



Purchasing Guidelines: How To Buy A 2nd Home With Your 1st Home's Rental Income.

HUD Guidelines:

Exceptions to the Exclusion of Rental Income From a Principal Residence Being Vacated by a Borrower

When a borrower vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA [HOC](#), may be considered in the underwriting analysis, under the circumstances listed in the table below.

Reference: For information on jurisdictional HOC vacancy factors, see <http://www.hud.gov/offices/hsg...> .

Exception	Description
Relocations	<p>The borrower is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally-recognized commuting distance.</p> <p>A properly executed lease agreement (that is, a lease signed by the borrower and the lessee) of at least one year's duration after the loan is closed is required.</p> <p>Note: FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence that the first month's rent was paid to the lessee.</p>
Sufficient Equity in Vacated Property	<p>The borrower has a loan-to-value (LTV) ratio of 75% or less, as determined by</p> <ul style="list-style-type: none"> • a residential appraisal no more than six months old, or • comparing the unpaid principal balance to the

	<p style="text-align: center;">original sales price of the property.</p> <p style="text-align: center;">Note: The appraisal may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055 , Exterior-Only Inspection Residential Appraisal Report or, for condominium units, form Fannie Mae 1075/Freddie Mac 466 , Exterior-Only Inspection Individual Condominium Unit Appraisal Report.</p>
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Fannie Mae Guidelines:

Fannie Mae will continue to permit up to 75 percent of the rental income to be used to offset the mortgage payment in qualifying if there is documented equity of at least 30 percent in the existing property (derived from an appraisal, AVM, or BPO, minus outstanding liens).

The rental income must be documented with:

- a copy of the fully executed lease agreement; and
- the receipt of a security deposit from the tenant and deposit into the borrower’s account.

If the 30 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment.

- Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and
- 6 months of PITI for both properties is required to be in reserves.

Freddie Mac Guidelines:

<p>The Borrower must have reserves equal to six monthly payments of PITI for the new Primary Residence and six monthly payments of PITI for the property being converted. The required reserves can be reduced to two monthly payments of PITI for the new Primary Residence and two monthly payments of PITI for the property being converted if the following requirements are met:</p>	
•	<p>The Seller documents the value of the property being converted by obtaining a new appraisal with at least an exterior-only inspection that meets Freddie</p>

	<p>Mac requirements and is dated no more than 60 days prior to the Note Date, or for Mortgages for Newly Constructed Homes, the Effective Date of Permanent Financing, and</p>
<ul style="list-style-type: none"> • 	<p>The LTV/TLTV/HTLTV ratio for the property being converted is less than or equal to 70%.</p>

<ul style="list-style-type: none"> • 	<p>If the LTV/TLTV/HTLTV ratio of the property being converted is less than or equal to 70% as evidenced by an appraisal with at least an exterior-only inspection that meets Freddie Mac requirements as described above, the Seller can use rental income to qualify the Borrower provided that the requirements of Section 37.14(d) are met, including the requirement that the Borrower's federal income tax returns must reflect a two-year history of managing investment properties when a signed lease is used to determine the net rental income. The rental income must be documented with a copy of the fully executed lease and, in addition, the receipt of a security deposit from the tenant with evidence of the deposit into the Borrower's designated account.</p> <p>If the LTV/TLTV/HTLTV ratio is greater than 70% for the Primary Residence being converted to an Investment Property, the Seller cannot use rental income to qualify the Borrower. The Borrower's previous housing payment and the payments on the subject Mortgage must both be included the monthly debt payment-to-income ratio in accordance with the requirements in Section 37.16.</p>
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VA Guidelines:

Verification: Rental of the Property Applicant Occupied Prior to the New Loan
 Obtain a copy of the rental agreement on the property, if any.

Analysis: Rental of the Property Applicant Occupied Prior to the New Loan
 Use the prospective rental income only to offset the mortgage payment on the rental property and only if there is no indication that the property will be difficult to rent. This rental income may not be included in effective income.

Obtain a working knowledge of the local rental market. If there is no lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes.

Verification: Rental of Other Property Not Securing the VA Loan

Obtain the following:

- documentation of cash reserves totaling at least 3 months mortgage payments (principal, interest, taxes, and insurance - PITI), and
- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show rental income generated by the property.

Have questions? Email us: TheGuys@TheREsource.tv