

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing
Specialists, Rural Development Managers, and Community
Development Managers

FROM: Arthur A. Garcia *(Signed by Arthur A. Garcia)*
Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program
Acceptable Alternative Documentation to Verify the Applicant's
Employment Income

PURPOSE/INTENDED OUTCOME

The purpose of this Administrative Notice (AN) is to elaborate upon the acceptable forms of employment income verifications for loans guaranteed under the Single Family Housing Guaranteed Loan Program. The Rural Housing Service (RHS) will accept verification methodologies similar to those currently acceptable to the residential mortgage industry, secondary markets, and other Federal agencies.

This AN only addresses verification of employment and income documentation for non-self-employed applicants. Documentation requirements for other types of income (e.g., self-employment, disability, child support income, etc.) are unchanged by this AN.

COMPARISON WITH PREVIOUS AN

This AN replaces RD AN No. 3848 (1980-D) dated April 10, 2003.

EXPIRATION DATE:
March 31, 2005

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND

Two separate but equally essential components to the Single Family Housing Guaranteed Loan Program require the Lender to determine:

1. The applicant's adequate and dependable income. This income figure is used to determine the applicant's repayment ability. [RD Instruction 1980-D, Section 1980.345(b)]
2. The applicant's adjusted annual income. This income figure is used to determine eligibility for the RHS loan guarantee. (RD Instruction 1980-D, Section 1980.347)

Traditionally, written documentation from third parties has been the preferred method of verifying information. The Lender has been required to verify the applicant's current, year-to-date (YTD), and previous year's employment earnings by obtaining:

- Form RD 1910-5, "Request for Verification of Employment" (or equivalent form), and;
- Copies of the applicant's three most recent paycheck stubs (to check for consistency with the information in the employer verification).

However, over the past several years, the residential mortgage industry, secondary markets, and other Federal agencies have determined that in most cases, alternative, applicant-provided documentation provides accurate and sufficient information regarding the applicant's employment income. The use of alternative, applicant-provided documentation increases the efficiency of the mortgage origination process resulting in savings of both time and money.

A lender that chooses to use alternative documentation must obtain documentation sufficient to provide a complete picture of the applicant's financial situation, and apply the same stable and dependable income qualification criteria regardless of the type of income verification documentation used.

DOCUMENTATION

The following documentation is deemed acceptable for verifying the employment income of non-self-employed loan applicants:

- ◆ Form RD 1910-5, "Request for Verification of Employment," (or the equivalent HUD/FHA/VA or Fannie Mae form), and the most recent paycheck stub
or
- ◆ Paycheck stubs or payroll earnings statements covering the most recent 30-day period, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment
or
- ◆ Electronic verification or other computer-generated documents accessed and printed from an Intranet or Internet, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment.

The **Verification of Employment (VOE) form** must be:

- signed by the applicant or accompanied by an authorization for a release of information form signed by the applicant.
- sent directly to the employer by the Lender.
- completed by the employer and returned to the Lender directly without passing through the hands of a third party or the applicant.
- completed within 120 days (180 days for proposed new construction) prior to the time Form RD 1980-18, Conditional Commitment for Single Family Housing Loan Guarantee, is issued.

We recommend that the lender obtain at least one paycheck stub to check for consistency with the VOE form.

Some employers routinely leave certain portions of the VOE form blank; e.g., item #11 relating to probability of continued employment. The verification may still be valid even if certain information is omitted. The lender must underwrite the loan application and be able to make the determination that the applicant has adequate and dependable income. The lender must disapprove the application if the applicant's loan repayment ability cannot be determined or is not acceptable.

The **paycheck stub or payroll earnings statement** should:

- be the original computer-generated or typed document. (The original paycheck stubs or payroll earnings statements may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.)
- be the most recent as of the date the initial loan application is made.
- clearly identify the applicant as the employee by name and/or social security number.
- show the applicant's gross earnings for that pay period and year-to-date.

The lender should obtain paycheck stubs or payroll earnings statements covering the most recent 30-day period. For most borrowers, this will require 2-4 paycheck stubs. Paycheck stubs covering the most recent 30-day time period allow the lender to properly underwrite the loan application using alternative documentation.

If the applicant's paycheck stub or payroll earnings statement does not contain all of the information required; e.g., gross year-to-date earnings, the lender should attempt to obtain this information in the telephone verification with the applicant's employer.

The **W-2 forms** should:

- be the original, computer-generated or typed, employee copies provided by the employer. The original W-2 forms may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.
- cover the 2 most recent tax years.
- not contain any alterations, erasures, or corrections.

The **telephone verification** should be substantiated by a written document that shows:

- contact was made within 120 days of loan closing (180 days for proposed new construction).
- employer/company name, address and phone number.
- employer's contact person and title.
- applicant's name, date of employment and present position.
- probability of continued employment.
- amount of current base pay.
- amount of other income such as overtime, bonus, commissions, etc.
- likelihood that the level of current earnings will continue.
- name and title of Lender's employee that contacted the employer.

Some employers will not release certain detailed information over the telephone, for example, amount of current earnings. This is acceptable provided the paycheck stubs or payroll earnings statements contain this information.

Also, the telephone verification can be used to supplement the written documentation when the written documentation is not clear, or incomplete.

The **electronic verification** or other computer-generated document accessed and printed from an Intranet or Internet should:

- cover the most recent pay period as of the date the initial loan application is made.
- clearly identify the applicant as the employee by name and/or social security number.
- show the applicant's gross earnings for the most recent 30-day period and year-to-date.

THIRD-PARTY EMPLOYMENT VERIFICATION SERVICES

RD Instruction 1980-D, Section 1980.309(f) allows lenders to use other institutions in carrying out their responsibility to obtain verification of an applicant's employment and income.

In order to be acceptable to RHS, the automated verification must provide essentially the same detailed employment and income information that is normally obtained using the VOE form, including year-to-date and previous year's pay history. This level of verification is often referred to as a "full verification."

We know of several companies that obtain information directly from participating employers in order to provide lenders with employment and income verifications, including:

- The Work Number®. (<http://www.theworknumber.com>)
- Jon-Jay Associates, Inc. (<http://www.jonjay.com/jonjay/evs.php>)
- National Credit Reporting System (<http://ncstrv.com>)

SUMMARY

The Lender is responsible for the sufficiency, integrity and accuracy of the underwriting documents. The documents should be clear and legible, be free of any indications that changes have been made, and provide consistent information.

Lenders successfully using alternative documentation have shared the following ideas:

- Use the items on the VOE form as a "checklist" to ensure that all of the required information has been obtained.
- Develop and use a standard telephone confirmation form to ensure that all required information is collected.
- Independently confirm (by using the telephone book, calling directory assistance, etc.) the employer's telephone number. Not only is this practice effective in guarding against misrepresentation, the lender will often have more success by directly contacting the employer's payroll or human resources office (as compared to the applicant's supervisor.)
- During the telephone call to the employer, offer to fax the employer a copy of the form signed by the applicant authorizing the employer to release information to the lender.
- If the employer will not answer all of the lender's questions, ask if they will confirm (rather than release) information that the applicant has already provided to the lender. Offer to fax the employer a copy of the payroll earnings statement to confirm its authenticity.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of this Administrative Notice, Agency employees reviewing requests for guarantees under the Single Family Housing Guaranteed Loan Program should accept documentation meeting the above requirements for verification purposes under RD Instruction 1980-D, Section 1980.353(e).

Agency employees will review selected applications to ensure that Lenders are obtaining sufficient documentation to accurately calculate applicant income. Agency employees are encouraged to be flexible and to use their best judgment when deciding whether the documentation provided by the Lender is acceptable.

State Offices having questions regarding this AN should contact Robert E. Keyes or Joaquin Tremols at (202)720-1452 or Robert.Keyes@usda.gov or Joaquin.Tremols@usda.gov.