Fannie Mae

Accessory Dwelling Unit Income and HomeReady Boarder Income Flexibilities

Accessory Dwelling Unit Income Requirements

- An ADU is typically an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary one-unit dwelling. The ADU must provide for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary one-unit dwelling. Additional information related to accessory units is provided in *Selling Guide* section B4-1.3-05, Improvements Section of the Appraisal Report.
- Income generated from an ADU can be considered as rental income in accordance with our standard rental income guidelines, and entered into Desktop Underwriter® on the 1.e Income from Other Sources screen.
- In addition to a traditional 1004 appraisal, a Single-Family Comparable Rent Schedule (Form 1007) must be included in the appraisal. Fannie Mae will accept the use of this form with an explanation from the appraiser that the estimated market rent is for the rental of an ADU on a 1-unit, principal residence property, and that the information reported on the form is specific to the accessory unit. If the appraiser is unable to find ADU rentals to use as comparables, the appraiser may use similar non-ADU rental properties and adjust for factors that affect market rent. See B3-3.1-08, Documenting Rental Income from Subject Property.
- Rental income cannot exceed 30% of the income used to qualify the borrower. If the borrower has fewer than 12 months property management experience and a housing payment, the qualifying rental income cannot exceed the housing payment.
- For full requirements, see *Selling Guide* Section B3-3.1-08, Rental Income.

Sample Scenario #1: Accessory Unit Income*

A couple is purchasing a 1-unit property that has an ADU above the garage. They have a tenant who has already executed a lease agreement to rent the property after the purchase. They have never been landlords before.

The Numbers

Borrower Income	PITIA	Monthly ADU Rent	Other Borrower Liabilities
$6,000/monthly	$1,000	$1,400	$2,100

***Step 1**: To account for ADU vacancy or loss, reduce rental income by 25%*

$1,400 per month x 0.75 = $1050

***Step 2**: Determine qualifying rental income*

- The reduced rental payment of $1050 accounts for less than 30% of the borrower's income.
- However, because the borrowers have never been landlords before, the rental income cannot exceed the borrowers' PITIA. **The qualifying rental income in this case cannot exceed $1,000.**

How rental income can make a difference

	Borrower Income	Borrower Liabilities	DTI Ratio	Eligibility
Without rental income	$6,000	$3,100	51.66%	NOT ELIGIBLE
Including Rental Income	$7,000	$3,100	44.28%	ELIGIBLE

Sample scenario is intended for informational purposes only; depending on other risk factors not shown in this example, Desktop Underwriter® (DU®) recommendation may differ.

HomeReady® Boarder Income Requirements

- While boarder income is generally not considered an eligible source of income, it is allowable in some instances, including with a HomeReady loan. See *Selling Guide* section B3-3.1-09, Other Sources of Income for details.
- Up to 30% of qualifying income can come from boarder income.
- Borrower must provide documentation for at least 9 of the most recent 12 months (averaged over 12 months) and documentation of shared residency for the past 12 months.

Sample Scenario #2: Boarder Income*

A single woman plans to purchase a new home. She has had a roommate sharing living quarters with her for the past 12 months, and the roommate plans to live in the newly purchased home.

The Numbers

Roommate Rent	Months of rent documented from the past 12 months
$375/month	10

***Step 1**: Multiply the monthly rent by the number of months rent payments have been documented over the past 12 months*

$375 per month x 10 = $3,750 of documented rent payments

***Step 2**: Divide the total of documented rent payments from the prior 12 months by 12 to determine the qualifying rental income*

$3,750/12 = $312.50 monthly rental income

Because $312.50 accounts for less than 30% of the borrower's qualifying income, the full amount may be considered to qualify the borrower.

NOTE: **Sample scenarios are intended for informational purposes only; depending on other risk factors not shown in this example, the DU recommendation may differ.*

Learn more

Boarder income may be underwritten in DU or manually. For more information on boarder income, refer to *Selling Guide* section B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements.

Accessory unit rental income may be underwritten in DU or manually. For more information on calculating rental income, refer to *Selling Guide* section B3-3.1-08, Rental Income.