



Last Reviewed: 07/21/2025

## CONVERTING A PRIMARY RESIDENCE TO RENTAL INCOME

### CONVENTIONAL

### Overview

When a primary residence is being converted into a rental property, always determine if the borrower has a history of property management experience.

### Documentation Required

The following documents are required for the calculation of rental income:

1. The current, fully executed lease agreement that is at least a 12-month term, legible, arm's length, and reflects market rent.
2. **One** of the following must be provided:
  - Proof of receipt of security deposit and first month's rent;
  - Proof of receipt and deposit of two months' rent; or
  - Single family comparable schedule (Form 1007) or Small Residential Income Property Appraisal (Form 1025).

### Calculation Method

If the Borrower's current primary residence is being converted to a rental property, net rental income (75% of gross or full amount on the lease) can only be used to offset the full monthly payment (PITIA) of that Primary Residence.



In this scenario, the borrower is converting a primary residence to a rental property and has no property management experience.

- The Lease Agreement reflects a monthly rent of **\$3050.00**.
- The Mortgage Statement from the borrower confirms taxes and insurance are not escrowed.
- The monthly mortgage payment is **\$1487.00** for P&I.
- Taxes are **\$648.46** a month and HOI is **\$168.12** a month.
- Monthly HOA dues are **\$98.19**.
- The total PITIA is **\$2401.77**.
- 75% of the monthly rent is **\$3050.00** is **\$2287.00**.

- Rental income cannot exceed PITIA of the property.
- Net Rental calculation (**2401.77-2287.00 = -114.77**)
  - **-\$114.77** is total amount being offset from the PITIA of property with the **75%** vacancy rule.

- **Percentage of Rental** field = 75.00
- **Gross Rental Income** field = Rent amount from lease agreement
- **Taxes, Ins, Expenses** field = total amount of non-escrowed payments.

VOM								
Property Is	Address	Source						
Primary Residence	175 E Oak Glen Dr, Bartlett, IL 60103	Enc						
<div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 60%;"> <p>VOM is for <span style="border: 1px solid black; padding: 2px 10px;">Borrower</span> <span style="float: right;">Date <span style="border: 1px solid black; padding: 2px 10px;">//</span></span></p> <p><input checked="" type="checkbox"/> Print "See attached borrower's authorization" on signature line.</p> </div> <div style="width: 35%; border: 1px solid #ccc; padding: 5px;"> <p><b>From</b></p> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 45%;"> <p>Title <span style="border: 1px solid black; padding: 2px 10px;">TPO Condition Underwriter</span></p> <p>Phone <span style="border: 1px solid black; padding: 2px 10px;">352-224-3092</span></p> <p>Fax <span style="border: 1px solid black; padding: 2px 10px;">352-224-3092</span></p> </div> <div style="width: 50%;"> <p><input type="checkbox"/> Print user's name    <input type="checkbox"/> Print user's job title</p> </div> </div> </div> </div>								
<b>Property Information</b>								
Foreign Address	<input type="checkbox"/>	<input type="checkbox"/> Subject Property						
Street Address	<span style="border: 1px solid black; padding: 2px 10px;">175 E Oak Glen Dr</span>	Property is used as <span style="border: 1px solid black; padding: 2px 10px;">Primary Residence</span>						
Unit Type	<span style="border: 1px solid black; padding: 2px 10px;">//</span>	Property will be used as <span style="border: 1px solid black; padding: 2px 10px;">Investment</span>						
Unit #	<span style="border: 1px solid black; padding: 2px 10px;">//</span>	Other Description <span style="border: 1px solid black; padding: 2px 10px;">//</span>						
City	<span style="border: 1px solid black; padding: 2px 10px;">Bartlett</span>	<input checked="" type="checkbox"/> Include in Export (deselect if this is duplicated asset)						
State	<span style="border: 1px solid black; padding: 2px 10px;">IL</span>	Number of Units <span style="border: 1px solid black; padding: 2px 10px;">//</span>						
Zip	<span style="border: 1px solid black; padding: 2px 10px;">60103</span>							
Country	<span style="border: 1px solid black; padding: 2px 10px;">US</span>							
<div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 30%;"> <p><span style="border: 1px solid black; padding: 2px 5px;">Attach/Show Liens</span></p> <p><input type="checkbox"/> Does Not Apply</p> </div> <div style="width: 65%;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; padding: 5px;">Mortgage Balance</td> <td style="width: 10%; text-align: center; padding: 5px;"></td> <td style="width: 60%; padding: 5px;"><span style="border: 1px solid black; padding: 2px 10px;">178,574.00</span></td> </tr> <tr> <td style="padding: 5px;">Mortgage Payment</td> <td style="text-align: center; padding: 5px;"></td> <td style="padding: 5px;"><span style="border: 1px solid black; padding: 2px 10px;">1,487.00</span></td> </tr> </table> </div> </div>			Mortgage Balance		<span style="border: 1px solid black; padding: 2px 10px;">178,574.00</span>	Mortgage Payment		<span style="border: 1px solid black; padding: 2px 10px;">1,487.00</span>
Mortgage Balance		<span style="border: 1px solid black; padding: 2px 10px;">178,574.00</span>						
Mortgage Payment		<span style="border: 1px solid black; padding: 2px 10px;">1,487.00</span>						
Present Market Value	<span style="border: 1px solid black; padding: 2px 10px;">//</span>							
Property Status	<span style="border: 1px solid black; padding: 2px 10px;">R</span>	Gross Rental Income <span style="border: 1px solid black; padding: 2px 10px;">3,050.00</span>						
Type of Property	<span style="border: 1px solid black; padding: 2px 10px;">//</span>	Taxes, Ins, Expenses <span style="border: 1px solid black; padding: 2px 10px;">915.27</span>						
Purchase Price	<span style="border: 1px solid black; padding: 2px 10px;">244,000.00</span>	Percentage of Rental <span style="border: 1px solid black; padding: 2px 10px;">75.00</span>						
Date Acquired	<span style="border: 1px solid black; padding: 2px 10px;">06/07/2017</span>	Participation % <span style="border: 1px solid black; padding: 2px 10px;">//</span>						
Pending Sale Date	<span style="border: 1px solid black; padding: 2px 10px;">//</span>	Net Income / Loss <span style="border: 1px solid black; padding: 2px 10px;">-114.77</span>						
Year Built	<span style="border: 1px solid black; padding: 2px 10px;">//</span>							
<p>Comments <span style="border: 1px solid black; padding: 2px 10px;">PI \$1487, HOI \$2017.38 yr, Taxes \$7781.54 yr, HOA \$98.19 (on bank statements) Due 4/1/25</span></p>								



## Scenario 2

- The Lease Agreement provided states a monthly rental amount of **\$1500**.
- The Mortgage Statement from the borrower confirms taxes and insurance are escrowed, and HOA dues are **\$22** a month.
- The monthly mortgage payment is **\$1813.00**.
- The total PITIA is **\$1835**.
- 75% of gross lease amount is **\$1125**.

## Rental Income Method

- Rental income can only offset the PITIA of the property.
- Net Rental calculation (**1835-1125 = -710**)
  - **-\$710** is total amount being offset from the PITIA of property with the **75%** vacancy rule.

## Encompass Summary

- **Percentage of Rental** field = 75.00
- **Gross Rental Income** field= Rent amount from lease agreement (\$1500)
- **Taxes, Ins, Expenses** field = amount of monthly HOA dues (\$22.00)

VOM		
Property Is	Address	Source
Primary Residence	8255 Heather Ct, Vero Beach, FL 32967	Enclosed
Investment Property	761 Lagoon Dr, Oviedo, FL 32765	
VOM is for <span>Both</span> <input type="button" value="v"/> Date <span>//</span> <input type="text"/>		
<input type="checkbox"/> Print "See attached borrower's authorization" on signature line.		
From		
Title	<span>Branch Manager</span>	<input type="checkbox"/> Print user's name <input type="checkbox"/> Print user's job title
Phone	<span>772-256-2566</span>	
Fax	<span>772-256-2566</span>	
Property Information		
Foreign Address	<input type="checkbox"/>	<input type="checkbox"/> Subject Property
Street Address	<span>761 Lagoon Dr</span>	Property is used as <span>Investment Property</span> <input type="button" value="v"/>
Unit Type	<span></span> <input type="button" value="v"/>	Property will be used as <span>Investment</span> <input type="button" value="v"/>
Unit #	<span></span>	Other Description <span></span>
City	<span>Oviedo</span>	<input checked="" type="checkbox"/> Include in Export (deselect if this is duplicated asset)
State	<span>FL</span>	Number of Units <span></span>
Zip	<span>32765</span>	
Country	<span>US</span>	
<input type="button" value="Attach/Show Liens"/> <input type="checkbox"/> Does Not Apply	Mortgage Balance	<span>219,547.00</span>
Present Market Value <span></span>	<span>419,900.00</span>	Mortgage Payment
		<span>1,813.00</span>
Property Status	<span>R</span> <input type="button" value="v"/>	Gross Rental Income <span></span>
Type of Property	<span>Single Family</span> <input type="button" value="v"/>	Taxes, Ins, Expenses <span></span>
Purchase Price	<span></span>	Percentage of Rental <span></span>
Date Acquired	<span>12/10/2024</span>	Participation % <span></span>
Pending Sale Date	<span>//</span>	Net Income / Loss
Year Built	<span></span>	<span>-710.00</span>
Comments	<span>Escrowed, HOA-\$22.00</span>	

## Important Notes

## Exception of adding back in repairs

- Need copies of all invoices and paid receipts that detail what each repair item was.
- Documentation must be reviewed by a credit underwriter to determine what can be added back in.
- Typical wear and tear of a property (cosmetic) is not considered an extraordinary, one-time expense/repair.

## Taxes, Ins, Expenses field in Encompass

- This field is used for tax, insurance, and HOA dues, but for rental income scenarios, it is also used as total expenses after addbacks from schedule E.