

**Announcement # 23-89****Date:** December 29, 2023

## **Fannie Mae SEL-2023-09: Rental Income and Self-Employed Borrowers Update**

### **Rental Income**

Effective for loan applications dated on or after January 1, 2024, Pennymac is aligning with the Fannie Mae changes regarding rental incomes used for qualification purposes, the treatment of rental income, and documentation requirements for lease agreements as outlined in SEL-2023-09.

These changes include:

- Aligned the use of rental income that can be considered for qualification purposes for non-subject rental properties that have become rental properties in the last 12 months with that of rental income used from the subject property
  - The borrower must have a primary housing expense; and
  - A minimum of one-year history of property management is required to use the full rental amount for qualification purposes
- Clarified when rental income is considered when multiple properties are owned by the borrower, the income and loss is calculated on a per property basis, but then aggregated for non-subject properties so the total amount of either income or loss across all rental properties is considered in the calculation of the borrower's total debt-to-income ratio.
- When using a lease agreement, the lease agreement must be supported by
  - Form 1007 or Form 1025 as applicable; or
  - Evidence the terms of the lease have gone into effect. Evidence includes
    - Two months consecutive bank statements or electronic transfers of rental payments for the existing lease agreements; or
    - Copies of the security deposit and first month's rent check with proof of deposit for newly executed lease agreements.

*Refer to the Fannie Mae Selling Guide for complete details and requirements.*

### **Self-Employed Borrowers**

Effective with DU casefiles created on or after January 1, 2024 Pennymac is aligning with the Fannie Mae Selling Guide clarifications outlining the use of self-employment income when the borrower has less than a two-year history of self-employment, and tax return requirements for self-employed borrowers.

These clarifications include:

**Length of Self-Employment**

Fannie Mae generally requires a two-year history of the borrower's self-employed earnings to demonstrate the likelihood that a consistent level of income will continue to be received. However, a shorter history may be considered as long as the following is received, and careful consideration is given to the nature of the borrower's level of experience and the amount of debt the business has acquired:

- Most recent signed personal and business federal tax returns reflecting a full year (12 full months) of self-employment income from the current business.
- Documentation to support the history of receipt of prior income at the same or greater level; and
  - In a field that provides the same products or services as the current business; or
  - In an occupation in which the borrower had similar responsibilities to those undertaken in connection with the current business.

**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. Fannie Mae updated their policy to allow one year of personal or business tax returns when:

- All self-employed businesses have been in existence for at least five years; and
- The borrower has had a 25% or greater ownership interest for the last five consecutive years

*Refer to the Fannie Mae Selling Guide for complete details and requirements.*

Please contact your Sales Representative with any questions.