



Modernizing Affordable Housing: The Shift to Upfront Income Verification

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Management Perspective

The introduction of the new income verification hierarchy under the Housing Opportunity Through Modernization Act (HOTMA) marks a transformative shift in how on-site property management teams manage applicant income verification. These changes aim to enhance efficiency, ensure compliance, and streamline processes. However, they also necessitate adjustments in daily operations, requiring teams to adopt updated workflows and embrace modern technologies.

Under the new upfront income verification framework, the focus shifts away from time-intensive manual paperwork toward leveraging automated systems. This change is not merely procedural; it demands a shift in mindset for on-site staff, who must adapt to modern tools while maintaining accuracy and compliance. By reducing the reliance on traditional documentation methods, site teams can expect to spend less time tracking down and organizing physical paperwork. However, they will need to navigate new platforms and protocols effectively.

Key Features of the Verification Process for LIHTC Properties

For LIHTC properties not subsidized by the U.S. Department of Housing and Urban Development (HUD), the Enterprise Income Verification (EIV) system is not accessible. Consequently, the highest-ranking options within the new income hierarchy include:

1. **Web-Based State Benefit Systems:** These platforms can verify state-administered assistance programs, such as unemployment benefits or other state-provided income sources.
2. **Third-Party Verification Agencies:** Services like The Work Number or similar platforms offer fast, reliable access to employment and income data.
3. **IRS Tax Transcripts:** While a viable option, relying on IRS transcripts can cause delays, as the processing time may extend up to 10 days, potentially hindering the streamlined approach the new system aims to achieve.

In practice, many LIHTC properties will rely on third-party-generated documents, most commonly paystubs.



Changes in Paystub Requirements

While the use of paystubs for income verification has become a standard in the affordable housing industry, HOTMA introduces a notable update: the requirement of only the most recent two consecutive paystubs. This shift has multiple implications:

1. **Efficiency Gains:** By reducing the amount of documentation required, the approval process is expedited, enabling faster move-ins and reducing administrative bottlenecks.
2. **Paperwork Reduction:** Minimizing the volume of required documentation aligns with the broader goal of reducing manual processes, which benefits both staff and applicants.
3. **State-Specific Considerations:** Not all states are adopting this streamlined approach. Property management teams must stay informed about their state agency's specific requirements to ensure compliance.

The Path Forward for Property Management Teams

The adoption of upfront income verification represents an opportunity for property management teams to modernize their operations while maintaining a high standard of service for applicants. Success will depend on staff training, effective use of modern technologies, and an ongoing commitment to understanding regulatory requirements.

While this shift introduces challenges, it also offers significant potential benefits: more accurate income determinations, reduced administrative workloads, and enhanced experience for applicants. By embracing these changes, LIHTC properties can remain at the forefront of innovation in affordable housing.

State Housing Monitoring Agency Perspective for Compliance Monitoring HOTMA in Low-Income Housing Tax Credit Properties

The Housing Opportunity Through Modernization Act, commonly referred to as HOTMA, was finalized in 2023 and has a compliance implementation date of July 1, 2025, for its key Public Housing Authority (PHA) and HOME programs. HOTMA includes procedures for obtaining acceptable income verification and documentation, so low-income individuals and families needing housing can readily access it.

The state LIHTC allocating agency controls the LIHTC program requirements and may have specific guidance on how and when HOTMA requirements should be implemented, resulting in varied compliance requirements from one state to another.

For more than 30 years, the LIHTC program has relied upon the guidance from the HUD Handbook 4350.3, Chapter 5 (HUD Handbook) to determine eligibility and verification



procedures. The Internal Revenue Service (IRS) considers the HOTMA final rule to supersede the guidance in the HUD Handbook for determining tenant income eligibility in the LIHTC program by the HUD-required compliance implementation date.

State LIHTC allocation agencies, trainers, managers, and compliance monitors of the LIHTC program have seen it all when it comes to reviewing documentation of income and assets; however, the implementation of the HOTMA income verification and documentation procedures requires a reset for most seasoned compliance monitoring professionals who must re-focus their energies on learning and monitoring the HOTMA requirements and procedures.

New Terms Applied to the LIHTC Program

State-allocating agencies that do not manage HUD programs are required to become experts on the HOTMA requirements to monitor applicable programs appropriately. HOTMA also includes new descriptions for documenting income that has not been used for LIHTC properties without HUD funds.

- **What is Up-Front Income Verification (UIV)?** A means-tested and automated verification technique that uses independent sources to determine eligibility. A UIV service and system can provide immediate access to a family's employment, income, and asset information using a national database of employment, income, and financial asset verification.
- **What is a Means-Tested Income Verification?** Means-tested income verification is a comparable, reliable family income verification procedure that applies income limitations to determine eligibility for federal benefits or housing. Acceptable means-tested verification includes the HUD EIV and other Up-Front Income Verification systems, like the Work Number, Credit Bureaus, and state databases.

A means-tested verification source that works well for LIHTC properties is the PHA annual tenant income certification form (e.g., HUD form 50058) confirming the household income and adjustments used to determine the tenant-paid rent portion and program eligibility.

- **What are Safe Harbor Income Verifications?** Safe Harbor income verifications are intended to streamline verification and documentation for HUD and LIHTC programs by relying on computerized information collected by reliable sources, such as government



agencies or other affordable housing programs, with thorough best practice procedures for collecting and verifying household income against published income limitations.

In addition to HOTMA, state agencies are also managing a transition to NSPIRE for property inspections, managing the second year of reporting requirements for the Average Income Test (AIT), and training for new software and equipment. State monitoring agencies must manage their programs based on regulatory and statutory requirements from HUD and the IRS. HOTMA is a complete change for property compliance.

With the implementation of HOTMA, properties must continue following consistent procedures to ensure all low-income tenant files consistently contain complete verification and documentation to support the tenant's program eligibility. Following this rule should alleviate compliance concerns in compliance monitoring audits with the HOTMA transition.

Properties are encouraged to review the resources on the HUD website and its state-allocating agency website and attend affordable housing training at least once annually to stay abreast of changes.

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