



Last Reviewed: 07/21/2025

## CONVERTING A PRIMARY RESIDENCE TO RENTAL INCOME

FHA

### 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 calculation of rent income:

- Lease Agreement
- Proof of receipt of security deposit and first month's rent
- Appraisal of converting property for proof of 25% equity
- Confirmation that the property being converted and the subject property have at least 100 miles between one another.

### Calculation Method

#### 75% Rule

Following the criteria below, the lesser of 75% of the lease agreement amount, 1007, or 1025 must be used to determine the net rental income.

##### **Rental Income/Property Management experience $\geq$ 1 Year**

- Calculate the net rental income by averaging the amount shown on Schedule E.
  - Positive net rental income can be added to the borrower's effective income.
  - Negative net rental income must be included as a debt/liability.

##### **Rental Income/Property Management experience $<$ 1 Year**

- Annualize rental income for the length of time the property has been owned and document the date of acquisition.

##### **No history**

- Deduct PITI from 75% of the lesser of fair market rent reported by appraiser or the rent reflected in the lease agreement.



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# UNIONHOME MORTGAGE

## Scenario

In this scenario, the borrower is converting a primary residence to a rental property and has less than a year of property management experience.

- The lease agreement confirms that the term is at least one full year.
- Rent is **\$2500.00** per month as shown in the lease agreement.
- The mortgage statement confirms that taxes and insurance are escrowed.
- The property has HOA dues of **\$700** per year (**\$58.33/mo**).
- The mortgage balance is **\$83,000.00**.
- The appraisal value is **\$290,000.00** (borrower meets 25% equity requirement).
- Form 1007/1000 Comparable Rent Schedule monthly market rent amount is **\$1750**.
- The relocation requirement is met (primary residence in GA and new purchase is in TX which is 100+ miles distance).

**Term**

8. The term of the Lease commences at 12:00 noon on April 14, 2025 and ends at 12:00 noon on April 13, 2027.

9. Any notice to terminate this tenancy must comply with the applicable legislation of the State of Ohio (the "Act").

**Rent**

10. Subject to the provisions of this Lease, the rent for the Property is \$2,500.00 per month (the "Rent").

11. The Tenant will pay the Rent monthly, on or before the first (1st) day of each and every month of the term of this Lease, to the Landlord at 6875 Magdalena Ln. Canal Winchester OH 43110 or at such other place as the Landlord may later designate by cash, check or Zelle.

12. The Landlord may increase the Rent for the Property upon providing to the Tenant such notice as required by the Act.

13. The Tenant will be charged an additional amount of \$100.00 per infraction for any Rent that is received after the greater of 3 days after the due date and any mandatory grace period required under the Act, if any.

## Rental Income Method

- The borrower has rental income/property management experience of less than one year.
  - Rental income can only be used to offset PITIA (i.e., it is limited to zero positive cash flow).
- Full PITIA is **\$806.25**.
- To determine the Gross Rental Income amount, divide the full PITIA by 0.75.
  - $806.26 / 0.75 = \$1075.00$

## Encompass Summary

- **Percentage of Rental** field = **75.00**
- **Gross Rental Income** field = **\$1075.00**
- **Taxes, Ins, Expenses** field= **\$58.33** for HOA dues

## Result

The borrower meets all FHA guidelines to offset rental income for converting their primary residence to an investment property.

VOM is for **Borrower** Date //

☒ Print "See attached borrower's authorization" on signature line.

**From**

Title **Loan Officer** ☐ Print user's name ☐ Print user's job title

Phone **817-704-3340**

Fax **440-234-2744**

**Property Information**

Foreign Address ☐ Subject Property ☐

Street Address **2945 Highland Hill Pkwy** Property is used as **Primary Residence**

Unit Type **Single Family** Property will be used as **Investment**

Unit # **1** Other Description

City **Douglasville** ☒ Include in Export (deselect if this is duplicated asset)

State **GA** Number of Units **1**

Zip **30135**

Country **US**

**Attach/Show Liens** ☐ Does Not Apply **290,000.00**

**Present Market Value** **290,000.00**

**Mortgage Balance** **83,817.00**

**Mortgage Payment** **748.00**

**Property Status** **R** **Gross Rental Income** **1,075.00**

**Type of Property** **Single Family** **Taxes, Ins, Expenses** **58.33**

**Purchase Price** **Percentage of Rental** **75.00**

**Date Acquired** **05/01/2015** **Participation %**

**Pending Sale Date** **Net Income / Loss** **-0.08**

**Year Built**

**Comments** **HOA \$58.33/MO**

VOM



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## Important Notes

### 75% Rule

- When the property has been owned for a year or more, the lease agreement and 75% factor can only be used in extenuating circumstances in which the credit underwriter deems acceptable.

### 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.