



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: January 13, 2025

Mortgagee Letter 2025-04

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All FHA-Approved Title I Lenders
All HUD-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Revisions to Policies for Rental Income from Borders of the Subject Property

Purpose This Mortgagee Letter (ML) implements flexibilities for documenting and calculating income from Borders of the subject Property beyond the current standard.

Effective Date The provisions of this ML may be implemented immediately but must be implemented for FHA case numbers assigned on or after March 14, 2025.

All policy updates in the ML will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Affected Programs The provisions of this ML apply to all FHA Title II Single Family forward mortgage programs.

Background HUD continually strives to ensure FHA underwriting guidelines effectively serve the needs of Borrowers and expand access to credit, especially those most affected by the evolving dynamics of the housing market. A key aspect of this housing evolution is the increasingly relevant discussion around

Boarders and Rental Income from Boarders of the subject Property. Recent research highlights a significant increase in such living arrangements over the last decade, with a pronounced rise in recent years due to shifts such as the pandemic and other economic and cultural influences. The prevalence of these factors has contributed to the growing trend of Boarder income as a stable and viable option to manage housing costs and increase housing affordability. Given this, the industry is advocating for alignment with industry standards and more flexible approaches to qualify Borrowers using Rental Income from Boarders of the subject Property.

By implementing these policy changes, FHA expects to expand the pool of Borrowers eligible for FHA mortgage insurance, thereby extending affordable housing opportunities to a broader spectrum of first-time buyers and individuals with Low- to Moderate-Incomes. These adjustments support FHA's commitment to ensure underwriting guidelines effectively serve the needs of Borrowers and expand homeownership opportunities in underserved communities.

Summary of Changes

This ML updates the standards, documentation requirements, and calculation of a Borrower's Effective Income for the following sections:

- Boarders of the Subject Property (TOTAL) (II.A.4.c.xii(I)(4)); and
- Boarders of the Subject Property (Manual) (II.A.5.b.xii(I)(4)).

FHA Single Family Housing Policy Handbook 4000.1

The policy changes will be incorporated into Handbook 4000.1 as follows:

Rental Income (TOTAL) (II.A.4.c.xii(I))

(4) Boarders of the Subject Property (TOTAL)

Origination through Post-closing/Endorsement

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit. A renter of an ADU is not a Boarder.

(b) Standard

The Mortgagee may consider Rental Income from existing Boarders if documented in accordance with the following requirements.

Rental Income from Boarders may be considered Effective Income if the occupying Borrower has a 12-month history of receiving income from Boarders and is currently receiving Boarder income.

Rental Income from Boarders is permitted whether the Borrower currently rents or owns the Dwelling Unit.

(c) Required Documentation

The Mortgagee must verify and document the existing Rental Income from Boarders by obtaining the following:

- evidence of rental history over the previous 12 months;
- evidence of Rental Income received from Boarders for at least nine of the most recent 12 months in the form of:
 - the Borrower's Tax Returns; or
 - bank statements, canceled checks, or deposit slips, showing rental payments received;
- evidence that the Boarder's address is the same as the Borrower's address; and
- a copy of the executed written agreement documenting the boarding terms and the Boarder's intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

The Mortgagee must calculate Rental Income from Boarders by using the lesser of:

- the 12-month average; or
- the current rent as documented in the written agreement.

Where Rental Income from Boarders has been documented for at least nine of the last 12 months, the Mortgagee must average the Rental Income over a 12-month period.

The amount of the Rental Income from Boarders used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.

Rental Income (Manual) (II.A.5.b.xii(I))

(4) Boarders of the Subject Property (Manual)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit. A renter of an ADU is not a Boarder.

(b) Standard

The Mortgagee may consider Rental Income from existing Boarders if documented in accordance with the following requirements.

Rental Income from Boarders may be considered Effective Income if the occupying Borrower has a 12-month history of receiving income from Boarders and is currently receiving Boarder income.

Rental Income from Boarders is permitted whether the Borrower currently rents or owns the Dwelling Unit.

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**Paperwork
Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and

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assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Feedback or Questions

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Julia R. Gordon
Assistant Secretary for Housing -
FHA Commissioner
