



Announcement 17-52

Date: November 13, 2017

Topic: Freddie Mac 2017-12: Rental Income

For all LPA approved conventional loans, PennyMac is aligning with the updates announced in Freddie Mac Bulletin 2017-12 regarding rental income and self-employed income changes. Lenders may implement these changes earlier, however, loans using the current rental income calculation must be delivered to PennyMac on or before January 16th and purchased on or before January 29th. All loans delivered on or after January 17th must be underwritten to the updated guidelines.

Due to the complex nature of the changes, Lenders are encouraged to review both Freddie Mac Bulletin 2017-12 and Section 5306.1 in Freddie Mac’s Guide for complete details. High level summary of the changes include:

- Rental income calculation updated to detail how the principal portion of the mortgage payment is accounted for in the DTI.
 - Freddie Mac is more closely aligning with Fannie Mae in the treatment of the principal portion of the mortgage for rental properties.
 - Net cash flow from the tax returns is calculated and then the PITIA is deducted from the net cash flow.
- Rental income allowed up to a maximum of 30% of the qualifying income when the borrower does not have a documented one-year history of investment property management experience. Examples:

Non-Rental Income	Net Rental Income	Total Income	Calculation	Eligible Amount of Rental Income	Eligible Amount of Total Income
\$5,000	\$1,500	\$6,500	$\$6,500 \times 30\% = \$1,950$	\$1,500	\$6,500 (\$5,000 + \$1,500)
\$2,500	\$2,625	\$5,125	$\$5,125 \times 30\% = \$1,537.50$	\$1,537.50	\$4,037.50 (\$2,500 + \$1,537.50)

- Additional guidance on how to document and calculate rental income from short term (e.g. AirBnB) vs long term sources.
 - Short term rental sources, such as nightly or weekly rentals, require minimum two years’ tax returns to support income stability and continuance.

- Long term rental sources may be eligible with one year's tax returns with an original lease agreement of at least 12 months.
- Form 998 is retired, and form 1000 with comparable rent data re-introduced.

Please contact your Sales Representative with any questions.