mpf Mortgage Partnership Finance™

The Basics of Analyzing Rental Income

August 2023

FHLBANKS
A NATION OF LOCAL LENDERS

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Topics of Discussion

- Required Documentation
- Analyzing Leases/Fair Market Rents
- Analyzing Schedule E Rental Income
- How Rental Income and Losses are Treated

Where to Begin

- Determining rental income or losses from a rental property (or properties) is a common challenge.

- Knowing what documentation is required and using a rental analysis worksheet will help make the process easy to follow.

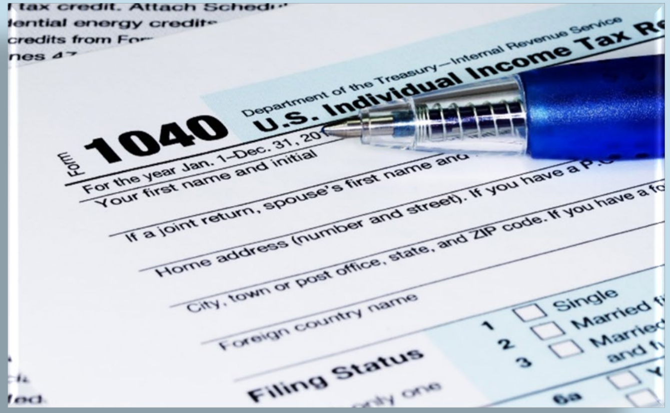
- Rental income can come from a borrower's primary residence (2-4 units), personally held investment properties or from properties held in partnerships or S-corporations.*

**Income analysis of properties owned through a partnership or s-corporation will not be covered in any detail.*

Reporting Rental Income and Expenses

Most real estate investors report the net income or loss from their rental properties using **Schedule E** on Form 1040. Generally speaking, borrowers use the Schedule E if:

- They own rental property in their own name, with a spouse, or through a single-member LLC



Partnerships and S corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships, estates, or trusts.

Knowledge Check

Assuming DU is being used, which of the following types of rental income can be used for qualifying?

a. Rent from a second home
b. Rent from short-term rental property
c. Rent from a boarder/roommate
d. Rent from a live-in aide
e. All of the above

The answers are b. and d., and maybe c.

- Short-term rental income is eligible but the income must be reflected on the borrower's tax returns. Fannie Mae's guidelines only allow boarder income if the boarder is a live-in aide or personal assistant.
- Fannie Mae's HomeReady® option does allow boarder income.

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Required Documentation for Rental Income Analysis

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Let’s Discuss

Paul is reviewing the leases provided by the seller of a property his borrower is purchasing. He notices that the appraisal shows market rents in the area are much higher.

What would you do?

Find out why the leases are lower.

Are friends or relatives currently renting at a lower amount?

Does the borrower need the higher rents to qualify?

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Documentation

Documentation and rental income analysis requirements may differ based upon certain characteristics:

- What kind of transaction is it? Purchase? Refinance?
- Is the property currently rented?
- Is the rental income coming from the subject property or other properties owned by the borrower?
- Is or will the property be owner-occupied?
- If already owned, how long has the borrower owned the property?

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Documentation Based on Rental Status

Subject properties:
If a purchase, is the subject property currently rented out?

YES	NO
• If it's a 1-unit property, make sure the appraisal includes a **Comparable Rent Schedule** (Form 1007/1000). • If the property consists of 2-4 units, a **Small Residential Income Property Appraisal Report** (Form 1025/72) should be requested. • **Obtain copies of any current leases to compare with the appraisal data.**	• Use the **Comparable Rent Schedule** (Form 1007/1000) for a 1-unit property. • Use a **Small Residential Income Property Appraisal Report** (Form 1025/72) for 2-4 unit properties to determine the fair market rental amount.

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Documentation Based on Rental Status

Subject properties:
If a refinance, is there a history of receiving rents on the property?

YES	NO
• An appraisal with a **Comparable Rent Schedule or a Small Residential Income Property Appraisal and;** • The borrower's most recent year* of signed federal tax returns including **Schedule 1** and **Schedule E or** • If the property was acquired after the last tax filing year, a copy of the **current lease(s) and/or** rental data from the appraisal should be analyzed.	• An appraisal with a **Comparable Rent Schedule (1-unit) or a Small Residential Income Property Appraisal (2-4 units).**

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Documentation for Non-Subject Properties

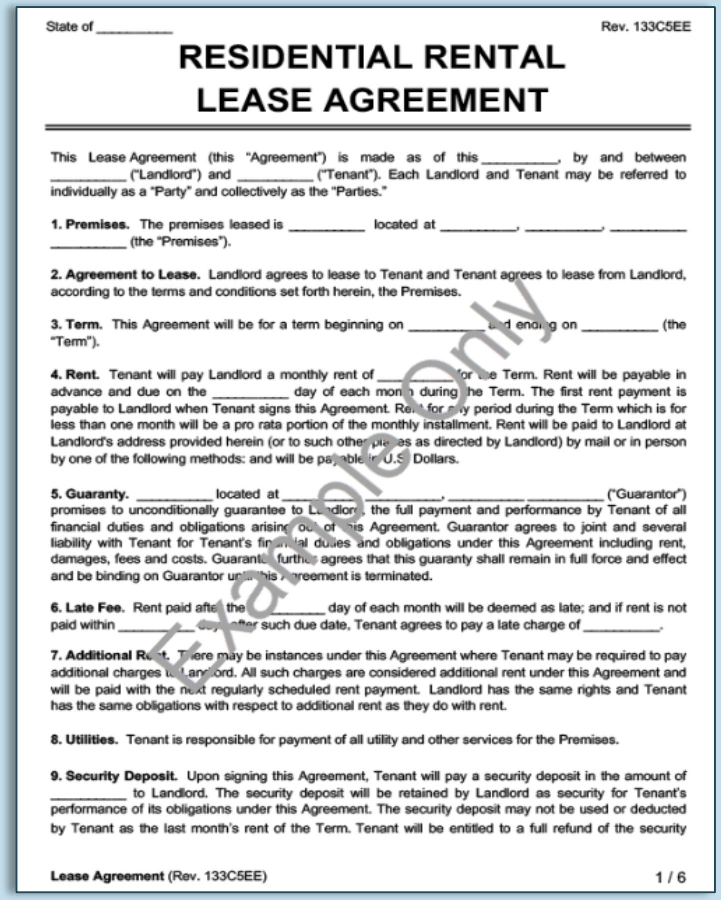
Non-subject properties:

- Borrower's who own investment properties must provide their most recent federal tax return so **Schedule E** may be analyzed.
  - ✓ Rental income is typically analyzed using the most recent tax return and unlike other forms of variable income should not be averaged over two years.

- If a property was purchased recently and not reflected on the borrower's last tax return, **leases** should be obtained.

Analyzing Leases and Fair Market Rents

Leases and Fair Market Rents


State of __________ Rev. 133C5EE

RESIDENTIAL RENTAL LEASE AGREEMENT

This Lease Agreement (this "Agreement") is made as of this __________, by and between __________ ("Landlord") and __________ ("Tenant"). Each Landlord and Tenant may be referred to individually as a "Party" and collectively as the "Parties."

1. Premises. The premises leased is __________ located at __________, __________, __________ __________ (the "Premises").

2. Agreement to Lease. Landlord agrees to lease to Tenant and Tenant agrees to lease from Landlord, according to the terms and conditions set forth herein, the Premises.

3. Term. This Agreement will be for a term beginning on __________ and ending on __________ (the "Term").

4. Rent. Tenant will pay Landlord a monthly rent of __________ for the Term. Rent will be payable in advance and due on the __________ day of each month during the Term. The first rent payment is payable to Landlord when Tenant signs this Agreement. Rent for any period during the Term which is for less than one month will be a pro rata portion of the monthly installment. Rent will be paid to Landlord at Landlord's address provided herein (or to such other places as directed by Landlord) by mail or in person by one of the following methods: and will be payable in U.S. Dollars.

5. Guaranty. __________ located at __________, __________ __________ ("Guarantor") promises to unconditionally guarantee to Landlord, the full payment and performance by Tenant of all financial duties and obligations arising out of this Agreement. Guarantor agrees to joint and several liability with Tenant for Tenant's financial duties and obligations under this Agreement including rent, damages, fees and costs. Guarantor further agrees that this guaranty shall remain in full force and effect and be binding on Guarantor until this Agreement is terminated.

6. Late Fee. Rent paid after the __________ day of each month will be deemed as late; and if rent is not paid within __________ days after such due date, Tenant agrees to pay a late charge of __________.

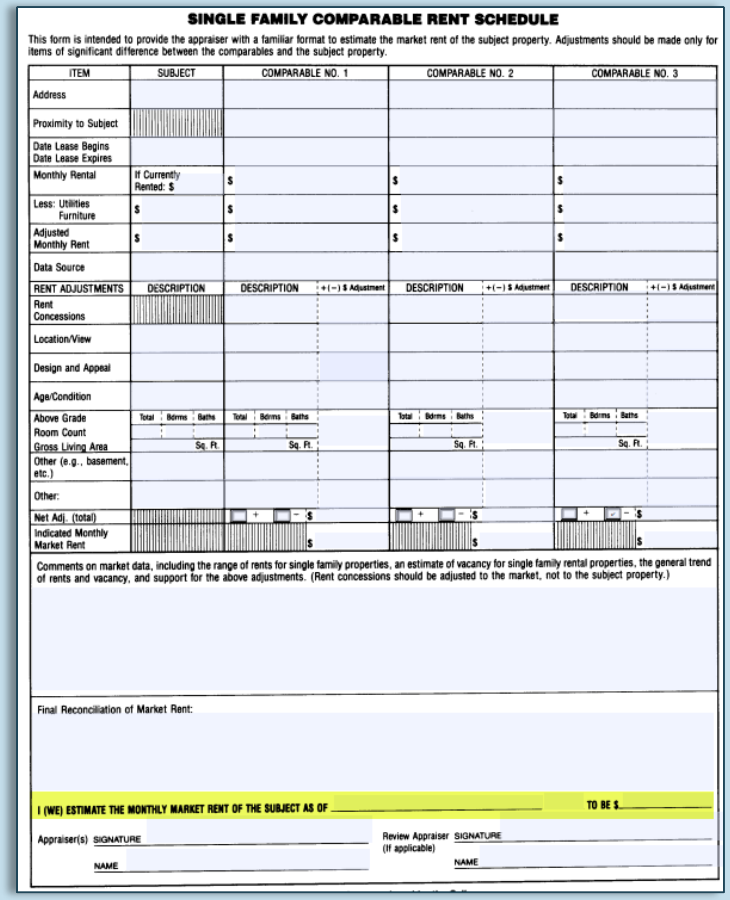
7. Additional Rent. There may be instances under this Agreement where Tenant may be required to pay additional charges to Landlord. All such charges are considered additional rent under this Agreement and will be paid with the next regularly scheduled rent payment. Landlord has the same rights and Tenant has the same obligations with respect to additional rent as they do with rent.

8. Utilities. Tenant is responsible for payment of all utility and other services for the Premises.

9. Security Deposit. Upon signing this Agreement, Tenant will pay a security deposit in the amount of __________ to Landlord. The security deposit will be retained by Landlord as security for Tenant's performance of its obligations under this Agreement. The security deposit may not be used or deducted by Tenant as the last month's rent of the Term. Tenant will be entitled to a full refund of the security

Example Only

Lease Agreement (Rev. 133C5EE) 1 / 6


SINGLE FAMILY COMPARABLE RENT SCHEDULE

This form is intended to provide the appraiser with a familiar format to estimate the market rent of the subject property. Adjustments should be made only for items of significant difference between the comparables and the subject property.

ITEM	SUBJECT	COMPARABLE NO. 1	COMPARABLE NO. 2	COMPARABLE NO. 3
Address				
Proximity to Subject				
Date Lease Begins Date Lease Expires				
Monthly Rental	If Currently Rented: $	$	$	$
Less: Utilities Furniture	$	$	$	$
Adjusted Monthly Rent	$	$	$	$
Data Source				

RENT ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(–) $ Adjustment	DESCRIPTION	+(–) $ Adjustment	DESCRIPTION	+(–) $ Adjustment
Rent Concessions							
Location/View							
Design and Appeal							
Age/Condition							
Above Grade Room Count Gross Living Area	Total Bdrms Baths Sq. Ft.	Total Bdrms Baths Sq. Ft.		Total Bdrms Baths Sq. Ft.		Total Bdrms Baths Sq. Ft.	
Other (e.g., basement, etc.)							
Other:							
Net Adj. (total)		+ –	$	+ –	$	+ –	$
Indicated Monthly Market Rent			$		$		$

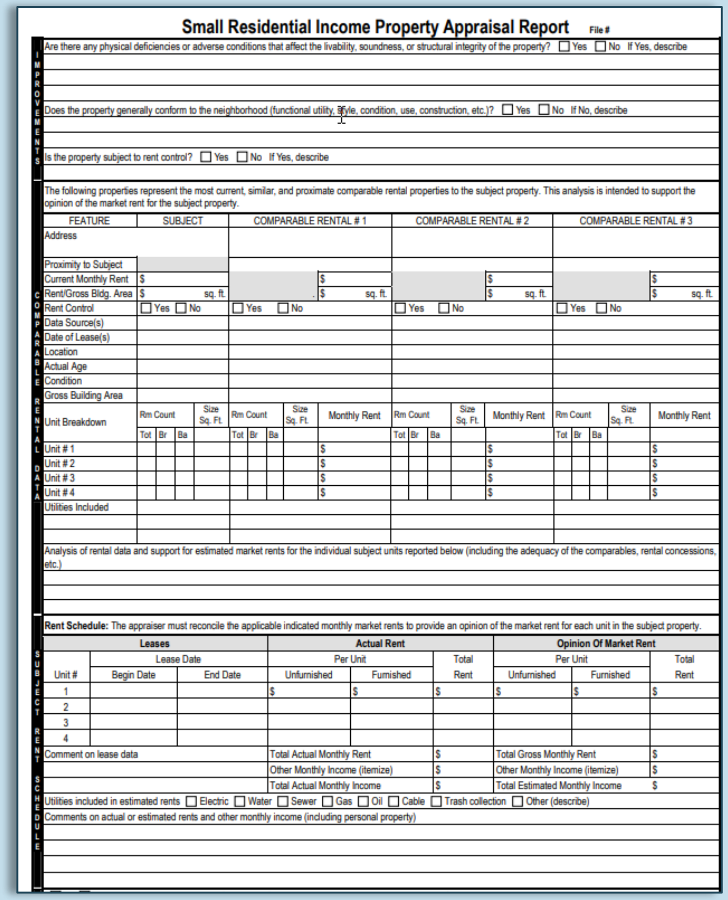
Comments on market data, including the range of rents for single family properties, an estimate of vacancy for single family rental properties, the general trend of rents and vacancy, and support for the above adjustments. (Rent concessions should be adjusted to the market, not to the subject property.)

Final Reconciliation of Market Rent:

I (WE) ESTIMATE THE MONTHLY MARKET RENT OF THE SUBJECT AS OF __________ TO BE $__________

Appraiser(s) SIGNATURE __________ NAME __________

Review Appraiser (If applicable) SIGNATURE __________ NAME __________


Small Residential Income Property Appraisal Report File #

IMPROVEMENTS

Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? ☐ Yes ☐ No If Yes, describe

Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? ☐ Yes ☐ No If No, describe

Is the property subject to rent control? ☐ Yes ☐ No If Yes, describe

COMPARABLE RENTAL DATA

The following properties represent the most current, similar, and proximate comparable rental properties to the subject property. This analysis is intended to support the opinion of the market rent for the subject property.

FEATURE	SUBJECT	COMPARABLE RENTAL # 1	COMPARABLE RENTAL # 2	COMPARABLE RENTAL # 3
Address				
Proximity to Subject				
Current Monthly Rent	$	$	$	$
Rent/Gross Bldg. Area	$ sq. ft.	$ sq. ft.	$ sq. ft.	$ sq. ft.
Rent Control	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
Data Source(s)				
Date of Lease(s)				
Location				
Actual Age				
Condition				
Gross Building Area				
Unit Breakdown	Rm Count (Tot Br Ba) / Size Sq. Ft.	Rm Count (Tot Br Ba) / Size Sq. Ft. / Monthly Rent	Rm Count (Tot Br Ba) / Size Sq. Ft. / Monthly Rent	Rm Count (Tot Br Ba) / Size Sq. Ft. / Monthly Rent
Unit # 1		$	$	$
Unit # 2		$	$	$
Unit # 3		$	$	$
Unit # 4		$	$	$
Utilities Included				

Analysis of rental data and support for estimated market rents for the individual subject units reported below (including the adequacy of the comparables, rental concessions, etc.)

SUBJECT RENT SCHEDULE

Rent Schedule: The appraiser must reconcile the applicable indicated monthly market rents to provide an opinion of the market rent for each unit in the subject property.

Leases			Actual Rent			Opinion Of Market Rent		
	Lease Date		Per Unit		Total	Per Unit		Total
Unit #	Begin Date	End Date	Unfurnished	Furnished	Rent	Unfurnished	Furnished	Rent
1			$	$	$	$	$	$
2								
3								
4								
Comment on lease data			Total Actual Monthly Rent		$	Total Gross Monthly Rent		$
			Other Monthly Income (itemize)		$	Other Monthly Income (itemize)		$
			Total Actual Monthly Income		$	Total Estimated Monthly Income		$

Utilities included in estimated rents ☐ Electric ☐ Water ☐ Sewer ☐ Gas ☐ Oil ☐ Cable ☐ Trash collection ☐ Other (describe)

Comments on actual or estimated rents and other monthly income (including personal property)

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Using Leases and/or Market Rents

For transactions where there is no history of receiving rent on a property, leases and/or market rents* must be used

- Always use **75%** of the gross rents (to calculate, multiply the gross monthly rent by **.75**).
- The remaining **25%** of the gross rent is considered as vacancy losses and maintenance expenses.

For subject properties, market rents are reported on Form 1007/1000 or the appraisal, 1025/72. This data should be compared to the leases.

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Leases and Fair Market Rents

All of the Fannie Mae rental worksheets have sections for calculating rental income using leases and/or market rents

- **Fannie Mae Form 1037** used for owner-occupied, 2-4 unit properties.
- **Fannie Mae Form 1038** used when the subject property is an investment property (MPF Xtra only) or a non-subject investment property.
- **Fannie Mae Form 1038A** is the same as Form 1038, but accommodates up to ten properties.

Freddie Mac and many of the MI companies have similar worksheets that are also acceptable.

Calculating Leases or Market Rents

Using Fannie Mae's Form 1037 to analyze leases or market rents from an owner-occupied property (purchase transaction)

Step 2B. Lease Agreement OR Fannie Mae Form 1025 **For each property complete ONLY 2A or 2B** This method is used when the transaction is a purchase, the property was acquired subsequent to the most recent tax filing.					
B1	Enter the gross monthly rent (from the lease agreement) or market rent (from Form 1025) for the applicable rental unit	Enter	1500		
B2	Multiply gross monthly rent or market rent by 75% (.75). *The remaining 25% accounts for vacancy loss, maintenance, and management expenses.*	Multiply	x.75	x.75	x.75
	Equals monthly rental income per unit	Total	1125	0	0
B3	Combine the monthly rental income of all non-owner-occupied rental units (up to a maximum of 3 rental units since rental income is not eligible on the unit occupied by the borrower).	Add	0		
	Step 2B. Result: Monthly qualifying rental income:	**Result**	1125		

Form 1037

Form 1037 does not subtract the borrower's PITIA from the net rent(s).

- **Form 1037** is for **owner-occupied** properties that generate rental income.
- Rental income from **Form 1037** may be added to the borrower's qualifying income.
- Use the full PITIA to calculate DTI ratios using the borrower's income plus the additional rental income.
- Most calculations on **Form 1037** will result in rental income, not a loss.

Calculating Leases or Market Rents

Fannie Mae Form 1038 section for leases or market rents for non-owner occupied subject properties*

Step 2B. Lease Agreement OR Fannie Mae Form 1007 or Form 1025 **For each property complete ONLY 2A or 2B** This method is used when the transaction is a purchase, the property was acquired subsequent to the most recent tax filing, or the lender has justification for using a lease agreement.						
B1	Enter the gross monthly rent (from the lease agreement) or market rent (reported on Form 1007 or Form 1025). *For multi-unit properties, combine gross rent from all rental units.*	Enter	1000			
B2	*The remaining 25% accounts for vacancy loss, maintenance, and management expenses.*	Multiply	x.75	x.75	x.75	x.75
	Equals adjusted monthly rental income.	Total	750	0	0	0
B3	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract	870			
	Step 2B. Result: Monthly qualifying rental income (loss):	**Result**	**(120)**	0	0	0

*May sometimes be used for non-subject properties not listed on Schedule E (i.e. the property was recently purchased or a conversion of a departure residence into a rental property).

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Form 1038

Form 1038 is used for non-owner occupied properties

- Since the PITIA is part of the expenses for a non-owner occupied property, is should be subtracted along with other expenses.
- Some calculations may result in a loss.
- Losses are held against the borrower as a monthly liability
- Income ***may*** be added to the borrower's monthly income (subject to restrictions)

Analyzing Rental Income/Loss from Schedule E

Schedule E Analysis

Each of the Fannie Mae rental income worksheets include sections for Schedule E analysis. Use those sections for:

- Refinances of owner-occupied properties with rental units (2-4 unit properties).
- Refinances of non-owner occupied subject properties (MPF Xtra only).
- Any transaction where the borrower owns additional investment properties.

Schedule E Analysis

When analyzing rental income listed on Schedule E, Fannie Mae's guidelines refer to this calculation method:

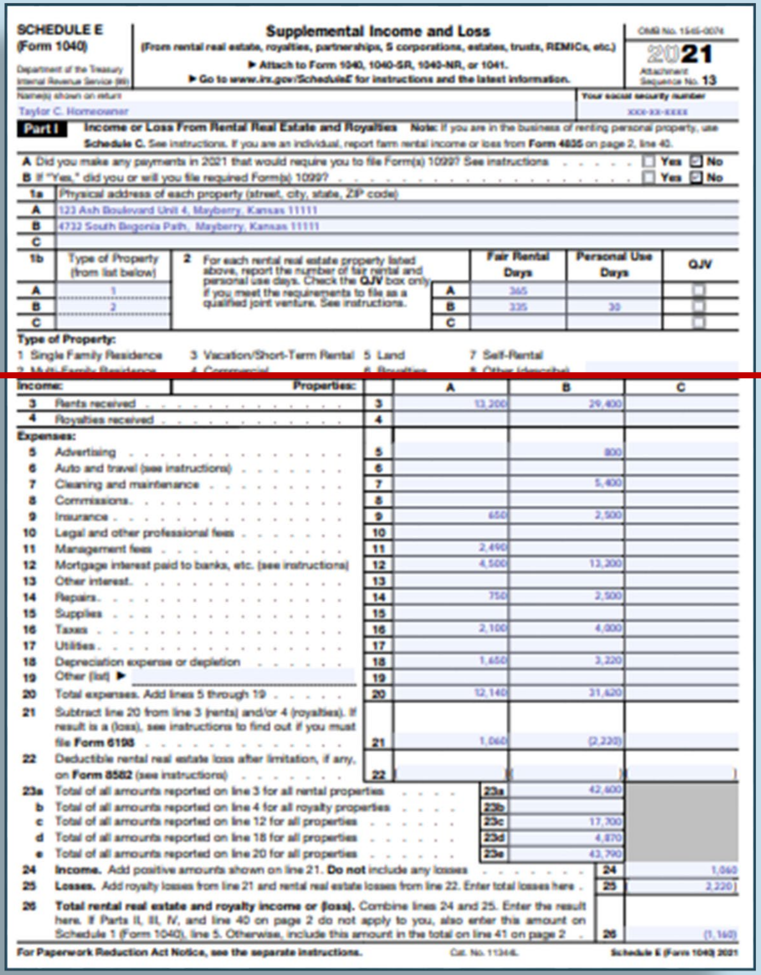
Start with: The total annual rental income for the property

Subtract: The total annual expenses for the property

Add Back: Depreciation
Mortgage Interest
Real Estate Taxes
Insurance
Homeowner's Association Fees (if applicable)
Non-recurring Expenses (if documented accordingly)

Subtract: The current monthly PITIA for the property

Schedule E Analysis



SCHEDULE E (Form 1040) — Supplemental Income and Loss — (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.) — OMB No. 1545-0074 — 2021

Department of the Treasury, Internal Revenue Service (99) — ▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041. ▶ Go to www.irs.gov/ScheduleE for instructions and the latest information. — Attachment Sequence No. 13

Name(s) shown on return: Taylor C. Homeowner — Your social security number: XXX-XX-XXXX

Part I Income or Loss From Rental Real Estate and Royalties. Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions — ☐ Yes ☑ No

B If "Yes," did you or will you file required Form(s) 1099? — ☐ Yes ☑ No

1a	Physical address of each property (street, city, state, ZIP code)
A	123 Ash Boulevard Unit 4, Mayberry, Kansas 11111
B	4732 South Begonia Path, Mayberry, Kansas 11111
C	

1b	Type of Property (from list below)		Fair Rental Days	Personal Use Days	QJV
A	1	A	365		☐
B	2	B	335	30	☐
C		C			☐

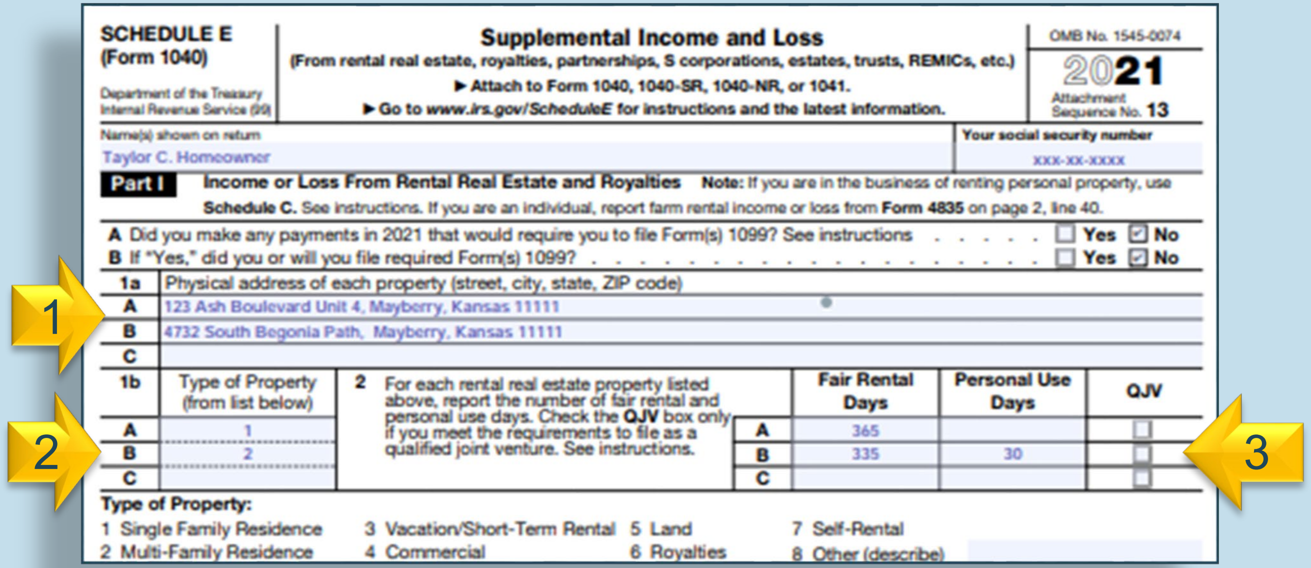
2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.

Type of Property: 1 Single Family Residence; 2 Multi-Family Residence; 3 Vacation/Short-Term Rental; 4 Commercial; 5 Land; 6 Royalties; 7 Self-Rental; 8 Other (describe)

Income: Properties:		A	B	C
3 Rents received	3	13,200	29,400	
4 Royalties received	4			
Expenses:				
5 Advertising	5		800	
6 Auto and travel (see instructions)	6			
7 Cleaning and maintenance	7		5,400	
8 Commissions	8			
9 Insurance	9	650	2,500	
10 Legal and other professional fees	10			
11 Management fees	11	2,490		
12 Mortgage interest paid to banks, etc. (see instructions)	12	4,500	13,200	
13 Other interest	13			
14 Repairs	14	750	2,500	
15 Supplies	15			
16 Taxes	16	2,100	4,000	
17 Utilities	17			
18 Depreciation expense or depletion	18	1,650	3,220	
19 Other (list) ▶	19			
20 Total expenses. Add lines 5 through 19	20	12,140	31,620	
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21	1,060	(2,220)	
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22	( )	( )	( )

23a Total of all amounts reported on line 3 for all rental properties	23a	42,600
b Total of all amounts reported on line 4 for all royalty properties	23b	
c Total of all amounts reported on line 12 for all properties	23c	17,700
d Total of all amounts reported on line 18 for all properties	23d	4,870
e Total of all amounts reported on line 20 for all properties	23e	43,790
24 **Income.** Add positive amounts shown on line 21. **Do not** include any losses	24	1,060
25 **Losses.** Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25	(2,220)
26 **Total rental real estate and royalty income or (loss).** Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26	(1,160)

For Paperwork Reduction Act Notice, see the separate instructions. — Cat. No. 11344L — Schedule E (Form 1040) 2021



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Part I Income or Loss From Rental Real Estate and Royalties. Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions — ☐ Yes ☑ No

B If "Yes," did you or will you file required Form(s) 1099? — ☐ Yes ☑ No

1a	Physical address of each property (street, city, state, ZIP code)
A	123 Ash Boulevard Unit 4, Mayberry, Kansas 11111
B	4732 South Begonia Path, Mayberry, Kansas 11111
C	

1b	Type of Property (from list below)		Fair Rental Days	Personal Use Days	QJV
A	1	A	365		☐
B	2	B	335	30	☐
C		C			☐

2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.

Type of Property: 1 Single Family Residence; 2 Multi-Family Residence; 3 Vacation/Short-Term Rental; 4 Commercial; 5 Land; 6 Royalties; 7 Self-Rental; 8 Other (describe)

1. Lists the property address/addresses.
2. Describes the property type.
3. Notes how many days during the tax year the property was rented.

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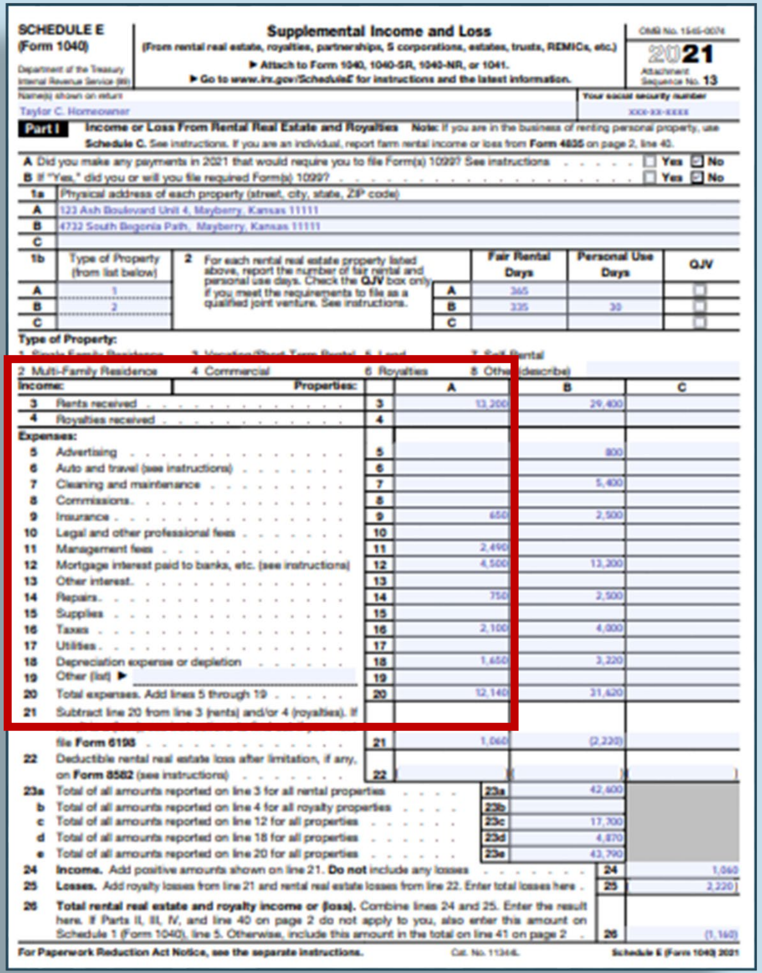
Partial History of Receiving Rents

What if the property was acquired during the most recent tax year or if the property was out of service for an extended period of time?

- If acquired during the last tax year, confirm the purchase date using the closing disclosure or other documentation.
- If acquired during the last tax year or if the property was out of service for a period of time, refer to **Schedule E** and use the ***Fair Rental Days*** to confirm income and expenses.
- Divide the total amount of fair rental days by **30** to determine how many months the property was in service.
- If **Schedule E** reflects costs for renovation or rehabilitation, additional documentation may be required to ensure that the expenses support the amount of time the property was out of service.

2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the **QJV** box only if you meet the requirements to file as a qualified joint venture. See instructions.		Fair Rental Days	Personal Use Days	QJV
	A	150		☐
	B			☐
	C			☐

Schedule E Analysis



SCHEDULE E (Form 1040)
Department of the Treasury Internal Revenue Service (99)

Supplemental Income and Loss
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)
▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041.
▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.

OMB No. 1545-0074
2021
Attachment Sequence No. 13

Name(s) shown on return: Taylor C. Homeowner
Your social security number: XXX-XX-XXXX

Part I **Income or Loss From Rental Real Estate and Royalties** **Note:** If you are in the business of renting personal property, use **Schedule C.** See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions ☐ Yes ☑ No
B If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☑ No

1a	Physical address of each property (street, city, state, ZIP code)
A	123 Ash Boulevard Unit 4, Mayberry, Kansas 11111
B	4732 South Begonia Path, Mayberry, Kansas 11111
C	

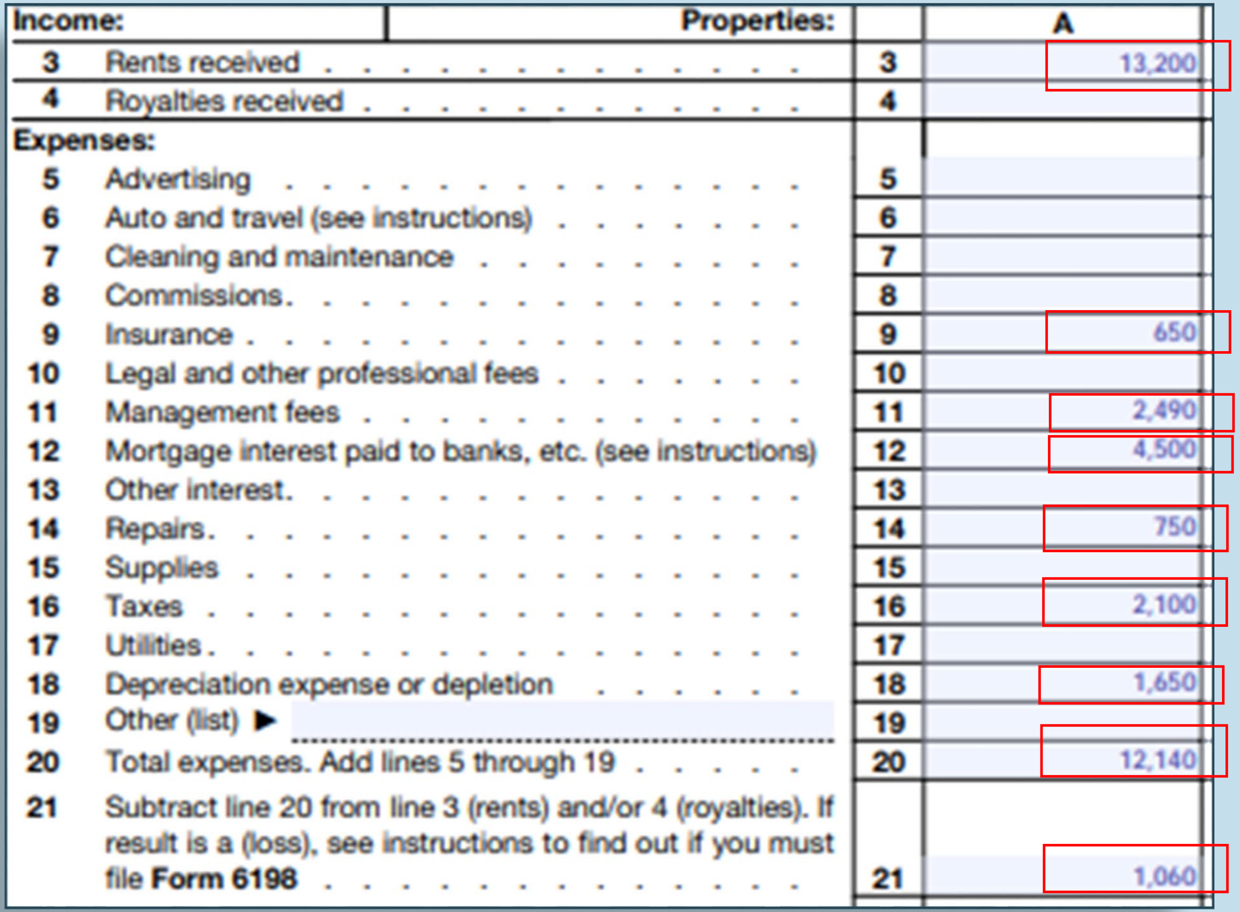
1b	Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A	1	A	365		☐
B	2	B	335	30	☐
C		C			☐

Type of Property:
1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

Income:	Properties:		A	B	C
3	Rents received	3	13,200	29,400	
4	Royalties received	4			
Expenses:					
5	Advertising	5		800	
6	Auto and travel (see instructions)	6			
7	Cleaning and maintenance	7		5,400	
8	Commissions	8			
9	Insurance	9	650	2,500	
10	Legal and other professional fees	10			
11	Management fees	11	2,490		
12	Mortgage interest paid to banks, etc. (see instructions)	12	4,500	13,200	
13	Other interest	13			
14	Repairs	14	750	2,500	
15	Supplies	15			
16	Taxes	16	2,100	4,000	
17	Utilities	17			
18	Depreciation expense or depletion	18	1,650	3,220	
19	Other (list) ▶	19			
20	Total expenses. Add lines 5 through 19	20	12,140	31,620	
21	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file **Form 6198**	21	1,060	(2,220)	
22	Deductible rental real estate loss after limitation, if any, on **Form 8582** (see instructions)	22	( )	( )	( )

23a	Total of all amounts reported on line 3 for all rental properties	23a	42,600
b	Total of all amounts reported on line 4 for all royalty properties	23b	
c	Total of all amounts reported on line 12 for all properties	23c	17,700
d	Total of all amounts reported on line 18 for all properties	23d	4,870
e	Total of all amounts reported on line 20 for all properties	23e	43,790
24	**Income.** Add positive amounts shown on line 21. **Do not** include any losses	24	1,060
25	**Losses.** Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25	(2,220)
26	**Total rental real estate and royalty income or (loss).** Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26	(1,160)

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11344L **Schedule E (Form 1040) 2021**



Income:	Properties:		A
3	Rents received	3	13,200
4	Royalties received	4	
Expenses:			
5	Advertising	5	
6	Auto and travel (see instructions)	6	
7	Cleaning and maintenance	7	
8	Commissions	8	
9	Insurance	9	650
10	Legal and other professional fees	10	
11	Management fees	11	2,490
12	Mortgage interest paid to banks, etc. (see instructions)	12	4,500
13	Other interest	13	
14	Repairs	14	750
15	Supplies	15	
16	Taxes	16	2,100
17	Utilities	17	
18	Depreciation expense or depletion	18	1,650
19	Other (list) ▶	19	
20	Total expenses. Add lines 5 through 19	20	12,140
21	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file **Form 6198**	21	1,060

Using a Worksheet to Analyze Schedule E

	Step 2A. Schedule E - Part I	For each property complete ONLY 2A or 2B				
A1	Enter total rents received.	Enter				
A2	Enter total expenses.	Subtract				
A3	Enter insurance expense.	Add				
A4	Enter mortgage interest paid.	Add				
A5	Enter tax expense.	Add				
A6	Enter homeowners' association dues. *This expense must be specifically identified on Schedule E in order to add it back.*	Add				
A7	Enter depreciation expense or depletion.	Add				
A8	Enter any one-time extraordinary expense (e.g., casualty loss). *There must be evidence of the nature of the one-time extraordinary expense.*	Add				
	Equals adjusted rental income.	Total	0	0	0	0
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	0	0	0	0
	Equals adjusted monthly rental income	Total	0	0	0	0
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
	Step 2A. Result: Monthly qualifying rental income (or loss):	Result	0	0	0	0

This is the section of Fannie Mae Form 1038 which helps to analyze Schedule E data.

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Analysis Scenario

Justin wants to refinance his primary residence. He also owns a single family home that he rents out.

You are analyzing Schedule E from his 2021 federal tax return.

His current monthly payment on the rental property breaks down as follows:

Principal and Interest:	**$517.00**
Real Estate Taxes:	**$260.00**
Insurance:	**$92.00**
Total PITIA:	**$869.00**

Schedule E Analysis

SCHEDULE E (Form 1040)
Department of the Treasury
Internal Revenue Service (99)

Supplemental Income and Loss
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)
▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041.
▶ Go to *www.irs.gov/ScheduleE* for instructions and the latest information.

OMB No. 1545-0074
2020
Attachment Sequence No. 13

Name(s) shown on return: William Homeowner
Your social security number: xxxxxxxxx

Part I **Income or Loss From Rental Real Estate and Royalties** **Note:** If you are in the business of renting personal property, use **Schedule C.** See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions . . . . . ☐ **Yes** ☐ **No**
B If "Yes," did you or will you file required Form(s) 1099? . . . . . ☐ **Yes** ☐ **No**

1a	Physical address of each property (street, city, state, ZIP code)
A	123 Hudson Street, Anytown, Nebraska
B	
C	

1b	Type of Property (from list below)		**Fair Rental Days**	**Personal Use Days**	**QJV**
A	1	**A**	365	0	☐
B		**B**			☐
C		**C**			☐

2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the **QJV** box only if you meet the requirements to file as a qualified joint venture. See instructions.

Type of Property:
1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

Income: Properties:		**A**	**B**	**C**
3 Rents received	**3**	14,400		
4 Royalties received	**4**			
Expenses:				
5 Advertising	**5**			
6 Auto and travel (see instructions)	**6**			
7 Cleaning and maintenance	**7**	1,545		
8 Commissions	**8**			
9 Insurance	**9**	1,100		
10 Legal and other professional fees	**10**			
11 Management fees	**11**			
12 Mortgage interest paid to banks, etc. (see instructions)	**12**	3,950		
13 Other interest	**13**			
14 Repairs	**14**	2,230		
15 Supplies	**15**			
16 Taxes	**16**	3,120		
17 Utilities	**17**	1,680		
18 Depreciation expense or depletion	**18**	2,120		
19 Other (list) ▶	**19**			
20 Total expenses. Add lines 5 through 19	**20**	15,745		
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file **Form 6198**	**21**	(1,345)		

Rental Income Worksheet
Individual Rental Income from Investment Property(s): Monthly Qualifying Rental Income (or Loss)

Documentation Required:		Investment Property Address	Investment Property Address	Investment Property Address	Investment Property Address
▪ Schedule E (IRS Form 1040) OR ▪ Lease Agreement or Fannie Mae Form 1007 or Form 1025	Enter	123 Hudson Street, Anytown, Nebraska			

Step 1. When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30.
If Fair Rental Days are not reported, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.

Step 1. Result: Enter the number of months the property was in service.	Result	12			

Fill in the property address and the number of months the property was in service during the last tax year.

Schedule E Analysis Using a Worksheet

Income:	Properties:		A	B	C
3	Rents received	3	14,400		
4	Royalties received	4			
Expenses:					
5	Advertising	5			
6	Auto and travel (see instructions)	6			
7	Cleaning and maintenance	7	1,545		
8	Commissions.	8			
9	Insurance	9	1,100		
10	Legal and other professional fees	10			
11	Management fees	11			
12	Mortgage interest paid to banks, etc. (see instructions)	12	3,950		
13	Other interest.	13			
14	Repairs.	14	2,230		
15	Supplies	15			
16	Taxes	16	3,120		
17	Utilities.	17	1,680		
18	Depreciation expense or depletion	18	2,120		
19	Other (list) ▶	19			
20	Total expenses. Add lines 5 through 19	20	15,745		
21	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21	(1,345)		

Step 2A. Schedule E - Part I			
A1	Enter total rents received.	Enter	14,400
A2	Enter total expenses.	Subtract	15,745
A3	Enter insurance expense.	Add	1,100
A4	Enter mortgage interest paid.	Add	3,950
A5	Enter tax expense.	Add	3,120
A6	Enter homeowners' association dues. *This expense must be specifically identified on Schedule E in order to add it back.*	Add	
A7	Enter depreciation expense or depletion.	Add	2,120
A8	Enter any one-time extraordinary expense (e.g., casualty loss). *There must be evidence of the nature of the one-time extraordinary expense.*	Add	
	Equals adjusted rental income.	Total	8,545
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	12
	Equals adjusted monthly rental income	Total	712
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract	869
	Step 2A. Result: Monthly qualifying rental income (or loss):	Result	(157)

How Income and Losses are Treated

How Rental Losses are Treated

If your calculation on Form 1038 results in a loss, that loss should be held against him as a monthly liability

	rt I		
		Enter	14,400
		Subtract	15,745
		Add	1,100
		Add	3,950
		Add	3,120
	dd it back.	Add	
		Add	2,120
	There must be	Add	
	Equals adjusted rental income.	Total	8,545
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	12
	Equals adjusted monthly rental income	Total	712
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract	[illegible]
	Step 2A. Result: Monthly qualifying rental income (or loss):	Result	(157)

We just used Schedule E and Form 1038 to determine Justin's income/loss on his rental property. We arrived at a loss so…

$157 must be added to his monthly liabilities.

How Rental Income is Treated

If your calculation on Form 1037 or 1038 results in a gain, that amount *may* be considered as additional income for the borrower

Let's look at the guidelines for adding income…

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How Rental Income is Treated

Guidelines for adding rental income to a borrower’s qualifying income

1. The borrower does not own a primary residence (or have a housing payment)
2. The borrower has a primary residence (or a housing payment) but does not have at least one year of property management experience.
3. The borrower has a primary residence (or housing payment) and has over one year of property management experience.

a. Rental income added to the borrower’s income cannot exceed the total PITIA for the property.

b. No rental income can be added to the borrower’s monthly income.

c. There is no limit to the amount of rental income that can be added to the borrower’s monthly income.

Summary

- Always use a worksheet to calculate rental income/losses.
- Even when not using rental income to qualify, calculations must be completed
- Calculation methods differ between owner-occupied properties with rental income and non-owner occupied investment properties.
- If using leases for a subject property, compare the rents with the appraisal data.
- Keep in mind that there are additional reserve requirements for borrowers with multiple investment properties and sometimes limits to the amount of properties a borrower can own.

MPF Program Contacts and Resources

MPF Service Center

Email - MPF-Help@FHLBC.com
Hours - 8:30 am to 4:30 PM CT
Phone: (877) 345-2673

MPF National Education

mpftraining@fhlbc.com

Keep up with MPF product guideline updates by subscribing to MPF Announcements:

www.fhlbmpf.com