

Rental Income

Purpose:

Summary: There are a number of questions that must be answered when analyzing a borrower's rental properties. To support your review, take advantage of Radian's Cash Flow Analysis calculator tool, found on [Radian.com](https://www.radian.com).

Does the borrower qualify with the full payment for the rental property?

- Yes (Do not continue with Rental Income Checklist; rental income isn't needed to qualify)
- No (Continue)

What type of property is the rental income coming from?

- 1-unit Primary Residence – refer to Agency Guidelines for eligibility
- 2-4 Unit Primary Residence (Use the **Rental Income – Primary Residence** tab)
 - PITIA to be included as a debt; net rental income may be added to stable monthly income when all guidelines are met
- 1-4 Unit Investment Property (Use the **Other Rental Income** tab)
 - Determine the cumulative income/loss for all 1-4 unit investment properties; Positive/Negative Rental Income may be applied (if all agency guidelines are met)

When was the rental property obtained/placed in service?

- During or since the most recent tax year
- Previously (i.e., property shows on borrower's most recent Schedule E)

Is the property:

- Owned free and clear (verify the taxes, insurance, and any HOA fees if they are not reflected on the Schedule E, otherwise use the amounts from the Schedule E)
- Mortgaged (mortgage statement required to determine if escrows are included or not; if the lien shows on the credit report and is listed as FHA, it can be validated that escrows are included due to the nature of the program)

Does the payment for the rental property include escrows for taxes and insurance?

- Yes (Add back the Insurance and Tax expenses on lines A3 and A5 of the Worksheet)
- No (Do not add back the Insurance and Tax expenses on lines A3 and A5)

Documentation

- Schedule E
- Lease (using 75% of the gross monthly rent); acceptable if one of the following apply:
 - Rental was acquired during or since the most recent tax year
 - Rental was out of service for an extended period (e.g., renovations)
 - Some other situation warrants an exception to use a current lease agreement (rare)

Is my lease valid?

- FHLMC – original term of one year term required
- FNMA – month-to-month is acceptable with validation it is still active