



MFM Bulletin: 027-2023

Date: October 24, 2023

Subject: Fannie May Policy Updates

Fannie Mae has recently issued bulletins with the following updates regarding Rental Income, Self-Employed Borrowers, and Manufactured Housing:

Rental Income

Fannie Mae aligned the use of rental income that can be considered for qualifying purposes for non-subject rental properties that have become rental properties within the last 12 months (investment properties or two- to four-unit primary residences), with that of rental income earned from the subject property. This update will require the borrower to have a primary housing expense and at least a one-year history of property management experience to use the full amount of rental income towards qualifying. Otherwise, the amount of rental income that may be used to qualify may be limited.

Additionally, they amended documentation requirements when using lease agreements for qualifying:

- Form 1007 or Form 1025 must support the income reflected on the lease agreement; or,
- the lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least two-month's rental payments.

Fannie Mae also provided supplemental scenarios for documenting partial rental income when the rental property was not in service the previous tax year or was only in service for a portion of the previous tax year.

MFM will implement these changes with loans applications beginning November 1, 2023.

See below for instructions on **Calculating Monthly Qualifying Rental Income (or Loss)**.

Self Employed Borrowers

- **Length of Self-Employment:** Fannie updated the Selling Guide to clarify the requirements when the borrower has less than a two-year history of self-employment. These clarifications include a requirement for the signed personal and business federal income tax returns to reflect a minimum of 12 months of self-employment income from the current business.

MFM will implement these changes immediately.

- **Tax Return Requirements for Self-Employed Borrowers:** When a loan is underwritten through DU, DU may determine that only one year of tax returns is required to document self-employed income.



- **Updated Policy to Allow One Year of Personal and Business Tax Returns, when:**
 - all self-employed businesses have been in existence for **five years; and,**
 - the borrower has had a 25% or greater ownership interest for the last five consecutive years. The lender is responsible for documenting ownership. If tax documents are used, the lender is not required to evaluate prior year's tax documentation.

MFM will implement this policy effective with applications dated on or after November 1, 2023

Manufactured Housing Data Plate

Currently, our policy on manufactured housing requires both the HUD Data Plate and HUD Certification Label information be provided in the appraisal report. With this Fannie Mae policy update, only one of the two will be required.

MFM will implement this policy by requiring only the HUD Label (metal plates on the exterior of each side of the manufactured home. The interior Data Plate/Compliance Certificate will not be required **for Fannie Mae loans only.**

MFM will implement these policies immediately.

Note: This update does not apply to newly constructed manufactured homes because these items must be present on all new units.

Thank you



Calculating Monthly Qualifying Rental Income (or Loss):

Rental income must be calculated for each rental property. To determine the amount of monthly rental income from each property that can be used for qualifying purposes, the lender must consider the following:

If the borrower...	And rental income is from the...	Then for qualifying purposes...
<ul style="list-style-type: none"> currently owns a principal residence (or has a current housing expense), and has at least a one-year history of receiving rental income or at least one year of documented property management experience 	subject property or non-subject property	<p>there are no restrictions on the amount of rental income that can be used.</p>
<ul style="list-style-type: none"> does not currently have a housing expense, and has at least one-year of receiving rental income from the property 	non-subject property (in service for at least a year)	
<ul style="list-style-type: none"> currently owns a principal residence (or has a current housing expense), and has less than one-year history of receiving rental income from the related property or documented property management experience 	subject property	<ul style="list-style-type: none"> for a principal residence, rental income in an amount not exceeding PITIA of the subject property can be added to the borrower's gross income, or for an investment property, rental income can only be used to offset the PITIA of the subject property (in other words, it is limited to zero positive cash flow).
	non-subject property (new or newly placed in service less than a year)	<ul style="list-style-type: none"> for a principal residence, rental income added to the borrower's gross monthly income is restricted to an amount not exceeding PITIA of the related property.



If the borrower...	And rental income is from the...	Then for qualifying purposes...
		<ul style="list-style-type: none"> for an investment property, rental income can only be used to offset the PITIA of the related property (in other words, is limited to zero positive cash flow).
<ul style="list-style-type: none"> does not own a principal residence, and does not have a current housing expense 	subject property	rental income from the subject property cannot be used.
	non-subject property (new or newly placed in service less than a year)	rental income from the property cannot be used.

The lender must establish a history of property management experience by obtaining one of the following:

- The borrower’s most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365;
- If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or
- A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.