

A photograph of a young couple smiling and looking at a document together. The woman is leaning over the man's shoulder, and they both appear to be in a professional or business setting.

# Analyzing Schedule E - Rental Income

## Completing FNMA Forms 1037, 1038, and 1039

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## Materials

### Please download the PDF

Use the file in the **File Share box** as a resource after today's webinar.

You can save it to your desktop for future reference.



# Objectives

## Today's session

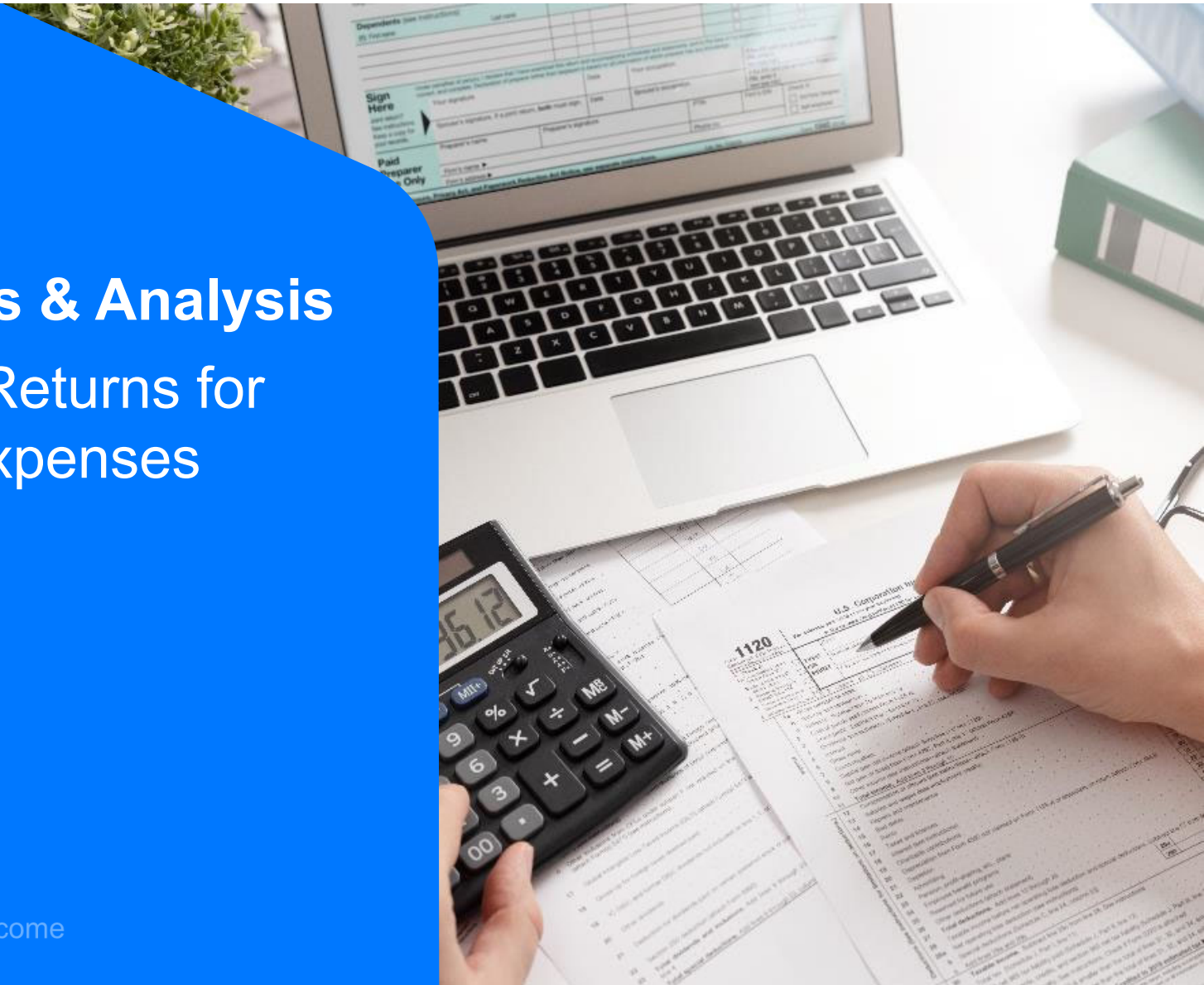
- Review the basic logic of reviewing Tax Returns for income/expenses when it comes to rental income
- Review the FNMA rental worksheets 1037 and 1038 in conjunction with Schedule E
- Review the FNMA worksheet 1039 in conjunction with IRS Form 8825 when rental income is reported through a borrower's business

## Objective 1

# Basic Concepts & Analysis

Reviewing Tax Returns for  
rental income/expenses

Analyzing Schedule E Rental Income



**Analyze tax returns for income that is:**

### **Regular**

Predictable and consistent

### **Recurring**

Determined by looking at the history and trends of this income to help predict the future of the income stream.

## Various Analysis Methods to Determine Income

### FNMA

Form 1037, Form 1038  
and/or Form 1039

### Proprietary

Your company or investor  
worksheet, spreadsheet  
calculation form



Refer to [FNMA's Selling Guide B3-3. 1-08](#) for additional details

### How are mortgage payments offset with rental income from Schedule E?

If rental income is reported on Schedule E, only the rental income that relates to properties shown on the list of real estate owned in the borrower's loan application should be included. All regular and ongoing expenses for the properties, such as maintenance, advertising, management fees, utilities, and supply costs, should be subtracted from the borrower's cash flow.

Depending on the approach used to calculate cash flow, adjustments will need to be made for depreciation and any one-time extraordinary expenses, such as the cost of a new roof in the case of a casualty event.

# Analysis

## Form 1040

Attach Sch. B if required.	<b>1</b>	Wages, salaries, tips, etc. Attach Form(s) W-2		<b>1</b>
	<b>2a</b>	Tax-exempt interest	<b>2a</b>	<b>b</b> Taxable interest
	<b>3a</b>	Qualified dividends	<b>3a</b>	<b>b</b> Ordinary dividends
Standard Deduction for— \$12,000 • Married filing jointly or Qualifying widow(er), \$24,800 • Head of household, \$18,650 • If you checked any box under Standard Deduction, see instructions.	<b>4a</b>	IRA distributions	<b>4a</b>	<b>b</b> Taxable amount
	<b>5a</b>	Pensions and annuities	<b>5a</b>	<b>b</b> Taxable amount
	<b>6a</b>	Social security benefits	<b>6a</b>	<b>b</b> Taxable amount
	<b>7</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		<b>7</b>
Line 8	<b>8</b>	Other income from Schedule 1, line 9		<b>8</b>
	<b>9</b>	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>		<b>9</b>
	<b>10</b>	Adjustments to income:		
	<b>a</b>	From Schedule 1, line 22	<b>10a</b>	
	<b>b</b>	Charitable contributions if you take the standard deduction. See instructions	<b>10b</b>	
	<b>c</b>	Add lines 10a and 10b. These are your <b>total adjustments to income</b>		<b>10c</b>
	<b>11</b>	Subtract line 10c from line 9. This is your <b>adjusted gross income</b>		<b>11</b>
	<b>12</b>	<b>Standard deduction or itemized deductions</b> (from Schedule A)		<b>12</b>
	<b>13</b>	Qualified business income deduction. Attach Form 8995 or Form 8995-A		<b>13</b>
	<b>14</b>	Add lines 12 and 13		<b>14</b>
	<b>15</b>	<b>Taxable income.</b> Subtract line 14 from line 11. If zero or less, enter -0-		<b>15</b>

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2020)

Analyzing Schedule E Rental Income



# Analysis

## Schedule 1 (Form 1040)

**SCHEDULE 1**  
(Form 1040)

Department of the Treasury  
Internal Revenue Service

### Additional Income and Adjustments to Income

▶ Attach to Form 1040, 1040-SR, or 1040-NR.

▶ Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

OMB No. 1545-0074

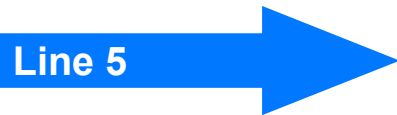
**2020**  
Attachment  
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number

#### Part I Additional Income

<b>1</b>	Taxable refunds, credits, or offsets of state and local income taxes . . . . .	<b>1</b>	
<b>2a</b>	Alimony received . . . . .	<b>2a</b>	
	<b>b</b> Date of original divorce or separation agreement (see instructions) ▶		
<b>3</b>	Business income or (loss). Attach Schedule C . . . . .	<b>3</b>	
<b>4</b>	Other gains or (losses). Attach Form 4797 . . . . .	<b>4</b>	
<b>5</b>	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	<b>5</b>	
<b>6</b>	Farm income or (loss). Attach Schedule F . . . . .	<b>6</b>	
<b>7</b>	Unemployment compensation . . . . .	<b>7</b>	
<b>8</b>	Other income. List type and amount ▶	<b>8</b>	
<b>9</b>	Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 . . . . .	<b>9</b>	



# Analysis

## Schedule E (Form 1040)

Income:		Properties:	A	B	C
<b>3</b>	Rents received . . . . .	<b>3</b>			
<b>4</b>	Royalties received . . . . .	<b>4</b>			
<b>Expenses:</b>					
<b>5</b>	Advertising . . . . .	<b>5</b>			
<b>6</b>	Auto and travel (see instructions) . . . . .	<b>6</b>			
<b>7</b>	Cleaning and maintenance . . . . .	<b>7</b>			
<b>8</b>	Commissions. . . . .	<b>8</b>			
<b>Line 9</b> → <b>9</b>	Insurance . . . . .	<b>9</b>			
<b>10</b>	Legal and other professional fees . . . . .	<b>10</b>			
<b>Line 12</b> → <b>12</b>	Mortgage interest paid to banks, etc. (see instructions)	<b>12</b>			
<b>13</b>	Other interest. . . . .	<b>13</b>			
<b>14</b>	Repairs. . . . .	<b>14</b>			
<b>15</b>	Supplies . . . . .	<b>15</b>			
<b>Line 16</b> → <b>16</b>	Taxes . . . . .	<b>16</b>			
<b>17</b>	Utilities . . . . .	<b>17</b>			
<b>Line 18</b> → <b>18</b>	Depreciation expense or depletion . . . . .	<b>18</b>			
<b>Line 19</b> → <b>19</b>	Other (list) ▶	<b>19</b>			
<b>20</b>	Total expenses. Add lines 5 through 19 . . . . .	<b>20</b>			

## Objective 2

### **FNMA 1037 and 1038**

Rental worksheets in  
conjunction with Schedule E

Analyzing Schedule E Rental Income



# FNMA 1037



## Rental Income Derived from the Principal Residence

### Principal Residence, 2- to 4-unit Property

Rental Income Worksheet				
Principal Residence, 2- to 4-unit Property: Monthly Qualifying Rental Income				
Documentation Required:		Address of Principal Residence:		
<ul style="list-style-type: none"> <li>Schedule E (or Form 1040-SS)</li> <li>Lease Agreement or Fannie Mae Form 1007 or Form 1025</li> </ul>		Unit:	Rental Unit:	Rental Unit:
<b>Step 1.</b> 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 shown, the property is considered to be in service for 12 months unless there is evidence of a shorter term of service.				
<b>Step 1. Result:</b> The number of months the property was in service:		<b>Result:</b>		
<b>Step 2.</b> Calculate monthly qualifying rental income using Step 2A, Schedule E OR Step 2B, Lease Agreement or Fannie Mae Form 1025.				
Step 2A, Schedule E - Part I For each property complete ONLY 2A or 2B				
A1	Enter total rents received (from the non-owner-occupied units), less owner-occupied (rental) units or cash fees.	Enter		
A2	Subtract real estate taxes.	Subtract		
A3	Add back insurance expense.	Add		
A4	Add back mortgage interest paid.	Add		
A5	Add back tax expense.	Add		
A6	Add back non-recovered depreciable expenses. The amounts must be apportioned determined by dividing by the number of rental units.	Add		
A7	Add back depreciation expense or depletion.	Add		
A8	Add back any other miscellaneous expenses (e.g., casualty loss). There must be evidence of loss on one of the tax return extraordinary expense.	Add		
Equals reported rental income.		<b>Total</b>	0	0
A9	Divide by the number of months the property was in service (Step 1. Result).	<b>Divide</b>	0	0
<b>Step 2A. Result:</b> Monthly qualifying rental income (or loss):		<b>Result:</b>	0	0
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 borrower's first lien.				
B1	Enter the gross monthly rents (from the lease agreement) or market rent (Form 1025) for the applicable rental unit.	Enter		
B2	Multiply gross monthly rent or market rent by 75% (.75). The ownership 25% covers for property tax, maintenance, and management expenses.	Multiply	0.75	0.75
Equals monthly gross rental income per unit.		<b>Total</b>	0	0
B3	Less the monthly rents income of all non-owner-occupied rental units (up to a maximum of 8 rental units) or rental income limitation of the unit, applicable to the borrower(s).	Add	0	
<b>Step 2B. Result:</b> Monthly qualifying rental income.		<b>Result:</b>	0	
Step 3. Determine the qualifying impact using the combined result of Step 2A or Step 2B.				
3A	Add the monthly qualifying rental income to the borrower's monthly qualifying income.		0	
3B	Identify the full amount of the 419 as the borrower's primary housing expense and include it in the debt to income ratio. Use previous PITI since the subject property owning PITI were not the subject property.			
DU Data Entry		Monthly Income and Combined Housing Expenses		Mortgage Liability
Subject Property	Enter the amount of the monthly qualifying income "Subject Net Cash."			Indicate the borrower's primary housing expense. For the borrower's primary housing mortgage as a subject property.
Non-Subject Property	Enter the amount of the monthly qualifying income "Net Rental."			Indicate the borrower's primary housing expense.

Refer to the Rental Income topic in the Selling Guide for additional guidance.

Rental Income Worksheet			
Principal Residence, 2- to 4-unit Property: Monthly Qualifying Rental Income			
<b>Documentation Required:</b> <ul style="list-style-type: none"> <li>Schedule E (IRS Form 1040) OR</li> <li>Lease Agreement or Fannie Mae Form 1007 or Form 1025</li> </ul>	Address of Principal Residence:		
	Enter	Rental Unit	Rental Unit
<b>Step 1.</b> When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30. <i>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.</i>			
<b>Step 1. Result:</b> The number of months the property was in service	<b>Result</b>		
<b>Step 2.</b> Calculate monthly qualifying rental income using Step 2A: Schedule E <b>OR</b> Step 2B: Lease Agreement or Fannie Mae Form 1025.			

# FNMA 1037

## Step 2 A

**Step 2.** Calculate monthly qualifying rental income using Step 2A: Schedule E **OR** Step 2B: Lease Agreement or Fannie Mae Form 1025.

**Step 2 A. Schedule E - Part I**      **For each property complete ONLY 2A or 2B**

A1	Enter total rents received (from the <b>non-owner-occupied</b> units). <i>May enter rent from individual unit(s) or combine.</i>	Enter		← Line 3 from Schedule E	
A2	Subtract total expenses.	Subtract		← Line 20 from Schedule E	
A3	Add back insurance expense.	Add		← Line 9 from Schedule E	
A4	Add back mortgage interest paid.	Add		← Line 12 from Schedule E	
A5	Add back tax expense.	Add		← Line 16 from Schedule E	
A6	Add back homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i>	Add		← Lines 10, 11, or 19 from Schedule E	
A7	Add back depreciation expense or depletion.	Add		← Line 18 from Schedule E	
A8	Add back any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add		← Line 19 from Schedule E	
	Equals adjusted rental income.	Total		← Add Lines A1-A8	
A9	Divide by the number of months the property was in service (Step 1 Result).	Divide		← Divide by # of mos (Step 1)	
<b>Step 2A. Result:</b> Monthly qualifying rental income (or loss):		<b>Result</b>	0	0	0

Step 2B. Lease Agreement OR Fannie Mae Form 1025 <b>For each property complete ONLY 2A or 2B</b>			
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	
B2	Multiply gross monthly rent or market rent by 75% (.75). <i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75      x.75      x.75
	Equals monthly rental income per unit	Total	0      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
<b>Step 2B. Result:</b> Monthly qualifying rental income:		<b>Result</b>	0
<b>Step 3. Determine the qualifying impact using the combined result of Step 2A or Step 2B.</b>			
3A	Add the monthly qualifying rental income to the borrower's monthly qualifying income.		0
3B	Identify the full amount of the PITIA as the borrower's primary housing expense and include it in the debt-to-income ratio. <i>Use proposed PITIA when the subject property; existing PITIA when not the subject property.</i>		
DU Data Entry	Monthly Income and Combined Housing Expenses	Mortgage Liabilities	
Subject Property	Enter the amount of the monthly qualifying income "Subject Net Cash."	Include as the borrower's primary housing expense. For refinance transactions, identify the mortgage as a subject property lien.	
Non-Subject Property	Enter the amount of the monthly qualifying income "Net Rental."	Include as the borrower's primary housing expense.	

Refer to the Rental Income topic in the Selling Guide for additional guidance.

# FNMA 1037

## Shown: Schedule E (Form 1040)

Income:		Properties:		A	B	C
<b>3</b>	Rents received . . . . .	<b>3</b>				
<b>4</b>	Royalties received . . . . .	<b>4</b>				
<b>Expenses:</b>						
<b>5</b>	Advertising . . . . .	<b>5</b>				
<b>6</b>	Auto and travel (see instructions) . . . . .	<b>6</b>				
<b>7</b>	Cleaning and maintenance . . . . .	<b>7</b>				
<b>8</b>	Commissions. . . . .	<b>8</b>				
<b>Line 9</b> → <b>9</b>	Insurance . . . . .	<b>9</b>				
<b>10</b>	Legal and other professional fees . . . . .	<b>10</b>				
<b>Line 12</b> → <b>12</b>	Mortgage interest paid to banks, etc. (see instructions)	<b>12</b>				
<b>13</b>	Other interest. . . . .	<b>13</b>				
<b>14</b>	Repairs. . . . .	<b>14</b>				
<b>15</b>	Supplies . . . . .	<b>15</b>				
<b>Line 16</b> → <b>16</b>	Taxes . . . . .	<b>16</b>				
<b>17</b>	Utilities . . . . .	<b>17</b>				
<b>Line 18</b> → <b>18</b>	Depreciation expense or depletion . . . . .	<b>18</b>				
<b>Line 19</b> → <b>19</b>	Other (list) ▶	<b>19</b>				
<b>20</b>	Total expenses. Add lines 5 through 19 . . . . .	<b>20</b>				



# FNMA 1038



## Rental Income Derived from Investment Property(s)

## Individual Income from Investment Property(s)

Rental Income Worksheet					
Individual Rental Income from Investment Property(s): Monthly Qualifying Rental Income (or Loss)					
Documentation Required:					
* Lease Agreement or Fannie Mae Form 1007 or Form 1005					
Step 1: When using Schedule E, determine the number of months the property was in service by checking the Fair Rental Steps by 30. If Fair Rental Steps are not completed, 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			
Step 2: Calculate monthly qualifying rental income (loss) using Step 2A (Lease) or Step 2B (Lease Agreement or Fannie Mae Form 1007 or Form 1005).					
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 expenses.	Add			
A4	Enter mortgage interest paid.	Add			
A5	Enter tax expenses.	Add			
A6	Enter homeowners' association dues, not including dues for special assessments or levies.	Add			
A7	Enter depreciation on assets used in production.	Add			
A8	Enter any other tax-deductible expenses (e.g., real estate taxes).	Add			
Equals (C), net rental income.		Total	0	0	0
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	0	0	0
Equals (C), net monthly rental income.		Total	0	0	0
A10	Enter proposed PITs for subject property or exclude "I" for non-subject property.	Subtract			
Step 2A: Result: Monthly qualifying rental income (or loss):		Result	0	0	0
Step 2B: Lease Agreement OR Fannie Mae Form 1007 or Form 1005 For each property complete ONLY 2A or 2B					
The method used when the transaction is a purchase, the property was acquired or leased to the borrower for RFI, or the borrower purchased the property from the lender.					
B1	Enter the gross monthly rent (from the lease agreement) or interest rate (as reported on Form 1007 or Form 1005). Do not include property tax, insurance, and other fees.	Enter			
B2	Use the following percentages for vacancy loss, maintenance, and management expenses.	Monthly	x.75	x.75	x.75
Equals (C), net monthly rental income.		Total	0	0	0
B3	Enter proposed PITs for subject property or exclude "I" for non-subject property.	Subtract			
Step 2B: Result: Monthly qualifying rental income (or loss):		Result	0	0	0
Step 3: Determine the qualifying impact using the result of Step 2A or Step 2B.					
If the result of Step 2A or 2B is positive, add the positive amount to the borrower's monthly qualifying income. Exclude any PITs received on the calculation above. Do not add "I" to the asset-to-income (ATI) ratio.					
If the result of Step 2A or 2B is negative, include the amount of the loss or the borrower's monthly expenses when calculating the ATI ratio.					
DU Data Entry			Monthly Income and Combined Housing Expenses		Mortgage Liabilities
Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Net Rental."		For finance transactions, identify the mortgage as a subject property loan.		
Non-Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Net Rental."		Identify the mortgage as a non-subject property loan.		

Refer to the Rental Income rule in the Selling Guide for additional guidance.

# FNMA 1038

## Step 1

Rental Income Worksheet					
Individual Rental Income from Investment Property(s): Monthly Qualifying Rental Income (or Loss)					
<b>Documentation Required:</b> <ul style="list-style-type: none"> <li>Schedule E (IRS Form 1040) OR</li> <li>Lease Agreement or Fannie Mae Form 1007 or Form 1025</li> </ul>	Enter	Investment Property Address	Investment Property Address	Investment Property Address	Investment Property Address
<b>Step 1.</b> When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30. <i>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</i>					
<b>Step 1. Result:</b> Enter the number of months the property was		<b>Result</b>			
<b>Step 2.</b> Calculate monthly qualifying rental income (loss) using Step 2A: Schedule E <b>OR</b> Step 2B: Lease Agreement or Fannie Mae Form 1007 or Form 1025.					

# FNMA 1038

## Step 2 A

Step 2A. Schedule E - Part I		For each property complete ONLY 2A or 2B					
A1	Enter total rents received.	Enter					Line 3 from Schedule E
A2	Enter total expenses.	Subtract					Line 20 from Schedule E
A3	Enter insurance expense.	Add					Line 9 from Schedule E
A4	Enter mortgage interest paid.	Add					Line 12 from Schedule E
A5	Enter tax expense.	Add					Line 16 from Schedule E
A6	Enter homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i>	Add					Line 10, 11, or 19 from Schedule E
A7	Enter depreciation expense or depletion.	Add					Line 18 from Schedule E
A8	Enter any one-time extraordinary expense (e.g., casualty loss). <i>There must be evidence of the nature of the one-time extraordinary expense.</i>	Add					Line 19 from Schedule E
	Equals adjusted rental income.	Total					Add Lines A1-A8 and enter here
A9	Enter the number of months the property was in service (Step 1 Result).	Divide					Divide by # of mos (Step 1)
	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					
<b>Step 2A. Result:</b> Monthly qualifying rental income (or loss):		<b>Result</b>	0	0	0	0	

# FNMA 1038

## Step 2 B – 3

Step 2B. Lease Agreement OR Fannie Mae Form 1007 or Form 1025 <b>For each property complete ONLY 2A or 2B</b>						
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). <i>For multi-unit properties, combine gross rent from all rental units.</i>	Enter				
B2	<i>The remaining 25% accounts for vacancy loss, maintenance, and management expenses.</i>	Multiply	x.75	x.75	x.75	x.75
	Equals adjusted monthly rental income.	Total	0	0	0	0
B3	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
	<b>Step 2B. Result:</b> Monthly qualifying rental income (loss):	<b>Result</b>	0	0	0	0
Step 3. Determine the qualifying impact using the result of Step 2A or Step 2B.						
If the result of Step 2A or 2B is <b>positive</b> , add the positive amount to the borrower's monthly qualifying income. <i>Because the PITIA expense was included in the calculations above, do not add it to the debt-to-income (DTI) ratio.</i>						
If the result of Step 2A or 2B is <b>negative</b> , include the amount of the loss in the borrower's monthly expenses when calculating the DTI ratio.						
DU Data Entry	Monthly Income and Combined Housing Expenses	Mortgage Liabilities				
Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Subject Net Cash."	For refinance transactions, identify the mortgage as a subject property lien.				
Non-Subject Property	Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Net Rental."	Identify the mortgage as a rental property lien.				

Refer to the Rental Income topic in the Selling Guide for additional guidance.

## Objective 3

### **Review the FNMA 1039**

In conjunction with IRS Form 8825 when rental income is reported through a borrower's business

Analyzing Schedule E Rental Income



# Form 8825

## Rental Income Reported on Business Returns

Form <b>8825</b> <small>(Rev. November 2014) Department of the Treasury Internal Revenue Service</small>		<b>Rental Real Estate Income and Expenses of a Partnership or an S Corporation</b> <small>▶ Attach to Form 1065 or Form 1120S. ▶ Go to <a href="http://www.irs.gov/Form8825">www.irs.gov/Form8825</a> for the latest information.</small>				OMB No. 1545-0123	
Name					Employer identification number		
<b>1</b> Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.							
	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1–6; see page 2 for list	Fair Rental Days	Personal Use Days			
A							
B							
C							
D							
<b>Rental Real Estate Income</b>		<b>Properties</b>					
<b>2</b> Gross rents . . . . .	<b>2</b>	A	B	C	D		
<b>Rental Real Estate Expenses</b>							
<b>3</b> Advertising . . . . .	<b>3</b>						
<b>4</b> Auto and travel . . . . .	<b>4</b>						
<b>5</b> Cleaning and maintenance . . . . .	<b>5</b>						
<b>6</b> Commissions . . . . .	<b>6</b>						
<b>7</b> Insurance . . . . .	<b>7</b>						
<b>8</b> Legal and other professional fees . . . . .	<b>8</b>						
<b>9</b> Interest (see instructions) . . . . .	<b>9</b>						
<b>10</b> Repairs . . . . .	<b>10</b>						
<b>11</b> Taxes . . . . .	<b>11</b>						
<b>12</b> Utilities . . . . .	<b>12</b>						
<b>13</b> Wages and salaries . . . . .	<b>13</b>						
<b>14</b> Depreciation (see instructions) . . . . .	<b>14</b>						
<b>15</b> Other (list) ▶ . . . . .	<b>15</b>						
<b>16</b> Total expenses for each property. Add lines 3 through 15 . . . . .	<b>16</b>						
<b>17</b> Income or (loss) from each property. Subtract line 16 from line 2 . . . . .	<b>17</b>						
<b>18a</b> Total gross rents. Add gross rents from line 2, columns A through H . . . . .	<b>18a</b>						
<b>18b</b> Total expenses. Add total expenses from line 16, columns A through H . . . . .	<b>18b</b>						
<b>19</b> Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities . . . . .	<b>19</b>						
<b>20a</b> Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1) . . . . .	<b>20a</b>						
b Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed.							
(1) Name		(2) Employer identification number					
_____		_____					
_____		_____					
_____		_____					
<b>21</b> Net rental real estate income (loss). Combine lines 18a through 20a. Enter the result here and on: • Form 1065 or 1120S; Schedule K, line 2		<b>21</b>					

For Paperwork Reduction Act Notice, see instructions. Cat. No. 10135Z Form 8825 (Rev. 11-2014)



# FNMA 1039

Shown: Form 8825

Rental Real Estate Income		Properties							
		A	B	C	D				
<b>2</b>	Gross rents . . . . .	<b>2</b>							
<b>Rental Real Estate Expenses</b>									
<b>3</b>	Advertising . . . . .	<b>3</b>							
<b>4</b>	Auto and travel . . . . .	<b>4</b>							
<b>5</b>	Cleaning and maintenance . .	<b>5</b>							
<b>6</b>	Commissions . . . . .	<b>6</b>							
<b>Line 7</b> →	<b>7</b> Insurance . . . . .	<b>7</b>							
<b>Line 9</b> →	<b>8</b> Legal and other professional fees	<b>8</b>							
<b>Line 11</b> →	<b>9</b> Interest (see instructions) . .	<b>9</b>							
	<b>10</b> Repairs . . . . .	<b>10</b>							
	<b>11</b> Taxes . . . . .	<b>11</b>							
	<b>12</b> Utilities . . . . .	<b>12</b>							
	<b>13</b> Wages and salaries . . . . .	<b>13</b>							
<b>Line 14</b> →	<b>14</b> Depreciation (see instructions)	<b>14</b>							
<b>Line 15</b> →	<b>15</b> Other (list) ▶								
		<b>15</b>							
<b>16</b>	Total expenses for each property. Add lines 3 through 15 . . . . .	<b>16</b>							
<b>17</b>	Income or (loss) from each property. Subtract line 16 from line 2 . . . .	<b>17</b>							

# FNMA 1039

## Rental Income Derived from Investment Property(s) owned by a Business Entity\*

\* And the borrower is personally obligated on the mortgage

Rental Income Worksheet				
Business Rental Income from Investment Property(s): Qualifying Impact of Mortgaged Investment Property PITIA Expense				
Documentation Required: • IRS Form 990-B (file with either IRS Form 1065 or 1120C) OR • Lease Agreement	Free	Property Address	Property Address	Property Address
Enter the mortgage and the mortgage loan account number.	Free	Mortgage #	Mortgage #	Mortgage #
Step 1. When using IRS Form 990-B, 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			
Step 2. Calculate monthly property cash flow using Step 2A: IRS Form 990-B OR Step 2B: Lease Agreement.				
Step 2A: IRS Form 990-B (IRS Form 1065 or 1120C)		For each property complete ONLY 2A or 2B		
41 Enter gross rental received.	Enter			
42 Enter total expenses.	Subtract			
43 Enter insurance expense.	Add			
44 Enter mortgage interest paid.	Add			
45 Enter tax expense.	Add			
46 Enter income tax recalculation clause. This worksheet is subject to the calculation from asset income credit tax.	Add			
47 Enter depreciation expense or deduction.	Add			
48 Enter any one-time expensed entry expense (e.g., one-time cost). There must be evidence of the nature of the expense and recovery expense.	Add			
49 Total adjusted rental income.	Total	0	0	0
50 The number of months the property was in service (Step 1. Result).	Multiply	0	0	0
51 Equalize adjusted monthly rental income.	Total	0	0	0
52 Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract			
Step 2A. Result: Monthly property cash flow.	Result	0	0	0
Step 2B: Lease Agreement		For each property complete ONLY 2A or 2B		
This method is used in order to circumvent (i.e., avoid) the property-level requirements required by the more robust regulation of the Federal Reserve (i.e., FedRes) in a lease agreement.				
B1 Enter the gross monthly rent from the lease agreement for multiple properties, combined with the gross monthly rental income.	Enter			
B2 Enter any PITIA expense (for recovery cost, maintenance and management expenses).	Subtract	4.75	4.75	4.75
B3 Total adjusted monthly rents.	Total	0	0	0
B4 Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract			
Step 2B. Result: Monthly property cash flow.	Result	0	0	0
Step 3. Determine qualifying impact of the mortgaged investment property PITIA expense.				
If the result of Step 2A or 2B is negative, include this loss, net to exceed the monthly PITIA expense, in the debt-income ratio.				
If the result of Step 2A or 2B is positive, the full amount of the PITIA expense has been offset. Do not include it in the debt-income ratio.				
Important: This worksheet provides a means of calculating an offset to the monthly PITIA. To add any net income to the borrower's qualifying income, additional requirements apply (e.g., five-year history vs. one-year history). Refer to the Self-Employment Income tool in the Selling Guide.				
DU Data Entry	Monthly Income and Combined Housing Expenses	Mortgage Liabilities	Real Estate Owned	
Subject Property	Enter the amount of the net rental monthly cash flow in "Subject Rental" if the monthly property cash flow is positive OR \$0.00	For refinanced transactions, identify the mortgage as a subject or equity lien.	PITIA Schedule B completes, and then the "Net Rental Income" field reflects the: • 10% amount of the property cash flow if the property cash flow is positive, or • \$0.00 if the net rental property cash flow is negative.	
Non-Subject Property	Enter the amount of the net rental monthly cash flow in "Total Rental" if the monthly property cash flow is positive OR \$0.00	Identify the mortgage as a non-subject lien.		

Refer to the Rental Income topic in the Selling Guide for additional guidance.

Analyzing Schedule E Rental Income





## Worksheet

## How to find Radian's SEB Cash Flow Worksheets

1. Click on the Menu on the top left of radian.com
2. Click on Tools
3. Click on Self-Employed Cash Flow Calculator

### Tools

Optimize your workflow with our streamlined tools.

#### MI Rate Finder

Get accurate quotes on a range of MI products.

#### Self-Employed Cash Flow Calculator

Easily underwrite loan applications from self-employed borrowers.

#### Variable Income Analysis Calculator

See if overtime, bonuses and commissions can be considered.

#### MyRadian Appraisals

Designed for appraisers to streamline and simplify their daily tasks and communications.

# Worksheet

## How to find Radian's SEB Cash Flow Worksheets

### 1. Click on Download

#### Cash Flow Analysis

This self-employed income analysis and the included descriptions generally apply to individuals:

- Who have 25% or greater interest in a business
- Who are employed by family members
- Who are paid commissions
- Who own rental property
- Who receive variable income, have earnings reported on IRS 1099, or cannot otherwise be verified by an independent and knowable source

To estimate and analyze a borrower's cash flow situation, enter the required data into the cash flow analysis calculator according to the calculations that appear on the borrower's tax returns. Line by line explanations are displayed by hovering the cursor over the help buttons at the beginning of each line. Line item losses are entered with parenthesis ( ). Any data from the respective forms and schedules listed in the cash-flow analysis should be independently reviewed to determine whether the source was appropriate, can be considered ongoing, consistent, and meets investor requirements and guidelines.

Download



Analyzing Schedule E Rental Income

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# Worksheet

## How to find Radian's SEB Cash Flow Worksheets

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### Rental Income Worksheet

#### Primary Residence: Monthly Qualifying Rental Income

Documentation Required:

- Schedule E (IRS Form 1040) OR
- Lease Agreement or Appraisal Report

Address of Principal Residence:

**Step 1** When using Schedule E, determine the number of months the property was in service by dividing the Fair Rental Days by 30. *Schedule E, Part I Box 2, A, B, C. 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.*

Enter	Rental Unit	Rental Unit	Rental Unit
	Fair Rental Days divided by 30		
<b>Result</b>	0.00	0.00	0.00

**Step 1. Result:** The number of months the property was in service:

**Step 2** Calculate the monthly qualifying rental income using Step 2A: Schedule E OR Step 2B: Lease Agreement or Appraisal Report.

#### Step 2 A. Schedule E - Part I

A1	Enter total rents received (from the <b>non-owner-occupied</b> units). <i>May enter rent from individual unit(s) or combine.</i> <b>Line 3</b>	Enter			
A2	Enter total expenses. <b>Line 20</b>	Subtract			
A3	Add back insurance expense. <b>Line 9</b>	Add			
A4	Add back mortgage interest paid. <b>Line 12</b>	Add			
A5	Add back tax expense. <b>Line 16</b>	Add			
A6	Add back homeowners' association dues. <i>This expense must be specifically identified on Schedule E in order to add it back.</i> <b>Line 19</b>				
A7	Add back depreciation expense or depletion. <b>Line 18</b>				
A8	Add back any one-time extraordinary expense (e.g., roof replacement) with evidence of the nature of the one-time extraordinary expense. <i>Other one-time expenses (new roof or major repairs) generally on Line 19. Other one-time expenses (new roof or major repairs) may be found on the other expense lines.</i>				
	Equalized rental income	Total	0.00	0.00	0.00

**Rental Income**

Instructions-Cash Flow Analysis	Calculator	Liquidity Test	<b>Rental Income-Primary Residen</b>	Other Rental Income Worksheet	IRS Form 8825 Worksheet
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Analyzing Schedule E Rental Income

## Worksheet

# How to find Radian's National Training's Self-Employed Borrower and Tax Return Resources

1. Click on the Menu on the top left of radian.com
2. Click on Training
3. Find Foundations On-Demand, then click on View Courses under Self-Employed Borrowers
4. Scroll down and you'll find all our Self-Employed Borrower resources including the Calculator Tutorial



## SEB Calculator Tutorial

Understand and evaluate Self-Employed Borrower (SEB) income to make informed loan decisions.

[Watch Video](#)

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## Conclusion

**Thank you for attending today's Radian webinar.**

Look for additional [resources](#), [updates](#) and [training](#) in the "Thank You" email.

**Have questions about Radian or MI?**

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Analyzing Schedule E Rental Income

