Due to the ongoing impact of COVID-19, we are temporarily implementing the following changes for all loans in process, which will remain in place for loans with application dates on or before July 31, 2020. We will continue to monitor the situation and update this memo as needed.

Exceptions are not permitted to the timing of verification of employment or the alternative documentation.

**NON-DELEGATED CONVENTIONAL TRANSACTIONS**

The following temporary changes are effective for all Non-Delegated Conventional loans.

**TIMING OF VERBAL VERIFICATION OF EMPLOYMENT**

Effective June 12, 2020 the timing of the verification for an employed borrower is being retracted to within 5 business days of the Note date for all loans in process and replaces the 3 day timing requirement previously in place for loans on or after April 15, 2020, as indicated below.

Verification of business operations for self-employed borrowers remains within 10 business days of the Note date. In addition the alternative documentation tolerances has been updated for purchase transactions, see below.

Due to the additional employment risk created by the impact of COVID-19, it is now required to document that the borrower is employed within 5 business days prior to the Note date for loans closing on or before April 14, 2020 and within 3 business days of the Note date for loans closing on or after April 15, 2020 for wage earners. If the employer uses a third party employment verification vendor (e.g., The Work Number), the last date of employment must be within the 5 or 3 business days based on the effective date of closing. For a borrower in the military, a Military Leave and Earnings Statement (LES) is acceptable in lieu of a verbal verification when dated within 30 days of the Note date.

Verification the business is operational must be obtained within 10 business days of the Note date for self-employed borrowers.

This replaces Fannie Mae and Freddie Mac current requirement for the verbal verification within 10 business days prior to the Note date for wage earners and 120 calendar days for self-employed borrowers.

**ALTERNATIVE DOCUMENTATION FOR WAGE EARNERS**

Only when a verbal verification of employment cannot be obtained the following alternatives may be obtained. Failure to obtain a verification of employment, paystub or bank statement, when allowed, may result in the loan closing being delayed. The flexibilities provided by Fannie Mae and Freddie Mac do not relieve sellers from rep and warrant the borrower(s) was employed at the time of closing.

<table>
<thead>
<tr>
<th>Loan Purpose</th>
<th>Acceptable Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash-Out</td>
<td>• Verbal Verification of Employment; or</td>
</tr>
<tr>
<td></td>
<td>• A Written Verification of Employment. An email directly from the employer's HR department or the borrower's direct</td>
</tr>
<tr>
<td><strong>Purchase and Rate and Term</strong></td>
<td><strong>supervisor/manager’s work email address that identifies the name and title of the verifier and the borrower’s name and current employment status may be used in lieu of a verbal VOE.</strong></td>
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</tr>
</tbody>
</table>
| **Verbal Verification of Employment; or** | • Verbal Verification of Employment; or  
• A Written Verification of Employment. An email directly from the employer’s HR department or the borrower’s direct supervisor/manager’s work email address that identifies the name and title of the verifier and the borrower’s name and current employment status may be used in lieu of a verbal VOE.  

If a Verbal Verification of Employment or Written Verification of Employment listed above cannot be obtained the following can be used:  
• A year-to-date (YTD) paystub from the pay period that immediately precedes the Note date, or  
• An asset account statement evidencing the payroll deposit from the pay period that immediately precedes the Note date.  

If a recent paystub or bank statement is obtained in lieu of the verbal verification of employment (VOE), and the documentation evidences reduced hours and/or pay due to the pandemic, the reduced amount of declining variable income can only be used for qualifying if it has since stabilized and there is no reason to believe the borrower will not continue to be employed at the current level. In no instance may income be averaged over the period of declination. |

**DOCUMENTING BUSINESS IS OPERATIONAL FOR SELF-EMPLOYED BORROWERS**

Additional diligence must be completed to verify the business operational in order to support the income stability and continuance including, but not limited to:  
• Evidence of current work (e.g., executed contracts or signed invoices that indicate the business is operating on the day the Seller verifies self-employment)  
• Evidence of current business receipts within 10 Business Days of the Note Date (e.g., payment for services performed)  
• The Seller certification the business is open and operating (e.g., the Seller confirmed through a phone call or other means)  
• Business website demonstrating activity supporting current business operations (e.g., timely appointments for estimates or service can be scheduled)  

**DELEGATED CONVENTIONAL TRANSACTIONS**

Effective for all Delegated Conventional transactions that closed on or after March 26, 2020, the following requirements must be met.

**TIMING OF VERBAL VERIFICATION OF EMPLOYMENT**

Effective June 12, 2020 the timing of the verification for an employed borrower is being retracted to within 5 business days of the Note date for all loans in process and replaces the 3 day timing requirement previously in place for loans on or after April 15, 2020, as indicated below. Verification of business operations for self-employed borrowers remains within 10 business days of the Note date. In addition the alternative documentation tolerances has been updated for purchase transactions, see below.
Due to the additional employment risk created by the impact of COVID-19, it is now required to document that the borrower is employed within 5 business days prior to the Note date for loans closing on or before April 14, 2020 and within 3 business days of the Note date for loans closing on or after April 15, 2020 for wage earners. If the employer uses a third party employment verification vendor (e.g., The Work Number), the last date of employment must be within the 5 or 3 business days based on the effective date of closing. For a borrower in the military, a Military Leave and Earnings Statement (LES) is acceptable in lieu of a verbal verification when dated within 30 days of the Note date.

Verification the business is operational must be obtained within 10 business days of the Note date for self-employed borrowers.

This replaces Fannie Mae and Freddie Mac current requirement for the verbal verification within 10 business days prior to the Note date for wage earners and 120 calendar days for self-employed borrowers.

**ALTERNATIVE DOCUMENTATION FOR WAGE EARNERS**

<table>
<thead>
<tr>
<th>Loan Purpose</th>
<th>Acceptable Documentation</th>
</tr>
</thead>
</table>
| All Transactions | • Verbal Verification of Employment; or  
| | • A Written Verification of Employment. An email directly from the employer's HR department or the borrower's direct supervisor/manager's work email address that identifies the name and title of the verifier and the borrower's name and current employment status may be used in lieu of a verbal VOE |

Flagstar recommends additional due diligence to ensure that accurate Borrower information is obtained and that the Borrower's ability to repay the Mortgage is not negatively impacted. Correspondents remain responsible for ensuring all borrowers are employed at the time of closing.

**DOCUMENTING BUSINESS IS OPERATIONAL FOR SELF-EMPLOYED BORROWERS**

Additional diligence must be completed to verify the business operational in order to support the income stability and continuance including, but not limited to:

- Evidence of current work (e.g., executed contracts or signed invoices that indicate the business is operating on the day the Seller verifies self-employment)
- Evidence of current business receipts within 10 Business Days of the Note Date (e.g., payment for services performed)
- The Seller certification the business is open and operating (e.g., the Seller confirmed through a phone call or other means)
- Business website demonstrating activity supporting current business operations (e.g., timely appointments for estimates or service can be scheduled)

**CONTINUITY OF INCOME**

Additional due diligence to ensure that accurate borrower information is obtained and that the borrower's ability to repay the mortgage is not negatively impacted by any disruption to borrowers’ employment (or self-employment) and/or income due to COVID-19 may be required at the discretion of Flagstar Bank. For example, if paystubs show declining income further analysis may be required to determine the income has stabilized and there is no reason to believe the borrower will not
continue to be employed at the current level of pay. In addition, if a borrower’s self-employed business is closed due to the pandemic the income may not be used to qualify.

FURLoughs and Layoffs
A borrower who is on furlough or a temporary layoff is ineligible under the Temporary Leave of Absence guidelines. A furlough is defined as a suspension from active employment that does not typically guarantee restoration of an employee’s position when the furlough period ends. Until furloughed or laid-off employees actually return to work, they are unable to provide evidence of a stable and reliable flow of employment-related income.

UNEMPLOYMENT Compensation
While we recognize that many individuals have become eligible for assistance and compensation available through the Unemployment Insurance Provisions provided in the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), the assistance and compensation are temporary in nature and therefore do not represent a stable or continuous source of income.

As such, unemployment compensation continues to be eligible for use in qualifying only when it is associated with seasonal employment and meet all other Unemployment Benefit guidelines.

ADDITIONAL RESOURCES
- Refer to the Frequently Asked Questions on Fannie Mae’s website for additional information.
- Refer to the COVID-19 Selling-related Frequently Asked Questions on Freddie Mac’s website.

DELEGATED AND NON-DELEGATED GOVERNMENT (FHA, VA AND USDA) TRANSACTIONS
Effective June 12, 2020 the timing of the verification for an employed borrower is being retracted to within 5 business days of the Note date for all loans in process and replaces the 3 day timing requirement previously in place for loans on or after April 15, 2020, as indicated below. Verification of business operations for self-employed borrowers remains within 10 business days of the Note date.

Re-verifications of employment (VVOE) must be completed within 5 business days prior the Note date for loans closing on or before April 14, 2020 and within 3 business days of the Note date for loans closing on or after April 15, 2020 for wage earners. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within the 5 or 3 business days of the date of the verification based on the effective date of closing.

Verification the business is operational must be obtained within 10 business days of the Note date for self-employed borrowers.

ALTERNATIVE DOCUMENTATION FOR WAGE EARNERS
When unable to obtain a verbal re-verification of employment (VVOE) alternatives are permissible as long as the borrower has not had any loss of income.

<table>
<thead>
<tr>
<th>Loan Purpose</th>
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<tbody>
<tr>
<td>FHA Purchase</td>
<td>Evidence borrower had a minimum of 2 months of (PITI) in reserves; and one of the following:</td>
</tr>
<tr>
<td></td>
<td>- A year-to-date paystub or electronic verification of income for pay period immediately precedes the Note date, or</td>
</tr>
<tr>
<td>Product Type</td>
<td>Requirements</td>
</tr>
<tr>
<td>-------------</td>
<td>------------------------------------------------------------------------------</td>
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</tbody>
</table>
| FHA Rate/Term & Simple Refinances | - A bank statement showing direct deposit from borrower's employment for the pay period that immediately precedes the Note date  
- Depending on payment schedule, could be weekly, bi-weekly or monthly |
| FHA Cash-Out | - A year-to-date paystub or electronic verification of income for the pay period that immediately precedes the Note date, or  
- A bank statement showing direct deposit from the borrower's employment for the pay period that immediately precedes the Note date |
| FHA Streamline Refinances Credit and Non-Credit Qualifying | - A year-to-date paystub or electronic verification of income for the pay period that immediately precedes the Note date, or  
- A bank statement showing direct deposit from the borrower's employment for the pay period that immediately precedes the Note date |
| VA Purchase | Evidence borrower had a minimum of 2 months of (PITI) in reserves; and one of the following:  
- A year-to-date paystub or electronic verification of income for pay period immediately precedes the Note date, or  
- A bank statement showing direct deposit from borrower's employment for the pay period that immediately precedes the Note date  
- Depending on payment schedule, could be weekly, bi-weekly or monthly |
| VA Cash-Out | - A year-to-date paystub or electronic verification of income for the pay period that immediately precedes the Note date, or  
- A bank statement showing direct deposit from the borrower's employment for the pay period that immediately precedes the Note date |
| IRRRL’s Credit & Non-Credit Qualifying | - A year-to-date paystub or electronic verification of income for the pay period that immediately precedes the Note date, or  
- A bank statement showing direct deposit from the borrower's employment for the pay period that immediately precedes the Note date |
A bank statement showing direct deposit from the borrower’s employment for the pay period that immediately precedes the Note date

When unable to obtain a verbal verification of employment (VVOE) alternatives are permissible.
- Email correspondence with employer is acceptable
- Requirement will be waived when the borrower has two months of cash reserves
- In the case of a reduction of income, the borrower’s reduced income must be sufficient to support the new loan payment and other non-housing obligations.

USDA Purchase
USDA Refinance
USDA Streamlined- Assist

Borrowers with no income at the time of closing are not eligible regardless of available cash reserves.

**DOCUMENTING BUSINESS IS OPERATIONAL FOR SELF-EMPLOYED BORROWERS**

Additional diligence must be completed to verify the business operational in order to support the income stability and continuance including, but not limited to:

- Evidence of current work (e.g., executed contracts or signed invoices that indicate the business is operating on the day the Seller verifies self-employment)
- Evidence of current business receipts within 10 Business Days of the Note Date (e.g., payment for services performed)
- The Seller certification the business is open and operating (e.g., the Seller confirmed through a phone call or other means)
- Business website demonstrating activity supporting current business operations (e.g., timely appointments for estimates or service can be scheduled)

**UNDERWRITING VA LOANS**

- VA guidelines generally require income to be stable and reliable for two years (Chapter 4 of the Handbook)
  - Do not consider it a break in employment or income if a veteran is impacted by COVID-19 (furlough, curtailment of income, etc.)
    - Provided the veteran has returned or is anticipated to return to work in the same capacity and income level
    - Veterans should provide furlough letters where applicable
  - VA reminds lenders to document their actions particularly on “borderline” cases
    - As VA always says, Document, Document, Document
- **Income Verification** – VA expects every lender to make every effort to satisfy VA verification requirements in Chapter 4 of the Handbook. VA offers the following alternatives
  - May use third party- services that provide employment and income verification
  - Direct deposit from a bank statement and paystubs covering a full month of employment within 30 days of closing
  - If the required VOE documentation is not available from bank statements and paystubs, as long as the veteran has cash reserves of at least 2 months of mortgage payments post-closing, the loan is eligible for guaranty.
    - Must document efforts to obtain VOE in the Correspondence section of Weblgy
• If you use direct deposit or the reserves above, you must document your process in Box 47 (i.e. option selected and supporting documentations).

ADDITIONAL RESOURCES:
• Mortgage Letter 2020-05
• USDA Announcement
• VA Circular 26-20-10