

Summary of Agency Guidelines for Converting Primary Home to Rental Property Job Aid

Fannie Mae/Freddie Mac*	What Changed?
<p>Obtain signed lease for current home (or unit) which Borrower plans to convert into investment property.</p> <p>Obtain 1-year Sch. E¹ (tax returns), if applicable.</p> <ul style="list-style-type: none"> • Applicable when: 2, 3 or 4-Unit Primary is being vacated and occupied rental units' report existing income on Sch. E. <p>Obtain proof of 1-year landlord experience, if available.</p> <p>Calculate 75% of signed lease amount (for vacated unit).</p> <ul style="list-style-type: none"> • Subtract monthly mortgage payment for converted property. • <u>If no landlord experience</u>, offset actual PITIA only (any shortfall or negative amount is a debt). • <u>With 1-year landlord experience</u>, positive combined net rental income used as income, (negative combined net rental income is a debt). <p>Rental Income when property is placed in service as a rental property in the current calendar year obtain:</p> <ul style="list-style-type: none"> • Lease AND: <ul style="list-style-type: none"> • Form 72/1000 (FHLMC), Form 1007/1025 (FNMA) OR • 2 months bank statement or canceled checks to verify receipt rental income or receipt of security deposit plus first months' rental payment. • Purchase Date or Conversion Date must be documented. 	<p>FNMA SEL-2023-09 - Effective 1-1-2024</p> <ul style="list-style-type: none"> • This update requires the borrower to have a primary housing expense and at least a 1-year history of property management experience to use the full amount of rental income towards qualifying, otherwise the amount may be limited. • Form 1007 or Form 1025 must support the income reflected on the lease agreement or the lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least 2 months rental payments. <p>FHLMC Bulletin 2023-19 - Effective 4-1-2024</p> <ul style="list-style-type: none"> • No longer require a minimum original term of one year on a lease. • Newly executed leases - the first rental payment due date must be no later than the first payment due date of the Mortgage. • Updating our documentation requirements for receipt of 2 months rental income to require evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution or transferred into a third-party money transfer application account owned by the Borrower. • Permitting documentation of receipt of the security deposit plus first months rental payment, in lieu of receipt of 2 months rental payments.

*FNMA B3-6-06, FNMA B3-3.1-08

FHLMC 5306 1c(iii), 5306 4(a)iii

¹Add income from Sch. E analysis of other units to lease calculation of vacating unit being careful to subtract monthly PITIA only once.