

8825 Rental Income Analysis

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

For More information, watch our Essentials Live Class Recording [The Maze of 8825 Rentals](#)

Fannie Mae*

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.

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.

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

Freddie Mac*

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 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.

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)

