



To: All Customers **From:** Underwriting
Date: 03/26/20 - Updated 8/31/20 **Memo #:** 20033
Subject: **Conventional and Government Employment Verification and Income Updates Due to COVID-19**

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 **September 30, 2020 unless otherwise indicated below.** 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 Monday, July 20, 2020 the timing of the verification for an employed borrower is being retracted to the standard requirement of within 10 business days of the Note date for all loans in process. **Standard requirements allow third party vendor database information (e.g. The Work Number) to be no more than 35 days old from the Note date when the verification is generated within 10 days of the Note date.** 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 of business operations for self-employed borrowers is being updated from within 10 business days to within 20 business days of the Note date **and will remain in effect until further notice.**

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. **The below flexibilities remain effective with applications on or before September 30, 2020.**

| Loan Purpose | Acceptable Documentation |
|----------------------------|---|
| Cash-Out | <ul style="list-style-type: none"> • 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. |
| Purchase and Rate and Term | <ul style="list-style-type: none"> • 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 |

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| | <p>current employment status may be used in lieu of a verbal VOE.</p> <p>If a Verbal Verification of Employment or Written Verification of Employment listed above cannot be obtained the following can be used:</p> <ul style="list-style-type: none">• 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. <p>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.</p> |
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DOCUMENTING BUSINESS IS OPERATIONAL FOR SELF-EMPLOYED BORROWERS

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

- 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 20 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)

Self-employment documentation within 20 days of the Note date is in effect until further notice.

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 July 20, 2020 the following changes apply to all loans in process not yet purchased by Flagstar Bank.

The timing of the verification for an employed borrower is being retracted to the standard requirement of within business 10 business days of the Note date. **Standard requirements allow third party vendor database information (e.g. The Work Number) to be no more than 35 days old from the Note date when the verification is generated within 10 days of the Note date.** 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 of business operations for self-employed borrowers is being updated from within 10 business days to within 20 business days of the Note date.

ALTERNATIVE DOCUMENTATION FOR WAGE EARNERS

| Loan Purpose | Acceptable Documentation |
|------------------|--|
| All Transactions | <ul style="list-style-type: none"> • 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 **one of the following**:

- 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 20 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)

Self-employment documentation within 20 days of the Note date is in effect until further notice.

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 Monday, July 20, 2020 the timing of the verification for an employed borrower is being updated to 10 calendar days of the Note date for all loans in process and those not yet purchased by Flagstar Bank.

Verification of business operations for self-employed is being updated to 10 calendar days of the Note date.

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.

| Loan Purpose | Acceptable Documentation |
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| FHA Purchase | Evidence borrower had a minimum of 2 months of (PITI) in reserves; and one of the following: <ul style="list-style-type: none"> • 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 |
| FHA Rate/Term & Simple Refinances | <ul style="list-style-type: none"> • 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 Cash-Out | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • A year-to-date paystub or electronic verification of income for the pay period |

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| | <p>that immediately precedes the Note date, or</p> <ul style="list-style-type: none"> • A bank statement showing direct deposit from the borrower's employment for the pay period that immediately precedes the Note date |
| VA Purchase | <p>Evidence borrower had a minimum of 2 months of (PITI) in reserves; and one of the following:</p> <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 |
| <p>USDA Purchase</p> <p>USDA Refinance</p> <p>USDA Streamlined- Assist</p> | <p>When unable to obtain a verbal verification of employment (VVOE) alternatives are permissible.</p> <ul style="list-style-type: none"> • 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. <p>Borrowers with no income at the time of closing are not eligible regardless of available cash reserves.</p> |

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 Calendar 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 Weblog
- If you use direct deposit or the reserves above, you must document your process in Box 47 (i.e. option selected and supporting documentations).

REFERENCE OF VERIFICATION REQUIREMENTS IN PLACE PRIOR TO JULY 20, 2020

Due to the additional employment risk created by the impact of COVID-19, it is now required to document 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.

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. Verification of business operations for self-employed borrowers remains within 10 business 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.

ADDITIONAL RESOURCES:

- [Mortgage Letter 2020-05](#)
- [USDA Announcement](#)
- [VA Circular 26-20-10](#)