

# GUIDELINE COMPARISON\*



8825 Analysis – How and When to Offset Personally Obligated Mortgage Debt	
Fannie Mae*	Freddie Mac*
Borrower personally obligated for mortgage debt and gross rents and expenses reported through partnership or S Corp, business tax returns may be used to offset the property’s PITIA.	All rental real estate income and <b>expenses reported</b> on IRS Form 8825 for partnership and S Corp are to be treated as self-employment income, regardless of whether or not the Borrower is personally obligated on the Note and regardless of the Borrower’s percentage of ownership interest in the partnership or S corporation.
<b>Cash Flow the Property</b> Obtain business tax returns, including IRS Form 8825 for the most recent year <ul style="list-style-type: none"><li>From total gross rents, subtract total expenses. Add back insurance, mortgage interest, taxes, HOA dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly).</li><li>Divide by the number of months the property was in service.</li><li>Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow.</li></ul>	<b>Cash Flow the Business</b> Obtain business tax returns, K1, and IRS Form 8825 for the most recent year <ul style="list-style-type: none"><li>Follow the cash flow analysis worksheet to apply positive or negative adjustments as applicable</li><li>Reminder: you can add back depreciation located on the 8825</li></ul>
Positive net cash flow – exclude the PITIA from the DTI calculations Note: To add to any net income to qualify, follow the self-employment guidelines.	Positive net cash flow – exclude the PITIA from the DTI Calculations Note: To add to any net income to qualify, follow the self-employment guidelines. Negative net cash flow – <ul style="list-style-type: none"><li>Exclude the PITIA from the DTI Calculations</li><li>Reduce monthly income by the net loss amount</li></ul>
Negative net cash flow – include the loss as a debt in the DTI calculations, not to exceed the monthly PITIA expense	Negative net cash flow – <ul style="list-style-type: none"><li>Exclude the PITIA from the DTI Calculations</li><li>Reduce monthly income by the net loss amount</li></ul>

\*Referenced from FNMA and FHLMC Guidelines

Mortgage Insurance provided by Essent Guaranty, Inc.