96.67 to his monthly qualifying income and do not include the PITIA for the property in the DTI calculation
- c. Subtract \$96.67 from the property's PITIA
- d. Add \$96.67 to his monthly liabilities

The answer is b.



Fannie Mae's Rental Income Calculator



Fannie Mae's Rental Income Calculator

Many of the initial fields you encounter are optional

- After accepting the privacy policy, select *Income Type* from the menu
- Select *Rental* and the Schedule E analysis option

The screenshot displays the 'Income Calculator' application interface. On the left, a navigation menu lists several steps: Welcome, Start, Income Type (highlighted in yellow with a yellow arrow pointing to it), Reference Name, Length of Employment, Desktop Underwriter, Business Structure, Select Tax Year, Select Tax Forms, Input Tax Data, and Findings Report. The main content area is titled 'Income Type' and features two radio button options: 'Self-Employed or Business Owner' and 'Rental' (selected and highlighted in yellow with a yellow arrow pointing to it). Below these options, a text prompt asks the user to describe the method used by the borrower to report rental income to the IRS. Two radio button options are provided: 'Rental income is reported to the IRS using Form 1040, Schedule E, Part 1' (selected) and 'Rental income is reported to the IRS using business tax returns (Form 1065 or Form 1120S)'. At the bottom of the form, there are 'Back' and 'Continue' buttons. A yellow arrow also points to the 'Continue' button.

As you click through each question, the associated line from Schedule E will highlight

If a line on Schedule E is blank, be sure to select "There is no value on this line"

Income Calculator

- Welcome
- Start
- Income Type
- Reference Name
- Desktop Underwriter
- Select Tax
- Select Tax
- Input Tax
 - 2025 Forms
 - Form 1040
 - Form 1040 Sch 1
 - Form 1040 Sch E
 - Losses And Expenses
 - 2024 Forms
 - Findings Report

Input Data: Rental Income Form 1040 - Sch E (2025)

For the property you want Income Calculator to evaluate, find Part I of Schedule E

A separate Income Calculator evaluation is required for each income-producing property used for loan qualification. Provide all requested data exactly as it appears on the tax returns. Do not create an Income Calculator evaluation for a property the borrower will not own at the time of loan closing.

Line 1a (optional)
Physical address of property

Borrower's principal residence (Occupancy)
 Yes, the property is the borrower's principal residence
 No, the property is not the borrower's principal residence

Loan will refinance this property
 Yes, the loan will refinance this property
 No, the loan will not refinance this property

Rental Property Housing Expense (PITIA)
Provide the current monthly housing expense (principal, interest, taxes, insurances, and homeowner's association dues) for the rental property

▲ Must be greater or equal \$1.00

Line 1b
 Enter Type of Property
 There is no value of this line

Line 2
 Enter Fair Rental Days
 There is no value on this line

Line 3
 Enter Rents received
 There is no amount on this line

120%

SCHEDULE E (Form 1040)		Supplemental Income and Loss		OMB No. 1545-0074																																																																																																																																																												
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Findings Report

Income Calculator ID	D285CJK ⓘ
Qualifying Rental Income	\$0.00 ⓘ
Qualifying Rental Loss (add to DTI)	-\$140.00 ⓘ
Rental Property Occupancy	Investment ⓘ
Add Rental Property PITIA to DTI	No ⓘ
Add Primary Housing Expense/Rent to DTI	Yes ⓘ
Subject Property	Yes ⓘ
IRS Property Type	1 Single Family Residence ⓘ

	Tax Returns	Income Calculator
	2025	2025
Fair Rental Days ⓘ	365 ✎	365
Rents Received ⓘ	\$28,530.00 ✎	\$28,530.00
Accessory Unit or Boarder Income ⓘ	\$0.00 ✎	\$0.00
Total Expenses ⓘ	\$31,480.00 ✎	-\$31,480.00
Insurance ⓘ	\$600.00 ✎	\$600.00
Mortgage Interest Paid to Banks ⓘ	\$19,670.00 ✎	\$19,670.00
Other Deductible Mortgage Interest ⓘ	\$0.00 ✎	\$0.00
Taxes ⓘ	\$4,688.00 ✎	\$4,688.00
Homeowners Association Dues ⓘ	\$3,852.00 ✎	\$3,852.00
Depreciation/Depletion ⓘ	\$1,920.00 ✎	\$1,920.00
> Casualty/theft loss ⓘ	\$0.00	\$0.00
Extraordinary one-time expenses ⓘ	\$0.00 ✎	\$0.00
Adjusted Rental Income ⓘ		\$27,780.00
Months In Service (Fair Rental Days / 30)	365 / 30 = 12	
Monthly Rental Income	\$27,780.00 / 12 months = \$2,315.00 - \$2,455.00 = -\$140.00	
Qualifying Rental Amount	-\$140.00	



Fannie Mae's Calculator vs. Form 1038

Findings Report

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Monthly Rental Income	\$27,780.00 / 12 months = \$2,315.00 - \$2,455.00 = -\$140.00
Qualifying Rental Amount	-\$140.00



For full functionality, download PDF first before entering data. Please download before each calculation as calculators are updated periodically.

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

	Enter	Investment Property Address	Investment Property Address
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: The number of months the property was in service:	Result	12	
Step 2. Calculate monthly qualifying rental income (loss) using Step 2A: Schedule E OR Step 2B: Lease Agreement or Fannie Mae Form 1007 or Form 1025.			
Step 2 A. Schedule E - Part I For each property complete ONLY 2A or 2B			
A1 Enter total rents received. <i>Schedule E, Line 3</i>	Enter	\$ 28,530.00	
A2 Subtract total expenses. <i>Schedule E, Line 20</i>	Subtract	- 31,480.00	-
A3 Add back insurance expense. <i>Schedule E, Line 9</i>	Add	+ 600.00	+
A4 Add back mortgage interest paid. <i>Schedule E, Line 12</i>	Add	+ 19,670.00	+
A5 Add back tax expense. <i>Schedule E, Line 16</i>	Add	+ 4,688.00	+
A6 Add back homeowners' association dues. <i>Schedule E, Line 19</i> <i>This expense must be specifically identified on Schedule E in order to add it</i>	Add	+ 3,852.00	+
A7 Add back depreciation expense or depletion. <i>Schedule E, Line 18</i>	Add	+ 1,920.00	+
A8 Add back 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	= \$ 27,780.00	= \$ 0.00
A9 Divide by the number of months the property was in service (Step 1 Result). <i>Click the gray button to calculate the adjusted monthly rental income.</i>	Divide	/ 12	/ 0
Equals adjusted monthly rental income <i>If Line A9 is zero, "error" will show.</i>	Total	= \$ 2,315.00	= \$ 0.00
A10 Subtract proposed PITIA (for subject property) or existing PITIA (for non-subject property). <i>Verified, inc. taxes, ins. and HOA.</i>	Subtract	- 2,455.00	-
Step 2A. Result: Monthly qualifying rental income (or loss):	Result	= (\$ 140.00)	= \$ 0.00
Step 2 B. Lease Agreement OR Fannie Mae Form 1007 or Form 1025 For each property complete ONLY 2A or 2B <i>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.</i>			
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		
B2 Multiply gross monthly rent or market rent by 75% (.75). <i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x .75	x .75
Equals adjusted monthly rental income.	Total	= \$ 0.00	= \$ 0.00
B3 Subtract proposed PITIA (for subject property) or existing PITIA (for non-subject property). <i>Verified, inc. taxes, ins. and HOA.</i>	Subtract	-	-
Step 2B. Result: Monthly qualifying rental income (loss):	Result	= \$ 0.00	= \$ 0.00
Step 3. Determine the qualifying impact using the result of Step 2A or Step 2B.			
If the combined result of Step 2A or 2B is positive , add the positive amount to the borrower's monthly qualifying income. <i>Because the PITIA expense was included in the calculations above, do not add it to the debt-to-income (DTI) ratio.</i>			(\$ 140.00)
If the combined result of Step 2A or 2B is negative , include the amount of the loss in the borrower's monthly expenses when calculating the DTI ratio.			
DU Data Entry	Monthly Income and Combined Housing Expenses		Mortgage Liabilities
Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Subject Net Cash."		For refinance transactions, identify the mortgage as a subject property lien.
Non-Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Net Rental."		Identify the mortgage as a rental property lien.

Top Rental Income Issues

- Including rental income for borrowers who do not have a current housing expense or the evidence of a housing expense is not supported/documented
- Using positive net rental income when only an amount to offset the PITIA is permitted
- Using a lease instead of a tax return to calculate rental income when the property was owned by the borrower in the previous tax year (for no apparent reason)
- Using rental income for a departure residence without the required documentation or using documentation with inconsistencies (lease not matching rent payments or security deposit, etc.)

Where to Find More Information

Fannie Mae Selling Guide: **B3-3.1-08**

Freddie Mac Selling Guide: **5306.1**

MPF Traditional Selling Guide: **5.3.8**

MPF Quality Control Reminders

Not necessarily related to rental income

Total DTI Ratio:

- Make sure ratios are consistent throughout your file documentation (AUS findings, 1008, and loan presentment data)

PITIA:

- If a home is new construction, make sure the real estate taxes are based on the improved property value
- Insurance premiums: Use 1/12 of the annual insurance premium
- HOA dues are not always correct on the appraisal, verify with the HOA/management company if the amounts are not consistent

Total Other Debt:

- Always verify that any omitted liability is documented according to the guidelines



MPF Program Contacts and Resources

MPF Service Center

Email - MPF-Help@FHLBC.com

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

Phone: (877) 345-2673

MPF National Education

mpftraining@fhlbc.com

Keep up with MPF product guideline updates by
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