

**FHA Single Family Housing Policy Feedback**  
*Single Family Mortgage Letter - Consideration of Accessory Dwelling Unit Rental Income*

**Instructions**

1. Provide only one set of comments per company.
2. Complete identifying information below.
3. Select the section header from the dropdown menu below.
4. If you have a general comment, select "Other" from the dropdown menu and provide as much specificity as possible.

<b>FHA ID Number:</b>	
<b>FHA Relationship:</b>	
<b>Other Relationship:</b>	National / Professional Trade Organization
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**Specific Question:** FHA is especially interested in feedback on the sufficiency of its proposed policy provisions to ensure that borrowers can meet their mortgage obligations for 203(k) mortgages used to finance the new construction or renovation of an ADU if construction or renovation of the ADU takes longer than anticipated.

On April 14, 2023, FHA corrected a typographical error in the proposed percentage to calculate the effective income from the subject property in the draft ML on page 10.

Feedback Number	Select Section from Dropdown Menu	Feedback
1		<p>Like FHA, the NAA recognizes the continued demand for more affordable housing and the lift that creating and utilizing an ADU has in the market.</p> <p>The NAA is concerned that the income generated from an ADU could be related to either a long-term lease (30-days or more of occupancy) or a short-term rental (e.g. Airbnb, VRBO, etc) and the two values would be conflated.</p> <p>The ML recommends the use of the 1007 Single Family Comparable Rent Schedule to show the fair market rent. Additionally, it is stated that the appraiser may provide the ADU's market rent "if the Appraiser determines that a non-transient monthly market rent can be credibly developed." Finally, it concluded with "No income from commercial space may be included in rental income calculations".</p> <p>We believe additional language should be included to inform both the Mortgagee and the Appraiser that:</p> <p>a.If the ADU is being used as a short-term rental then that represents transient activity.</p> <p>b.The IRS defines the income from a "lease" as "passive income" and the income from an STR as "business income".</p> <p>The 1007 was designed nearly two decades ago, long before the advent of the short-term rental. The form is currently being misused in the market and an appraiser reporting the STR Income as Fair Market Rent is misleading and as a result, a potential violation of USPAP.</p> <p>The ML does go on to define "Boarder" and states "a tenant" of an ADU is not a Boarder". It may be helpful to further define a "tenant" as a person who occupied land or property rented from a landlord. A person who occupies an STR is not a "tenant" but a "guest".</p>
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