



RENTAL INCOME PROPERTY EXPERIENCE JOB AID

Conventional

Overview

If a borrower currently owns a principal residence and has been receiving rental income for at least one year, or they have documented property management experience, there is no restriction on the amount of rental income that can be used.

Documentation required

- Borrower's most recent federal tax return including schedule E
 - o Schedule E should reflect rental income for any property and 365 fair rental days
- Mortgage statement to confirm if taxes and insurance are escrowed

Additional documentation requirements

Fannie

- If the property has been owned for at least one year but has less than 365 fair rental days on schedule E, or the property was out of service for any period during the prior year, a current signed lease agreement must be used to supplement the federal income tax return.
 - o Form 1007 or Form 1025 must support the income reflected in the lease.

Freddie

- If the property has been owned for at least one year but has less than 365 fair rental days on schedule E, or the property was out of service for any period during the prior year, a current signed lease agreement must be used to supplement the federal income tax return.
 - o Form 72 or Form 1000 must support the income reflected on the lease.
 - o Documentation verifying two months' receipt of rental payments or security deposit and receipt of first month's rent payment is required.

Calculation Method (Fannie and Freddie)

- When tax returns are used to calculate rental income, the lender can add back any listed depreciation, interest, HOA dues, taxes, or insurance (if escrowed).
 - Non-recurring property expenses can be added back if documented accordingly (e.g., one time repair).
- If the property was rented for the entire prior tax year, rental income is averaged over 12 months.
- When two years' returns are required and the property has been rented for the entire 24 months, rental income is averaged over 24 months.



Last Reviewed: 07/21/2025

UNIONHOME MORTGAGE

Scenario 1

In this scenario, the borrower has 2+ years' property management experience for an investment property confirmed by schedule E. The most recent tax return was provided.

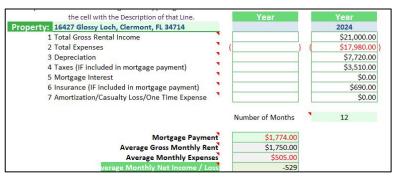
- The Mortgage statement from borrower confirms taxes and insurance are escrowed.
- The total PITIA is \$1774.00.
- Total gross rental income is \$21000.00 (\$1750/mo.)
- Insurance, interest, taxes, and depreciation were added back in for each year.
- Mortgage interest on schedule E showed \$0.00.

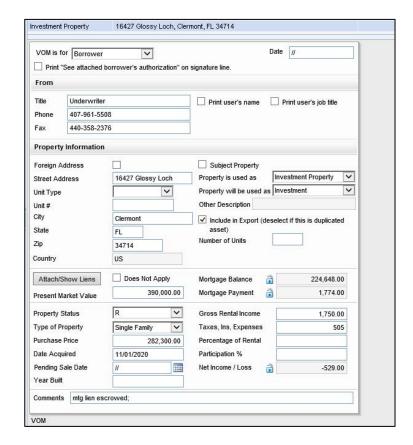
Rental Income Method

- \$21000 \$17980 + \$690 + \$3510 + \$7720 = \$14940
- 14940/12= \$1245 \$1774.00 = **-\$529.00** for total net income used

Encompass Summary

- Gross Rental Income field = \$1750.00
- Taxes, Ins, Expenses field = average monthly expense amount from worksheet, \$505.00
- Net Rental Income/Loss = -\$529.00







Last Reviewed: 07/21/2025



Scenario 2

In this scenario, the property has been owned for at least one year, but has less than 365 fair rental days from schedule E.

• The property was purchased the year prior to tax returns that were provided in the month of March. The property has 150 fair rental days.



- The Mortgage statement confirms taxes and insurance are not escrowed.
- The monthly mortgage payment is \$449.77.
- Taxes and insurance are documented for monthly amounts.
- The Property also has documented monthly HOA dues.
- The total PITIA is \$931.82.

Additional Documentation

- Because there is a rental history of less than 12 months, supporting documentation will be needed (e.g., CD from purchase, extensive repairs, etc.).
 - When documented can divide by 5 (Fair market days/30)

Schedule E

- Rent received is \$8050.00.
- Total expenses are \$8033.00.
- Taxes/insurance cannot be added back in since they are not escrowed.
- Mortgage interest can be added back in at \$994.00.
- No depreciation reported





Last Reviewed: 07/21/2025

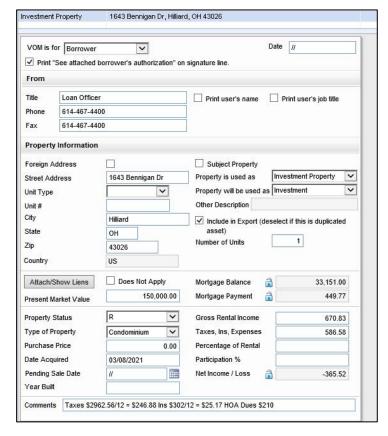
Rental Income Method

- \$8050.00 \$8033 + 994 /12= \$84.25
- \$84.25 \$449.77= **-\$365.52** for total net income used

Encompass Summary

- Gross Rental Income field= \$670.83 (\$8050.00/12)
- Total rent received is divided by 12 even though the property has partially been active at 150 days of the year.
- Taxes, Ins, Expenses field = average monthly expense amount from worksheet, \$586.58.
- Net rental Income amount is added for a total of -\$365.52





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.