



# WHOLESALE ANNOUNCEMENT 2025-9

January 23, 2025

## FHA Update

### Effective Date

May be implemented immediately but must be implemented for FHA Case Numbers assigned on or after March 14, 2025

### Guideline Update:

#### **Revision to Policies for Rental Income from Boarders of the Subject Property**

- The Federal Housing Administration (FHA) announces the publication of Mortgagee Letter (ML) 2025-04, *Revisions to Policies for Rental Income from Boarders of the Subject Property* and a stakeholder briefing webinar. This ML takes into consideration stakeholder feedback received on the draft ML announced in FHA INFO 2024-79, dated November 20, 2024.
- The provisions announced in this ML create greater flexibilities for borrowers using income received from individuals who rent space in borrowers' homes — referred to as boarders in *Single Family Housing Policy Handbook 4000.1* (Handbook 4000.1) — to qualify for an FHA-insured mortgage. These new flexibilities include revisions to the required underwriting standards for documenting and calculating this type of income.
- FHA remains committed to extending affordable housing opportunities to its core constituency of first-time and low-to-moderate-income homebuyers, including those in underserved communities. In doing so, it recognizes that rental income received from individuals renting space in borrowers' homes is a stable and viable source of income that increases housing affordability and allows borrowers to better manage housing costs.
- New underwriting guidance:
  - Expands the types of acceptable income verification documentation for individuals renting space inside the home to include bank statements, canceled checks, and/or deposit slips showing rental payments received;
  - Establishes that rental income from individuals renting space inside the subject property is permitted whether the borrower is currently a renter or the homeowner;
  - Reduces the acceptable rental income history from two years to 12 months from individuals renting space inside the borrower's home;
  - Allows borrowers with a 12-month rental history to qualify for an FHA-insured mortgage using income from renters living in the home, provided the income has been received for at least nine of the most recent 12 months, is currently being received, and is averaged over a 12-month period; and
  - Establishes that rental income from individuals renting space inside the home that is used to qualify borrowers for an FHA-insured mortgage cannot exceed 30 percent of their total monthly effective income.

**Should you have any questions, please reach out to your Account Executive or Client Manager**



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

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

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

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**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).

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

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**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.

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**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)).

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**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.

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**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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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**

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- 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.

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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

**Mortgagee Letter 2025-04, Continued**

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.

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**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](mailto:answers@hud.gov), or [www.hud.gov/answers](http://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>.

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**Signature**

Julia R. Gordon  
Assistant Secretary for Housing -  
FHA Commissioner

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