



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: February 15, 2019

Mortgagee Letter 2019-01

To: All FHA-approved Mortgagees
All Direct Endorsement Underwriters
All FHA Roster Appraisers
All FHA Roster Inspectors
All FHA-Approved 203(k) Consultants
All HUD-Approved Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Third Party Verification Services

Purpose This Mortgagee Letter provides guidance on the use of Third Party Verification (TPV) services to verify a borrower's employment, income, and asset information.

Effective Date These provisions are effective immediately.

All policy updates will be incorporated into a forthcoming update of the HUD Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1) and the HECM Financial Assessment and Property Charge Guide.

Public Feedback HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide any feedback on this policy document, please send comments to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.

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Affected Programs

This guidance applies to all FHA Title II forward mortgages and Home Equity Conversion Mortgages (HECM).

Background

In Handbook 4000.1, and the HECM Financial Assessment and Property Charge Guide, FHA allows for electronic verifications as an option to a written Verification of Employment but makes no specific reference to TPV services. TPV provides an alternative means for verifying a Borrower's employment, income, and assets which would eliminate the requirement for a Mortgagee to collect paystubs, W-2s, and bank statements. The Mortgagee remains responsible for the quality of its FHA-insured Mortgages and must ensure that its TPV contractors fully comply with all applicable laws and FHA requirements.

The inclusion of TPV guidance in Handbook 4000.1 and the HECM Financial Assessment and Property Charge Guide will align HUD policy with industry practice.

Summary of Changes

FHA is revising its requirements for employment, income, and asset accounts to permit the use of TPV services.

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Use of Contractors I.A.6.j (Doing Business with FHA)

i. Permissible Use

The Mortgagee may use contract support for administrative, human resources, and clerical functions that include:

- clerical assistance;
- mortgage processing (typing of mortgage documents, mailing and collecting verification forms, ordering credit reports, and/or preparing for endorsement and shipping Mortgages to the Purchasing Mortgagee);
- ministerial tasks in mortgage servicing (processing of a foreclosure action, preservation and protection, and/or tax services);
- legal functions;
- **Third Party Verification**;
- Quality Control; and
- human resources services (payroll processing, payment of employment taxes and the provision of employee benefits) provided by a professional employer organization or a similar entity.

Third Party Verification refers to a process through which a Borrower's employment, income, and asset information is verified directly by the Mortgagee with a borrower's employer or financial institution, through the services of a third party vendor.

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Traditional Employment Documentation (TOTAL) II.A.4.c. ii.(C)

(1) Traditional Current Employment Documentation

The Mortgagee must obtain one of the following to verify current employment:

- the most recent pay stub and a written Verification of Employment (VOE) covering two years; or
- direct electronic verification of employment by a TPV vendor covering two years, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1).

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

(2) Alternative Current Employment Documentation

If using alternative documentation, the Mortgagee must:

- obtain copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
- obtain copies of the original IRS W-2 forms from the previous two years; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

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(3) Past Employment Documentation

Direct verification of the Borrower's employment history for the previous two years is not required if all of the following conditions are met:

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify (no Overtime or Bonus Income).
- The Borrower executes IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, for the previous two tax years.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Mortgagee must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

- W-2(s)
 - VOE(s)
 - direct electronic verification by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1)
 - evidence supporting enrollment in school or the military during the most recent two full years
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General Asset Requirements (TOTAL) II.A.4.d.i.

(A) Earnest Money Deposit

The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; **or**
- direct electronic verification by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify assets;
 - the date of the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1); and
 - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a gift, the Mortgagee must verify that the gift is in compliance with [Gifts \(Personal and Equity\) \(TOTAL\)](#).

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Sources of Funds (TOTAL) II.a.4.d.iii

(A) Checking and Savings Accounts

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

The Mortgagee must verify and document the existence of and amounts in the Borrower's checking and savings accounts. For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

(a) Traditional Documentation

The Mortgagee must obtain:

- a written VOD and the Borrower's most recent statement for each account; or
 - direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
 - the date of the data contained in the completed verification is current within 30 days of the date of the verification.
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Employment Related Income (Manual) II.A.5.b.ii.(C)

(1) Traditional Current Employment Documentation

The Mortgagee must obtain one of the following to verify current employment:

- The most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings, and a written Verification of Employment (VOE) covering two years; or
- direct verification by a TPV vendor covering two years, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1).

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

(2) Alternative Current Employment Documentation

If using alternative documentation, the Mortgagee must:

- obtain copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
- obtain copies of the original IRS W-2 forms from the previous two years; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

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(3) Past Employment Documentation

Direct verification of the Borrower's employment history for the previous two years is not required if all of the following conditions are met:

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify (no Overtime or Bonus Income).
- The Borrower executes IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, for the previous two tax years.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Mortgagee must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

- W-2(s)
 - VOE(s)
 - direct verification of employment by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1)
 - evidence supporting enrollment in school or the military during the most recent two full years
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General Asset Requirements (Manual) II.A.5.c.i.

(A) Earnest Money Deposit (Manual)

The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct verification by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify assets;
 - the date of the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1); and
 - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a gift, the Mortgagee must verify that the gift is in compliance with [Gifts \(Personal and Equity\) \(Manual\)](#).

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Sources of Funds (Manual) II.a.5.c.iii.

(A) Checking and Savings Accounts (Manual)

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

The Mortgagee must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

(a) Traditional Documentation

The Mortgagee must obtain:

- a written VOD and the Borrower's most recent statement for each account; or
- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month activity for a minimum of one month, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
 - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

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Section 3.8, Traditional Current Employment Documentation

The mortgagee must obtain one of the following to verify current employment:

- the most recent pay stubs covering a minimum of 30 consecutive days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive days) that show the mortgagor's year-to-date earnings, and a written verification of employment (VOE) covering two years; or
- direct verification of employment by a TPV vendor covering two years, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements at Section 1.12.

Re-verification of employment must be completed within 10 Days prior to mortgage disbursement. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

Section 3.10, Past Employment Documentation

Direct verification of the mortgagor's employment history for the previous two years is not required if all of the following conditions are met:

- the current employer confirms a two-year employment history, or a paystub reflects a hiring date;
- only base pay is used in calculating effective income (no overtime or bonus income); and
- the mortgagor executes IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, for the previous two tax years.

If the mortgagor has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the mortgagee must obtain one or a combination of the following for the most recent two years to verify the mortgagor's employment history:

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- W-2(s);
- VOE(s);
- direct verification of employment by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify income and employment;
 - the date of the completed verification conforms with FHA requirements at Section 1.12; or
- evidence supporting enrollment in school or the military during the most recent two full years.

Section 3.70, Assets – Checking and Savings Accounts

Checking and savings accounts refer to funds from mortgagor-held accounts in a financial institution that allows for withdrawals and deposits.

To be considered as part of the financial assessment, mortgagees must verify and document the existence of and amounts in the mortgagor's checking and savings accounts.

If the mortgagor does not hold the deposit account solely, all non-mortgagor parties on the account must provide a written statement that the mortgagor has full access to and use of the funds.

The mortgagee must obtain:

- a written verification of deposit (VOD) and the mortgagor's most recent statement for each account; **or**
- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month a minimum of one month, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
 - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the mortgagee must obtain statement(s) for the most recent two months.

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Questions

For additional information on this ML, please visit www.hud.gov/answers or call FHA's Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at 1-800-877-8339.

Signature

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