



## Tax Transcript/Tax Return Requirements

On conventional, FHA and VA products, transcripts are not required for a borrower when all income used to qualify a loan for that borrower is made up exclusively of wage earner income reported on a W2 and/or fixed income reported on a 1099 (i.e., social security or VA benefits), unless full tax returns are required for the borrower by the AUS (i.e., borrower employed by family members). If multiple borrowers are qualifying on the loan, but the tax returns are not filed jointly, and one borrower requires full returns, but the other borrowers are qualified exclusively on W2 and/or fixed income then no transcripts are required for the W2/fixed income borrower and 1040 transcripts are required for the self-employed borrower/borrower requiring full returns. Requirements for each product is described in the Product Profile, refer to that for complete requirements. A completed and executable (signed) 4506T must be submitted with the loan file. For the borrowers where transcripts are not required, be sure to select the W2/1099 option only when completing the 4506-T. Do not mark the 1040 or Record of Account option.

When using the no transcript option for W2 and/or fixed income borrowers, there can also be no tax returns submitted with the loan or required to be in the loan file (including if tax returns are required to be reviewed by the PRMG underwriter for MCC Approval or other purpose). If the underwriter is required to review tax returns for any purpose, validated 1040 transcripts are required. If the borrower earns other income that is used to qualify that would be able to be validated with 1040 transcripts (i.e., rental income from tax returns, etc.) then 1040 transcripts are required to validate that income.

Tax transcripts (W2 or 1040, as allowed by the product profile) are required for all other credit qualifying products (USDA, jumbo, niche, closed end seconds, housing authority products, etc.) Requirements for each product is described in the Product Profile, refer to that for complete requirements. Tax Transcripts and an executed 4506-T are not required on non-credit qualifying products, such as the FHA Streamline and VA IRRRL.

**When required, tax transcripts must be provided through a third-party vendor or sent directly to PRMG underwriter, processor or account manager from the IRS unless a code 10 is received and the below requirements for "Rejected IRS" Transcripts are met.**

When ordering 1040 transcripts, selection 6a "Return Transcript" is required to be marked on the 4506-T, but PRMG will allow 6c "Record of Account" if the underwriter determines a Record of Account is needed to verify any additional information. When ordering W2 transcripts, selection 8 is required to be marked on the 4506-T.

If the stamped return option is used, all requirements as outlined in the guidelines/exception matrix must be met which includes transcripts for the previous year.

If the product profile allows for it, and the AUS findings offer one-year tax return documentation, transcripts are required to support the income documentation provided, transcripts for the prior year would not be required.

Agency direct (i.e., Fannie Mae or Ginnie Mae) executions may allow for no transcripts but are not allowed per any of PRMG published guidelines or exceptions.

For any borrower whose income is from Puerto Rico, the Puerto Rican equivalent of the 4506T (form Modelo SC 2907), must be utilized to order transcripts from the Department of Hacienda. Must follow requirements from Puerto Rico to obtain transcript, which currently can only be accomplished in person, by the borrower. Borrower may not obtain transcripts from the Department of Hacienda's website, as there is no way to verify the transcripts were obtained directly from the Department of Hacienda. However, if the ability to obtain the results from a third party rather than directly from the borrower comes available, results must come from a third party. All loan documentation must be translated to English. Additionally, an executed Modelo SC 2907 must be in the loan file.

If the borrower does not make enough income to file tax returns, a 4506-T must still be processed and should return as "Rejected" since there was no return filed. Additionally, information must be provided to show that the borrower's income level was low enough to not have to file returns and the borrower must provide a letter explaining why no returns were filed.

Generally, 4506-T results are not available until approximately May 1<sup>st</sup> of the year the taxes are filed. Typically, PRMG will not allow the income to be used in qualification unless the income can be independently verified with tax transcripts. The following guidelines must be adhered to until 4506-T Transcripts are available for the current tax returns.

*Please note, for the following scenarios 2017 tax year information is used as an example – follow the same guidance in future years, applying dates as appropriate.*

If a 2017 tax return or 2017 W-2 is included in the loan file, even if not needed per the documentation requirements below, a 4506-T Transcript request must be made and at minimum, a No Record Found result must be included in file.

### **Rejected IRS Transcripts**

The following policy applies to all products (Conventional, FHA, VA, USDA) except Jumbo products and the FHA 203K Limited product. Jumbo products and the FHA 203K Limited product require transcripts directly from the IRS or via a third-party vendor ordered directly by PRMG or the correspondent.

Please note, USDA confirmed that they require tax transcripts, regardless of IRS limitations, and two years transcripts must be included in loan files delivered for purchase in compliance with the USDA announcement and HB-1-3555, Chapter 9, 9.3 E.

If the borrower has received a rejection code 10, the message "due to limitations, the IRS is unable to process this request" or other verbiage related to a "limitation" preventing completion of the request, PRMG will require the following documentation for the loan file:

- Document the IRS rejection of tax transcripts from tax vendor/IRS with the rejection code
- For 1040 transcripts, bank statement or copy of check to evidence tax payment made or refund received for that year matches the 1040 amount (if refund has not yet been received, the evidence of refund obtained from the IRS website (such as a screenshot of IRS website where

the borrower can check the status of the their refund) would be acceptable, provided that it identifies the borrower as the recipient)

- For W2 transcripts, third party verification from a government agency, such as the Social Security Administration, or a reputable third-party vendor, such as “Work Number” with results matching the W2.
- Borrower must obtain their tax transcripts directly from the IRS and provide them to PRMG
- New 4506-T must be signed at closing

A “no record found” or “data mismatch” response is not acceptable.

In addition to providing the above, underwriter must use discretion when assessing income credibility. This could include items such as the prior year tax transcripts, police report, institutional written VOEs, bank statements supporting payroll deposits, or any other documentation deemed supportive, based upon the specific situation.

---

## Requirements to Use Income for Qualification Purposes:

### Employed Borrowers

***If the borrower(s) are not self-employed, and the sole source of income is from W-2 wages, the following will be used for calculation:***

- The current income as verified by 2017 W2 may be utilized in the income calculation if the 2016 4506-T Transcript is satisfactory
- Obtain the 2016 W2, 2017 W2 or documentation as required by AUS
- 4506-T Transcript must verify 2016 and 2017 1040 Tax Returns or W2 Transcripts (as allowed by product), See first bullet if 2017 transcript returns a “No Record Found.”

### Self Employed Borrowers

***2017 Tax Returns received and certified (4506-T ordered and transcripts received) the following will be used for calculation:***

- 24-month average of 2016 and 2017 Tax Return information
  - The 4506-T Transcript must validate all tax return information (individual returns) for 2016 and 2017
- OR (depending on AUS determination and program requirements)
- 12-month average of 2017 Tax Return information
  - The 4506-T Transcript must validate all tax return information (individual returns) for 2017

***2017 Tax Returns received but not certified (4506-T transcripts not obtained – results return “No Record Found”) AND income increased less than or equal to 20% from 2016 to 2017, the following will be used for calculation:***

- 24-month average of 2016 and 2017 Tax Return information
- The 4506-T Transcript must validate all tax return information (individual returns) for 2016

**2017 Tax Returns received but not certified (4506-T transcripts not obtained – results return “No Record Found”) AND income increased more than 20% from 2016 to 2017, the following will be used for calculation:**

- 2017 Tax Information may **not** be utilized to calculate qualifying income
- 24-month average of 2015 and 2016 Tax Return information
- The 4506-T Transcript must validate all tax return information (individual returns) for 2015 and 2016

**2017 Tax Returns are not available, the following will be used for calculation:**

- 24-month average of 2015 and 2016 Tax Return information
- The 4506-T Transcript must validate all tax return information (individual returns) for 2015 and 2016

OR (depending on AUS determination and program requirements)

- 12-month average of 2016 Tax Return information
- The 4506-T Transcript must validate all tax return information (individual returns) for 2016

In general, for self-employed borrowers who have not yet filed the previous year’s tax returns, a P&L for that tax year will be required. See Product Profiles for specific requirements.

Please be sure to refer to Product Profiles for additional requirements for business 4506-T results that may be required (i.e., if extension has been filed for business returns.)

## Date Requirements for Providing Tax Returns and or Tax Transcripts

**For borrowers whose income is based on tax returns (self-employed, commission, employed by a relative, etc.):**

If Application Date Is:	And File Contains Tax Return and/or 1040 Tax Transcript:	Then Note must be on or before:
Up to 01/31/18	<ul style="list-style-type: none"> <li>• 2015 and 2016 tax return</li> <li>• 2015 and 2016 tax transcript</li> </ul>	4/14/2018
2/1/18 – 4/14/18	2017 Tax Return Filed <ul style="list-style-type: none"> <li>• 2016 and 2017 tax return</li> <li>• 2015 and 2016 tax transcript</li> </ul>	6/30/2018
	2017 Tax Return Not Filed <ul style="list-style-type: none"> <li>• 2015 and 2016 tax return</li> <li>• 2015 and 2016 tax transcript</li> </ul>	
4/15/18 – 6/30/18	2017 Tax Return Filed <ul style="list-style-type: none"> <li>• 2016 and 2017 tax return</li> <li>• 2015 and 2016 tax transcript</li> </ul>	6/30/2018
	2017 Tax Return Not Filed or Extension Filed <ul style="list-style-type: none"> <li>• 2015 and 2016 tax return and 2017 extension</li> <li>• 2015 and 2016 tax transcript and 2017 No Record of Return Filed</li> </ul>	10/15/2018

	<ul style="list-style-type: none"> <li>• Copy of filed extension with evidence of any tax payment made</li> </ul>	
7/1/18 – 10/14/18	2017 Tax Return Filed <ul style="list-style-type: none"> <li>• 2016 and 2017 tax return</li> <li>• 2016 and 2017 tax transcript</li> </ul>	12/31/2018
	2017 Tax Return Not Filed <ul style="list-style-type: none"> <li>• 2015 and 2016 tax return and 2017 extension</li> <li>• 2015 and 2016 tax transcript and 2017 No Record of Return Filed</li> <li>• Copy of filed extension with evidence of any tax payment made</li> </ul>	10/15/2018
10/15/18 – 12/31/18	<ul style="list-style-type: none"> <li>• 2016 and 2017 tax return</li> <li>• 2015 and 2016 tax transcript and 2017 No Record of Return Filed</li> </ul>	Lessor of 60 days from filed date or 12/31/2018
	<ul style="list-style-type: none"> <li>• 2016 and 2017 tax return</li> <li>• 2016 and 2017 tax transcript</li> </ul>	4/14/2019

**For borrowers whose income is NOT based on tax returns:**

**Using W2 Transcripts (when allowed/**required** by the product profile)**

<b>If Application Date Is:</b>	<b>And File Contains W2s only (no Tax Return and/or 1040 Transcripts):</b>	<b>Then Note must be on or before:</b>
Up to 2/15/18	<ul style="list-style-type: none"> <li>• 2016 W2 and 2017 year-end paystub/pay statement</li> <li>• 2016 W2 tax transcript</li> </ul>	4/14/2018
2/15/18 – 12/31/18	<ul style="list-style-type: none"> <li>• 2016 and 2017 W2</li> <li>• 2016 and 2017 W2 tax transcript</li> </ul>	1/31/2019

**Using 1040 Transcripts**

<b>If Application Date Is:</b>	<b>And File Contains Tax Return and/or 1040 Tax Transcript:</b>	<b>Then Note must be on or before:</b>
Up to 01/31/18	<ul style="list-style-type: none"> <li>• 2015 and 2016 W2 or 2016 W2 and 2017 year-end paystub</li> <li>• 2015 and 2016 tax transcript</li> </ul>	4/14/2018
2/1/18 – 4/14/18	<ul style="list-style-type: none"> <li>• 2016 and 2017 W2</li> <li>• 2015 and 2016 tax transcript</li> </ul>	6/30/2018
4/15/18 – 6/30/18	<ul style="list-style-type: none"> <li>• 2016 and 2017 W2</li> <li>• 2015 and 2016 tax transcript</li> <li>• 2017 No Record of Return Filed</li> </ul>	6/30/2018
	<ul style="list-style-type: none"> <li>• 2016 and 2017 W2</li> <li>• 2016 and 2017 tax transcript</li> </ul>	1/31/2019

7/1/18 – 10/14/18	<ul style="list-style-type: none"> <li>• 2016 and 2017 W2</li> <li>• 2015 and 2016 tax transcript and 2017 No Record of Return Filed</li> <li>• Copy of filed extension with evidence of any tax payment made</li> </ul>	Lessor of 60 days from filed date or 10/16/2018
	<ul style="list-style-type: none"> <li>• 2016 and 2017 W2</li> <li>• 2016 and 2017 tax transcript</li> </ul>	1/31/2019
10/15/18 – 12/31/18	<ul style="list-style-type: none"> <li>• 2016 and 2017 W2</li> <li>• 2016 and 2017 tax transcript</li> </ul>	1/31/2019