

## Rental Income Worksheet

### Business Rental Income from Investment Property(s): Qualifying Impact of Mortgaged Investment Property PITIA Expense

**Documentation Required:**

- IRS Form 8825 (filed with either IRS Form 1065 or 1120S) OR
- Lease Agreement

Enter

Property Address

Property Address

Enter the mortgagee and the mortgage loan account number.

Enter

Mortgagee/ #

Mortgagee/ #

**Step 1.** When using IRS Form 8825, 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:** The number of months the property was in service:

**Result**
**Step 2.** Calculate monthly property cash flow using Step 2A: IRS Form 8825 **OR** Step 2B: Lease Agreement.

#### Step 2 A. IRS Form 8825 (IRS Form 1065 or 1120S)

A1 Enter gross rents received.

Enter

A2 Subtract total expenses.

Subtract

A3 Add back insurance expense.

Add

A4 Add back mortgage interest paid.

Add

A5 Add back tax expense.

Add

A6 Add back homeowners' association dues.

*This expense must be specifically identified on Form 8825 in order to add it back.*

Add

A7 Add back depreciation expense or depletion.

Add

A8 Add back 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

A9 Divide by the number of months the property was in service (Step 1 Result).

Divide

Equals adjusted monthly rental income.

Total

A10 Subtract proposed PITIA (for subject property) or existing PITIA (for non-subject property).

Subtract

**Step 2A. Result:** Monthly property cash flow:

**Result**

#### Step 2 B. Lease Agreement

*This method is used in certain circumstances (e.g., when 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).

*For multi-unit properties, combine the monthly qualifying income of all rental units.*

Enter

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

Equals adjusted monthly rents.

Total

B3 Subtract proposed PITIA (for subject property) or existing PITIA (for non-subject property).

Subtract

**Step 2B. Result:** Monthly property cash flow:

**Result**

#### 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, not to exceed the monthly PITIA expense, in the debt-to-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-to-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., two-year history vs. one-year history). Refer to the Self-Employment Income topic 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 negative monthly property cash flow in "Subject Net Cash." If the monthly property cash flow is positive, enter \$0.00.

For refinance transactions, identify the mortgage as a subject property lien.

If REO Schedule is completed, confirm that the "Net Rental Income" field reflects either

Non-Subject Property

Enter the amount of the negative monthly property cash flow in "Net Rental." If the monthly property cash flow is positive, enter \$0.00.

Identify the mortgage as a rental property lien.

- the amount of the property cash flow if it is negative, or
- \$0.00 if the monthly property cash flow is positive.

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