Converting The Current Primary Residence To A Rental

When a borrower is purchasing a new primary residence and they intend to convert their current home to a rental property, we must understand how this will impact the loan. Below are the requirements for each agency.

Conventional—Fannie

When converting the current home to a rental property, with an executed lease agreement, we can include 75% of the lease amount as income. If an executed lease is not available, we must count the full PITIA for the current home. A comparable rent schedule cannot be used as rental income.

- The monthly qualifying rental income must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

Conventional—Freddie

When converting the current home to a rental property, with an executed lease agreement and a comparable rent schedule, we can include 75% of the lease amount. If both an executed lease and comparable rent schedule are not available, we must count the full PITIA for the current home.

- The monthly qualifying rental income will be added to the REO section then LPA will automatically calculate.
- If 75% of the lease amount is more than the current mortgage PITI, any additional will count as income.

NOTE: For Freddie, if the borrower doesn't have at least one year of investment property management experience:

- The rental income can only offset the PITI of the rental property; and
- Rental income exceeding the PITI cannot be added to the borrower's gross monthly income to qualify.

For both agencies: When the borrower will be qualifying with full PITIA for the current residence, they should explain the intent for the property.

FHA—When a borrower is converting their current home to a rental property, unless the borrower is purchasing a new primary residence more than 100 miles from the current residence, we cannot use any rental income. We must qualify the borrower with full PITIA, we cannot offset.

When the borrower will be relocating more than 100 miles from the current residence, we must obtain an appraisal evidencing market rent and that the borrower has at least 25% equity in the property. We will then deduct the PITI from the lesser of:

- The monthly operating income reported on Freddie Mac Form 998 (Operating Income Statement); or
- 75% of the lesser of:
  - ◊ Fair market rent reported by the Appraiser; or
  - ◊ The rent reflected in the lease or rental agreement.

USDA—The borrower may not own another suitable dwelling at the time of closing the USDA loan.

VA—When converting the current primary residence to a rental property, in order to consider any rental amount, we must obtain an executed lease. With an executed lease, we can use 75% of the lease amount to offset the current mortgage payment.

Updated August 2019