Guideline Comparison

8825 Analysis - How and When to Offset Personally Obligated Mortgage Debt

Fannie Mae*	Freddie Mac*
Borrower personally obligated for mortgage debt and gross rents and expenses reported through partnership or S Corp, business tax returns may be used to offset the property's PITIA.	All rental real estate income and **expenses reported** on IRS Form 8825 for partnership and S Corp are to be treated as self-employment income, regardless of whether or not the Borrower is personally obligated on the Note and regardless of the Borrower's percentage of ownership interest in the partnership or S corporation.
Cash Flow the Property Obtain business tax returns, including IRS Form 8825 for the most recent year • From total gross rents, subtract total expenses. Add back insurance, mortgage interest, taxes, HOA dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly). • Divide by the number of months the property was in service. • Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow.	**Cash Flow the Business** Obtain business tax returns, K1, and IRS Form 8825 for the most recent year • Follow the cash flow analysis worksheet to apply positive or negative adjustments as applicable • Reminder: you can add back depreciation located on the 8825
Positive net cash flow – exclude the PITIA from the DTI calculations Note: To add in any net income to qualify, follow the self-employment guidelines.	Positive net cash flow – exclude the PITIA from the DTI Calculations Note: To add in any net income to qualify, follow the self-employment guidelines.
Negative net cash flow – include the loss as a debt in the DTI calculations , not to exceed the monthly PITIA expense	Negative net cash flow – • Exclude the PITIA from the DTI Calculations • Reduce monthly income by the net loss amount

*FNMA B3-3.1-08 Rental Income (6.3.20)
*FNMA B3-3.4-02 S-Corporation

*FHLMC 5304.1(d)
*FHLMC 5401.2(b)(iv)

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