

Best practices for income and employment verifications



Lender responsibility to resolve discrepancies

Prudent origination, processing, and underwriting practices on all loans, including those with validation through the DU® validation service, should include looking for conflicting and contradictory information in the loan documents that raise questions about the transaction and working to resolve them when identified.

When discrepancies are identified, lenders must conduct additional due diligence to determine the validity of the information.

NOTE: This document describes common red flags related to borrower income and employment and suggests ways to investigate them. Lender due diligence is required when discrepancies are identified; the specific methods used to investigate them are **not** prescribed by Fannie Mae, but the recommendations in this document are common best practices in the industry. Income/employment documentation may have one or more discrepancies; each borrower situation is unique, and the information should be viewed holistically.

Income and employment – Common Red Flags

- Annual, year-to-date, or past-year earnings are rounded dollar amounts.
- Applicant’s job title is generic – e.g., “manager” or “vice president.”
- Income levels are inconsistent with applicant’s occupation and position.
- Income appears to be out of line with the applicant’s type of employment, length of time at the employer, or education level.
- Recent large pay increases.
- Bank statements in the file contain direct deposits from different employer with significantly lower income.
- Documentation (paystub or bank account data) reflects different employment source and/or income amount than what is disclosed in the file such as the Verification of Employment (Form 1005).

Design your origination and pre-funding quality control processes to identify and resolve issues before loans close.

Many pre-closing due diligence practices may also be appropriate for post-closing quality control.

What lender due diligence looks like

- Use publicly available information (e.g., job sites such as salary.com) to identify average salary amounts for the applicant's job in the geographic area.
- Look at other information in the loan file to see if the income / employment make sense:
 - Does the bank statement reflect regular deposits that are consistent with the income amount?
 - Expect high income earners to have direct deposit.
 - Do the asset amounts align with what is expected for the income level?
 - Is the location of the property a reasonable distance from the borrower's employment address if the job requires physical attendance (nail tech, waitress, chef, etc.)?
 - Does the borrower's credit history (or lack of credit history) align with income level?
 - Is the employer listed on the credit report different than what is disclosed on the application?
- Look for relationships that appear to be either interested parties to the transaction or family.
- Look for business presence on the internet. For example, does the employer have an online presence? Is there evidence of a state business license (check the Secretary of State's website)? Is the employer's address in a commercial or office area, or does it appear to be at a residential/non-commercial location?
- If you cannot reconcile the employment or income information, execute Form 4506T and obtain additional information (paycheck, W-2, tax returns) before closing the loan.

What lenders can do everyday

Create a culture of quality by taking steps to detect and prevent problems in your loan manufacturing process.

- Know your third-party originators/brokers.
- Use industry fraud tools.
- Perform targeted QC selections on transactions with "red flag" characteristics, including reverification of employment/income/assets.
- Track your reverification responses – lack of response for a particular loan officer, branch, or regional office may indicate that closer scrutiny is warranted.
- Train your staff and share information with them regularly.
- If the loan doesn't make sense, don't do it!
- If you see something – say something. Issues identified need to be self-reported to Fannie Mae as required by the *Selling Guide* [D1-3-06, Lender Post Closing Quality Control Reporting, Record Retention, and Audit](#).

Examples of potential discrepancies in income and employment

Example 1

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Note on the employment representation:

- Restaurant in a non-metropolitan area.
- Position: Manager.
- Annual Salary: \$102,000.00 or \$8,500/month.
- Round number income figures.

Note on the employment verification:

1. Round numbers throughout.
2. Inconsistent pay increase dates.
 - Date of the last pay increase is 03/01/2018 and next pay increase is 03/01/2020, which is inconsistent with YTD pay and has had consistent pay increases every year. Income/compensation shows 2018 income as \$98,400 or \$8,200/month. The income earned as of 05/31/2019 is \$42,500, which is \$8,500/month, without any pay increase noted for 01/01/2019.
3. Inconsistent last pay increase dollar amount.
 - The last pay increase is listed as \$3,000, but base pay increased from 2017 to 2018 by only \$2,400.

Borrower		IV. EMPLOYMENT INFORMATION	
Name & Address of Employer La Sopresa Y Mas	<input type="checkbox"/> Self Employed	Yrs. on this job 8 yrs	Name & Address of Employer
Position/Title/Type of Business Manager		Yrs. employed in this line of work/profession 8	Business Phone (incl. area code)
V. MONTHLY INCOME AND COMBINED HOUSING			
Gross Monthly Income	Borrower	Co-Borrower	Total
Base Empl. Income*	\$ 8,500.00		\$ 8,500.00
Overtime			
Bonuses			
Commissions			
Dividends/Interest			
Net Rental Income			
Other (before completing, see the notice in "describe other income," below)			
Total	\$ 8,500.00	\$	\$ 8,500.00

Additional due diligence revealed:

- The income is excessive in relation to the job title: the average salary of a restaurant manager in the area is \$63,117 according to salary.com.
- Someone with same borrower last name is Principal per Secretary of State and Manager per Facebook.

Employment Verification Result - CURRENT							
Employment:							
Employment Status	Active						
Start Date	3/1/2011						
What is the Borrower's job title?	Manager						
What is the possibility of continued employment?	Likely						
What was the date of Borrower's last pay increase?	03/01/2018 2						
What was the date of Borrower's next pay increase?	03/01/2020						
What was the amount of the borrower's last pay increase?	3,000						
What is the amount of the borrower's next pay increase?	3,000						
Pay Rate Info:							
Amount	\$8,500.00						
	Frequency Monthly						
Income/Compensation:							
Year	Base Pay	Overtime	Commissions	Bonuses	Other Income 1	Other Income 2	Total Pay
05/31/2019	\$42,500.00	\$0.00	\$0.00	\$3,500.00	\$0.00	\$0.00	\$46,000 1
2018	\$98,400.00	\$0.00	\$0.00	\$7,000.00	\$0.00	\$0.00	\$105,400
2017	\$96,000.00	\$0.00	\$0.00	\$6,500.00	\$0.00	\$0.00	\$102,500

Example 2

Note on the employment representation:

- Position: Nail Art Technician.
- Annual Salary: \$95,400.00 or \$7,950/month.
- Round number income figures

Note on the employment verification:

- 1. Round numbers throughout.**
- 2. Inconsistent and large pay Increase amounts.**
 - 2018 total base pay = \$70,000 per year or \$5,833.33 per month.
 - 2019 monthly income amount is \$7,950, which would be \$95,400 per year.
 - 27% wage increase from 2018 to 2019, which is considerably high given only 11% wage increase 2017 to 2018.
- 3. Pay increase dates.**
 - Documented as Not Applicable (N/A) yet there were substantial pay increases year over year.

Borrower		IV. EMPLOYMENT INFORMATION	
Name & Address of Employer PureLux Nail Spa	<input type="checkbox"/> Self Employed	Yrs. on this job 5 yrs 5 mos	Name & Address of Employer
Position/Title/Type of Business Nail Art Technician		Yrs. employed in this line of work/profession 5	Business Phone (incl. area code)

V. MONTHLY INCOME AND COMBINED HOUSING INCOME			
Gross Monthly Income	Borrower	Co-Borrower	Total
Base Empl. Income*	\$ 7,950.00		\$ 7,950.00
Overtime			
Bonuses			
Commissions			
Dividends/Interest			
Net Rental Income			
Other (before completing, see the notice in "describe other income" below)			
Total	\$ 7,950.00		\$ 7,950.00

Additional due diligence revealed:

- The income appeared excessive in relation to the job title: the average salary of a nail technician in the area is \$20,875 according to salary.com.
- According to 2018 W-2 tax transcript, wages are \$9,102.
- Tax transcript employer came back as different employer.

Employment Verification Result - CURRENT								
Employment:								
Employment Status	Active							
Start Date	4/1/2014							
What is the Borrower's job title?	Nail Art Tech							
What is the possibility of continued employment?	Likely							
What was the date of Borrower's last pay increase?	N/A							
What was the date of Borrower's next pay increase?	N/A							
What was the amount of the borrower's last pay increase?	N/A							
What is the amount of the borrower's next pay increase?	N/A							
Pay Rate Info:								
Amount	\$7,950.00				Frequency	Monthly		
Income/Compensation:								
Year	Base Pay	Overtime	Commissions	Bonuses	Other Income 1	Other Income 2	Total Pay	
11/17/2019	\$83,834.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$83,834.50	
2018	\$70,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$70,000.00	
2017	\$62,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$62,000.00	
VOE Comment								

Example 3

Note on the employment representation:

- Position: VP of Operations.
- Annual Salary: \$306,000 or \$25,500/month.
- Round number income figures.

Note on the employment verification:

1. Round numbers throughout.
2. Prior year earnings are the same and contain even dollar amounts.
3. Total income is inconsistent with income reported on the loan application.

Borrower		IV. EMPLOYMENT INFO	
Name and Address of Employer <input type="checkbox"/> Self Employed RESTAURANT WASTE MANAGEMENT CORP		Yrs. on this job 3.38	
Position/Title/Type of Business VP OF OPERATIONS		Yrs. employed in this line of work/profession 3.38	
V. MONTHLY INCOME AND COMBINED HOUSEHOLD			
Gross Monthly Income	Borrower	Co-Borrower	Total
Base Empl. Income*	25,500.00		\$ 25,500.00
Overtime			
Bonuses			
Commissions			
Dividends/Interest			
Net Rental Income			
Other (before completing see the notice in "Describe Other Income" below)			
Total	\$ 25,500.00		\$ 25,500.00

Additional due diligence revealed:

- Borrower’s sister owns the company providing the VOE. The sister was identified by a gift letter in the file.
- Company registered/incorporated January 31, 2019 with 1 driver. Borrower could not have been employed there in 2018 and 2017.
- Credit report indicated borrower was a janitor; reverification confirmed making \$4k/month.

Employment Verification Result - CURRENT							
Employment:							
Employment Status	Active						
Start Date	7/15/2016						
What is the Borrower’s job title?	VP of operations						
What is the possibility of continued employment?	Likely						
What was the date of Borrower’s last pay increase?	01/01/2019						
What was the date of Borrower’s next pay increase?	N/A						
What was the amount of the borrower’s last pay increase?	6000 annually						
What is the amount of the borrower’s next pay increase?	N/A						
Pay Rate Info:							
Amount	Frequency						
\$306,000.00	Annual						
Income/Compensation:							
Year	Base Pay	Overtime	Commissions	Bonuses	Other Income 1	Other Income 2	Total Pay
12/02/2019	\$280,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$280,500.00
2018	\$300,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$300,000.00
2017	\$300,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$300,000.00