

IRS Form 4506-T Tips for Underwriting and Quality Control

August 2013

This document provides tips for lenders regarding use of the Request for Transcript of Tax Return (IRS Form 4506-T), including what information is available, what to request from the IRS, and how to review the results when underwriting a borrower for a mortgage loan or conducting a quality control (QC) review.

Use of the IRS Form 4506-T

Fannie Mae's policy regarding use of the IRS Form 4506-T to validate borrower income documentation for underwriting and QC purposes requires the lender to

- have each borrower (regardless of income source) complete and sign a separate IRS Form 4506-T for each type of transcript required at or before closing (for example, one IRS Form 4506-T to be completed and signed for personal returns and another for business returns), and
- add the execution of IRS Form 4506-T with the IRS (directly or through an authorized vendor) to its written QC plan. Refer to the *Selling Guide*, Subpart D1, Lender QC Process, for details about lender QC requirements.

Fannie Mae does not require lenders to execute the IRS Form 4506-T with the IRS prior to closing unless the policy regarding 5 to 10 multiple financed properties applies. As part of post-closing QC, however, for all loans reviewed through the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include the lender's execution of the IRS Form 4506-T with the IRS (or designee). (See Reviewing the Results below for additional information.) Given that IRS Form 4506-T is valid for only 120 days after completion and signature by the borrower, lenders should take that into consideration when deciding at what time in the process to obtain the borrower execution of the form.

NOTE: *Lenders that obtain the appropriate IRS transcripts during their pre-closing process (processing and underwriting) may use the same documents in their QC process without ordering new transcripts.*

What Is Available

Use of IRS Form 4506-T has become the most efficient method for lenders to obtain a borrower's income tax information – the information is available electronically and quickly. In response to submission of an IRS Form 4506-T, the IRS provides a line-by-line transcript of the information it has received for up to the past four tax years. Transcripts available through submission of IRS Form 4506-T include the following series:

- **1040:** U.S. Individual Income Tax Return
- **1065:** U.S. Return of Partnership Income
- **W-2:** Wage & Tax Statement
- **1098:** Mortgage Interest/Student Loan Interest/Tuition Statements
- **1099:** Dividends/Interest, Miscellaneous Income, Government Payments, Cancellation of Debt, etc.
- **1120:** U.S. Corporation Income Tax Return (also 1120-L and 1120-S)

- **5498:** IRA, HSA, Archer MSA, Medicare Advantage MSA, Coverdell ESA Contributions

NOTE: Request for Copy of Tax Return (IRS Form 4506) and Tax Information Authorization (IRS Form 8821) are also acceptable; however at this time, the tax information available using these forms is not available electronically. In addition, the eligible timeframes for the forms differ – Forms 4506-T and 4506 are valid for 120 days after execution by the borrower, but Form 8821 is valid for only 60 days after execution by the borrower.

What to Request from the IRS

The table below shows the documentation that should be requested when using IRS Form 4506-T. The requested documentation must follow Fannie Mae’s income documentation requirements, which depend on the type of borrower income (self-employed, salaried, commissioned, etc.) and the underwriting method (Desktop Underwriter® [DU®] or manual).

If Standard/DU Income Documentation Option Is ... (as determined by the <i>Selling Guide</i> or the DU Recommendation)	The IRS Form 4506-T request must include most recent filing of ...			
	1040 (4506T-EZ may also be used)	1120 or 1065	1099	W-2
YTD Paystub and One W-2				1 year
YTD Paystub and Two W-2s				2 years
YTD Income Information and Two 1099s/1040s	2 years		2 years	
One Year Personal Returns	1 year			
Two Years Personal Returns	2 years			
Two Years Personal Returns and Two Years Business Returns	2 years	2 years		

Examples

- When **manually underwriting a salaried borrower**, the lender should request two years of W-2s*.
 - January 2013 initial request to the IRS – 2010 and 2011 W-2s.
- When **underwriting a salaried borrower through DU**, DU may only require a recent paystub and one year’s W-2. In this case, the lender should request the most recent available W-2*.
 - June 2013 initial request to the IRS – 2012 W-2.
- When **underwriting a self-employed borrower (DU or manually)**, the lender should request two years of individual federal tax returns. In this case, the lender should request the most recent two years of available tax returns*.
 - January 2012 request to the IRS – 2010 and 2011 Form 1040s.
 - August 2013 request to the IRS – 2011 and 2012 Form 1040s.

NOTE: * When requesting this information, lenders must take into consideration the documentation delays. It typically takes the IRS 6 to 8 weeks to add new filings or corrections to its database.

Reviewing the Results

The execution of the IRS Form 4506-T with the IRS can be a tool to document borrower income, but the intent of this policy is to use the form to validate the income documentation provided by the borrower and used in the underwriting process.

If the documentation used to support the borrower's income (e.g., 2012 W-2 for Borrower 1 from Employer A) is the same year as the information available from the IRS (e.g., 2012 W-2 transcript for Borrower 1 from Employer A), the information must match exactly (differences for rounding purposes are acceptable).

There are some instances, however, in which a variation between the income documentation (paystubs, W-2s, etc.) and the IRS tax return transcript is acceptable.

The following questions may assist in determining whether the differences between the income documentation and IRS tax return transcripts are reasonable or if additional documentation is needed:

- Did the borrower file a joint return but is on the loan application alone?
- Did the borrower change jobs? Is he/she in the same line of work but with a different company?
- Did the borrower receive a promotion?
- Did the borrower's compensation structure change (e.g., from base to commission or from salary to hourly)?
- In the previous year(s), did the borrower receive bonus or overtime compensation that is no longer offered?
- Is the borrower now receiving bonus or overtime compensation that was not offered previously?
- Did the borrower not have enough income to require the filing of a federal tax return (e.g., single filer with income less than \$8,950)?
- Is there undisclosed self-employment loss for a co-borrower or non-borrowing spouse?

The lender must review the transcript information to determine the reasons for any income discrepancies (e.g., borrower provided his/her 2012 W-2, but the IRS only had 2011 W-2 transcript information available). If the discrepancies cannot be explained by information already in the loan file, the lender must obtain additional information to satisfactorily address any and all inconsistencies.