



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:
 - o Proof of receipt of security deposit and first month's rent;
 - o Proof of receipt and deposit of two months' rent; or
 - o 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.



UNIONHOME MORTGAGE

Scenario 1

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

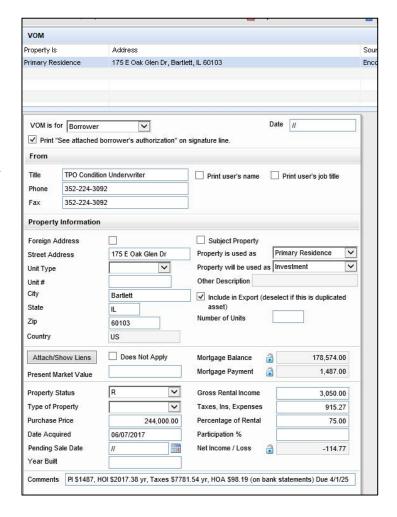
- The Lease Agreement reflects a monthly rent of \$3050.00.
- The Mortgage Statement from the borrower confirms taxes and insurance are not escrowed.
- The monthly mortgage payment is \$1487.00 for P&I.
- Taxes are \$648.46 a month and HOI is \$168.12 a month.
- Monthly HOA dues are \$98.19.
- The total PITIA is **\$2401.77**.
- 75% of the monthly rent is \$3050.0 is \$2287.00.

Rental Income Method

- 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.

Encompass Summary

- 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.





UNIONHOME MORTGAGE

Scenario 2

In this scenario, the borrower has an investment property and has been receiving rental income for less than one year.

- 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 Sou Primary Residence 8255 Heather Ct, Vero Beach, FL 32967 Enco VOM is for Both Print "See attached borrower's authorization" on signature line Title Branch Manager Phone 772-256-2566 772-256-2566 Fax Property Information Foreign Address Subject Property Investment Property 761 Lagoon Dr Street Address Property will be used as Investment Unit Type ¥ Unit # Other Description City Oviedo Include in Export (deselect if this is duplicated State FI Number of Units Zip 32765 Country US Attach/Show Liens Does Not Apply Mortgage Balance 219.547.00 419,900.00 Mortgage Payment 3 1,813.00 Present Market Value V Property Status Gross Rental Income 1 500 00 Type of Property Single Family ~ Taxes, Ins. Expenses 22.00 Purchase Price Percentage of Rental 75.00 Participation % Date Acquired 12/10/2024 Pending Sale Date Net Income / Loss -710.00 Year Built Comments Escrowed, HOA-\$22.00

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.