

Corporate Policy Statement 1009-ALL

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Overview

CMG Mortgage, Inc., dba CMG Financial, NMLS #1820, (“CMG”) has implemented income validation using IRS Form 4506 transcripts to validate income used to qualify the borrower. CMG will only originate or purchase loans where income has been sufficiently verified (excluding non-income verification products). Borrowers are required to sign 4506T at time of application and again at funding on all transactions.

Ownership

Document Owner:	Corporate Credit
Applicable Channel(s):	All Channels
Process Responsibility:	Underwriters

Tax Transcript Policy

Income validation via tax transcripts is required for the following:

- all transactions that require tax returns in the file (if AUS or guidelines require tax returns for any reason, tax transcripts are required),
- all USDA transactions,
- all non-agency investor transactions (refer to program specific guidelines),
- all conventional conforming transactions using income earned as a salaried/W-2 worker at a marijuana dispensary to qualify (W2 transcripts required), and
- any other transaction at underwriter discretion.

Note: For AIO transactions – follow CMG’s policy unless otherwise specified in program guidelines.

The AUS findings will generally determine the number of years of income that must be provided/validated. For instance, if DU calls for two year’s tax returns than two years of tax return transcripts are required. In all cases, no less than one year’s tax return transcripts are required. Tax return transcripts may not be used in place of actual tax returns. If tax returns are required by AUS, then actual tax returns are required.

The CMG underwriter/Correspondent Seller should carefully review the tax returns and the tax return transcripts to ensure a complete match of any and all information.

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- Wholesale / Retail: Any discrepancy should be identified and referred to UW management for review.
- Correspondent Sellers: Any discrepancy must be identified and addressed within the loan file prior to submission for purchase consideration.

In cases where a tax extension has been filed, the extension must be confirmed in addition to 4506 results stating “no record of return filed” for the given tax year.

Refer to the table below for additional guidance. **Retail & Wholesale:** *exceptions to the tax transcript policy for valid and documented reasons can be considered at the underwriter level when the investor/program does not specifically require tax transcripts.*

Tax Transcript Table

Self-Employed and/or Tax Returns ¹ are Used to Document Income for Borrower		
Closing Date	Extension Not Filed (or N/A)	Extension filed
January 1 – April 15th	The AUS findings will determine the number of years of income that must be provided/validated. Obtain most recent year(s) available based on number of years required. ²	N/A – refer to “Extension Not Filed” column
April 15 th – May 31 st	Obtain tax transcripts for number of years required, including most recent year; or Obtain the 4506 results stating “no record of return filed” for most recent year in addition to transcripts for number of years required. ²	The extension must be confirmed in addition to 4506 results stating “no record of return filed”.
June 1 st – October 15th	Obtain tax transcripts for number of years required, including the previous year.	
October 16 th – December 31st	Obtain tax transcripts for number of years required, including the previous year.	N/A – refer to “Extension Not Filed” column

- 1. Business Tax Return Validation is required if specifically required in program guidelines or only if**
 - AUS requires transcripts,
 - Underwriting requires transcripts, or
 - Income from business tax returns is being used to qualify that doesn’t carry through to borrower’s personal returns.
- 2. If the previous year’s tax return income is being used to qualify, the qualifying income must be verified as stable and consistent with previous years. If the most recent year’s tax returns creates a new income level, transcripts are generally required for the most recent year.** If the increase in the most recent year tax returns is significant (a 20% increase is generally deemed significant), use of the income must be carefully evaluated on a case-by-case basis by underwriting. Rationale for use must be documented**. In all cases, use of the previous year’s income without transcript validation (a “No Record Found” due to a recent filing) requires the following:
 - Returns officially stamped by the IRS as received or evidence that the return was electronically received by the IRS; and
 - Evidence of a refund received or payment made (cancelled check)

**Note: If the most recent year tax returns show an increase in gross sales, net sales and eventually net profit the income can generally be considered to be valid however, in cases where the sales do not increase but a large decrease in expenses is shown, the reason for the reduction of those expenses should be determined and evaluated to ascertain their validity and applicability to not just the current year but the future earnings of the company.

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Transcript Data Review Policy

The IRS transcripts should be reviewed to ensure income is calculated properly, the DTI includes all required debts, and all required items are addressed. This includes but is not limited to a review of:

- Capital gains/losses
- Rental property income/losses
- Un-reimbursed employee expenses / 2106*
- Undisclosed self-employment
- Occupancy issues identified by address discrepancies
- Undisclosed dependents
- Undisclosed rental and/or other properties
- Undisclosed alimony obligation(s)
- Undisclosed federal tax debt(s)

***Generally, 2106 expenses (as reported on tax returns) are to be considered in the borrower’s cash flow, including hourly and salaried borrowers.** The only exceptions are:

- for a DU/LPA approved conventional conforming loan and VA loans (DU or LPA) when a borrower is qualified using base pay, bonus, overtime, or commission income.

Note: In these case, unreimbursed employee business expenses are not required to be analyzed or deducted from the borrower’s qualifying income, or added to monthly liabilities regardless of whether they are identified on tax returns or tax transcripts.

The income validated through the IRS must be **materially** correct to be eligible for approval/purchase.

It is important to compare the address returned on the tax transcripts to the borrower’s addresses listed on the application to ensure consistency on documents in the loan file. Any discrepancies must be adequately addressed by the borrower.

Taxpayer Identification Theft Policy

Taxpayer identification theft occurs when a taxpayer’s stolen Social Security number is used to file a forged tax return and attempt to claim a fraudulent refund.

The Tax Transcripts topic will be revised to reflect the following documentation requirements when a borrower is a victim of taxpayer identification theft:

- The borrower must provide stamped and signed tax returns or verification of electronic filing
- Transcripts from the prior two (2) years must be validated
- Proof of the identification theft as evidenced by one of the following:
 - Proof of identification theft was reported to and received by the IRS (IRS form 14039)
 - Copy of notification from the IRS alerting the taxpayer to possible identification theft

Each of the following secondary documents (as applicable) to validate the reported income on the tax returns in question:

- W2 or 1099 transcripts which match the W2 or 1099 income shown on the 1040s
- 1099 Mortgage Interest should match reported interest on Schedule A or Schedule E
- 1099G Unemployment should match reported unemployment
- 1099 Interest/Dividend should match reported dividend and interest

Validation of prior tax year(s) income (income for current year must be in line with prior year(s)).

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IRS Transcript Rejection Policy

If the IRS rejects a 4506-T request the following conditions must be met in order to validate the borrower's income:

- Copy of the rejection and one of the following:
 - Record of Account for 2 years obtained by the borrower from the IRS. Adjusted Gross Income and Taxable Income on the Record of Account should match the borrower's 1040s; OR
 - Tax return transcripts obtained by the borrower via mail/fax from the IRS. Information on the tax transcripts must match documentation provided in file.

Additional Information

External Resources:

- VA [Circular 26-16-10 - April 7, 2016: Policy Clarification for Unreimbursed Employee Business Expenses](#)
- FNMA – Requirements and Uses of IRS Form 4506-T
<https://www.fanniemae.com/content/guide/selling/b3/3.1/06.html>
- IRS – Taxpayer Guide to Identify Theft
<http://www.irs.gov/uac/Taxpayer-Guide-to-Identity-Theft>
- FNMA Selling Guide – B-1-1-03: Allowable Age of Credit Documents and Federal Income Tax Returns
<https://www.fanniemae.com/content/guide/selling/b1/1/03.html>