



Back to Basics

Part 1: Verifications

by Scott Michael Dunn, Costello Compliance

Depending on which state you are in, the Housing Opportunity through Modernization Act (HOTMA) is either here or coming very soon. Legally it applied Jan. 1, 2024, although all federal Department of Housing and Urban Development (HUD) offices affected by HOTMA have given grace periods into or through 2024, and some state Low Income Housing Tax Credit (LIHTC) agencies have followed that model.

Regardless, there is no time to waste. Housing Credit Certified Professionals (HCCPs), the foremost compliance professionals in the industry, are taking the lead and learning what they need to know to succeed at implementing HOTMA. Fortunately, we at *The Credential* are here to help. This article series will discuss what we need to know.

When processing applications, the need to verify information comes up very soon. With HOTMA, HUD has continued to transform the verification process that started with Change 4 of the HUD Handbook in 2013. Because the IRS has indicated that HUD's methods are a safe harbor that we can use for LIHTC programs, and even used HUD's model in the 8823 Guide, state agencies generally adopt standards that HUD uses [see LIHTC Newsletter 54 pages 1-2 and 8823 Guide 4-7]. HUD has millions of certifications on file and can determine verification methods that are most statistically accurate. Along with the below description, see the chart at the end of this article that is based on HUD HOTMA guidance.

Starting Point

The old "gold standard," the verification filled out by the third party and returned not through the applicant/tenant's hands, is no longer so "gold." HUD, after examining millions of certifications, has determined that this method statistically produces less accurate results than current documents that the applicant/tenant may supply. Traditional third-party verification completed by the third party is too subject to human error, while that other documentation is considerably less so.

HUD now continues the traditional verification of employment (VOE) of "medium" acceptability. Above it is upfront income verification (UIV). This includes HUD's verification system called enterprise income verification (EIV). Unless an owner/agent has HUD properties, EIV information is not available to them, and even if they do, the EIV reports cannot be used for LIHTC purposes.



Other third-party databases than EIV, however, are also UIV and are the most preferred if an owner has access to them.

For instance, The Work Number for Everyone is a database to which 3 million employers provide income information that can be accessed by owners/agents. There is a cost to the owner per verification drawn, so an owner is not required to participate in The Work Number. However, HUD encourages it. Many owners/agents have found that the quicker turnaround of The Work Number as compared to employer-completed VOE results in less vacancy loss and makes up for the cost of The Work Number, but it is up to each owner/agent to decide. Regardless, HUD has determined that The Work Number and similar database solutions (such as state benefit verification services) are in the “highest” acceptability third-party verification category.

If UIV is not available, or the owner does not choose to implement available systems, then documents prepared by a third party brought in by the applicant/tenant are of “high” acceptability. Prominently, this includes pay stubs along with bank statements and benefit letters. Change 4 of the HUD handbook more than 10 years ago placed these types of documents above traditional third-party verification forms completed by third parties, so this is not new to housing professionals.

If the Above Are Not Available

On the “medium” acceptability list are those old-fashioned forms filled out and returned directly by the third party, like VOE and verification of deposit (VOD). This verification can be in writing or verbal, although verbal is a notch below written verification. Also, sometimes traditional VOE is the only thing available, such as when an applicant/tenant has a new job and there are no pay stubs available yet.

Last Resort

Finally, “low” acceptability belongs to applicant/tenant self-certification. These have a place: Application/questionnaires are one long self-affidavit. However, after that, some form of third-party verification of almost all important eligibility factors is required.

Additional Details

A notable new change in addition to the verification hierarchy is that the old four- to six-stub minimum standard has been replaced with two recent and consecutive pay stubs. Additionally, benefit letters and printouts for fixed-income sources are good for the entire year they cover and are not subject to the usual requirement that they be no more than 120 days old at the time of receipt by the owner/agent. A notable example would be the Social Security (SS) letter that SS recipients get before the cost of living adjustment (COLA) goes into effect for the following year.



Determining what your state and company verification policies will be in the HOTMA era is a very important first step. Come back to the next *The Credential* for more basic HOTMA information and action steps.

HOTMA Verification Hierarchy

Adapted from Implementation Notice Table J2

HOTMA adjusts the hierarchy of preferred verifications, as listed below.

| Level of Acceptability | |
|--|--|
| "Highest" | |
| <ul style="list-style-type: none"> <input type="checkbox"/> Upfront Income Verification (UIV), from a source database <ul style="list-style-type: none"> • EIV – Only for HUD properties (cannot be used for LIHTC purposes) • Non-EIV systems <ul style="list-style-type: none"> ○ The Work Number, web-based state benefits systems, etc. | <div style="background-color: black; color: white; padding: 2px 5px; display: inline-block;">Level 6</div> <div style="background-color: black; color: white; padding: 2px 5px; display: inline-block;">Level 5</div> |
| "High" | |
| <ul style="list-style-type: none"> <input type="checkbox"/> Written, third-party verification from the source provided by the tenant. <ul style="list-style-type: none"> • Also known as “tenant-provided verification” ▲ • Examples pay stubs, payroll summary reports, employer notices/letters of hire/termination, SSA benefit verification letters, bank statements, child support payment stubs, welfare benefit letters and/or printouts, and unemployment benefit notices. • HUD programs include EIV with self-certification if the tenant agrees that EIV is accurate. | <div style="background-color: black; color: white; padding: 2px 5px; display: inline-block;">Level 4</div> |
| "Medium" | |
| <ul style="list-style-type: none"> <input type="checkbox"/> Written third-party verification form <ul style="list-style-type: none"> • Use if Level 5 or Level 4 verification is not available or is rejected by the PHA/MFH Owner. • Oral third-party verification | <div style="background-color: black; color: white; padding: 2px 5px; display: inline-block;">Level 3</div> <div style="background-color: black; color: white; padding: 2px 5px; display: inline-block;">Level 2</div> |
| "Low" | |
| <ul style="list-style-type: none"> <input type="checkbox"/> Self-certification | <div style="background-color: black; color: white; padding: 2px 5px; display: inline-block;">Level 1</div> |

Chart from the Course “Achieve HOTMA Success” by Costello Compliance

Scott Michael Dunn is the CEO of Costello Compliance, a provider of many services to the affordable housing industry, including the Achieving HOTMA Success online on-demand/live hybrid course. He can be contacted at smdunn@costelloco.com.

NAHB is providing this information for general information only. This information does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind nor should it be construed as such. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action on this information, you should consult a qualified professional adviser to whom you have provided all of the facts applicable to your particular situation or question. None of this tax information is intended to be used nor can it be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. The information is provided “as is,” with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.