



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

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

1 **Date:** XXXX, 2024

2 **Mortgagee Letter** 2024-XX

3 **To:** All FHA-Approved Mortgagees  
4 All Direct Endorsement Underwriters  
5 All Eligible Submission Sources for Condominium Project Approvals  
6 All FHA Roster Appraisers  
7 All FHA-Approved 203(k) Consultants  
8 All FHA-Approved Title I Lenders  
9 All HUD-Certified Housing Counselors  
10 All HUD-Approved Nonprofit Organizations  
11 All Governmental Entity Participants  
12 All Real Estate Brokers  
13 All Closing Agents

---

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

---

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

---

19 **Effective Date** The provisions of this ML are effective immediately.  
20 All policy updates in the ML will be incorporated into a forthcoming update  
21 of the HUD Handbook 4000.1, *FHA Single Family Housing Policy*  
22 *Handbook* (Handbook 4000.1).

---

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

---

25 **Background** HUD continually strives to ensure FHA underwriting guidelines effectively  
26 serve the needs of Borrowers and expand access to credit, especially those  
27 most affected by the evolving dynamics of the housing market. A key aspect  
28 of this housing evolution is the increasingly relevant discussion around  
29 Borders and Rental Income from Borders of the subject Property. Recent

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

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

---

16 **Summary of**  
17 **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)).

---

20 **FHA Single**  
21 **Family Housing**  
22 **Policy**  
23 **Handbook**  
24 **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)**

25 **Origination**  
26 **through Post-**  
27 **closing/**  
28 **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**

Rental Income from Boarders is only acceptable if the occupying Borrower has a 12-month history of receiving income from Boarders and is currently receiving Boarder income. The amount of Rental Income from Boarders used to qualify the Borrower must not exceed 30 percent of the total monthly Effective Income.

If Rental Income from Boarders has not been consistently received in the most recent 12 months, it must have been received for at least nine of the most recent 12 months and must be averaged over a 12-month period.

1 (c) Required Documentation

2 The Mortgagee must obtain the following:

- 3 • evidence of Rental Income received from Boarders for the most  
4 recent 12 months in the form of:
  - 5 ○ the Borrower's Tax Returns; or
  - 6 ○ bank statements, canceled checks or deposit slips, showing  
7 rental payments received;
- 8 • evidence that the Boarder's address is the same as the  
9 Borrower's address; and
- 10 • a copy of the executed written agreement documenting the  
11 boarding terms and the Boarder's intent to continue boarding  
12 with the Borrower.

13 (d) Calculation of Effective Income

14 The amount of Rental Income from Boarders used as Effective Income  
15 must:

- 16 • not exceed 30 percent of the total monthly Effective Income;
- 17 • be averaged over a 12-month period;
  - 18 ○ if Rental Income has been received for at least nine months  
19 but less than 12 months, it must be averaged over a 12-month  
20 period; and
- 21 • be calculated by using the lesser of:
  - 22 ○ the 12-month average; or
  - 23 ○ the current rent as documented in the written agreement.

---

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

25 (4) Boarders of the Subject Property (Manual)

26 (a) Definition

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

29 (b) Standard

30 Rental Income from Boarders is only acceptable if the occupying  
31 Borrower has a 12-month history of receiving income from Boarders  
32 and is currently receiving Boarder income. The amount of Rental  
33 Income from Boarders used to qualify the Borrower must not exceed 30  
34 percent of the total Effective Income.

1 If Rental Income from Boarders has not been consistently received in the  
2 most recent 12 months, it must have been received for at least nine of the  
3 most recent 12 months and must be averaged over a 12-month period.

4 **(c) Required Documentation**

5 The Mortgagee must obtain the following:

- 6 • evidence of Rental Income received from the Boarders for the  
7 most recent 12 months in the form of:
  - 8 ○ the Borrower's Tax Returns; or
  - 9 ○ bank statements, canceled checks or deposit slips, showing  
10 rental payments received;
- 11 • evidence that the Boarder's address is the same as the  
12 Borrower's address; and
- 13 • a copy of the executed written agreement documenting the  
14 boarding terms and the Boarder's intent to continue boarding  
15 with the Borrower.

16 **(d) Calculation of Effective Income**

17 The amount of Rental Income from Boarders used as Effective Income  
18 must:

- 19 • not exceed 30 percent of the total monthly Effective Income;
- 20 • be averaged over a 12-month period;
  - 21 ○ if Rental Income has been received for at least nine months  
22 but less than 12 months, it must be averaged over a 12-month  
23 period; and
- 24 • be calculated by using the lesser of:
  - 25 ○ the 12-month average; or
  - 26 ○ the current rent as documented in the written agreement.

---

27 **Paperwork**  
28 **Reduction Act**

The information collection requirements contained in this document have  
29 been approved by the Office of Management and Budget (OMB) under the  
30 Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and  
31 assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-  
32 0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-  
33 0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-  
34 0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-  
35 0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-  
36 0610; and 2502-0611. In accordance with the PRA, HUD may not conduct  
37 or sponsor, and a person is not required to respond to, a collection of  
38 information unless the collection displays a currently valid OMB control  
number.

---

1 **Signature**

2 Julia R. Gordon  
3 Assistant Secretary for Housing -  
4 FHA Commissioner

---

Drafting Table