Office of Inspector General

July 6, 2000
Audit Report No. 00-024

Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-03

OFFICE OF INSPECTOR GENERAL
DELIVERING QUALITY TIMELINESS VALUE
OFFICE OF AUDITS

FDIC
Federal Deposit Insurance Corporation
Washington, D.C. 20434

Office of Audits
Office of Inspector General

DATE: July 6, 2000

TO: Mitchell Glassman, Director
Division of Resolutions and Receiverships

FROM: David H. Loewenstein
Assistant Inspector General

SUBJECT: *Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-03*
(Audit Report No. 00-024)

This report presents the results of a review of the claims made to the Credit Enhancement Reserve Fund (Reserve Fund) for securitization transaction 1991-03. This is the first in a series of nine reports that the OIG will issue relating to the securitization transactions serviced by Ryland Mortgage Company. The independent professional services firm, KPMG Consulting, conducted this review under the direction of the OIG.

The objective of our review was to determine if the realized losses that caused reductions to the Reserve Fund for the sample items tested were allowable and adequately supported by documentation. The review encompassed a sample of the $7.4 million of claims made to the Reserve Fund from August 1991 (inception of the transaction) through May 1998.

The Division of Resolutions and Receiverships (DRR) issued a written response received May 17, 2000 (see Appendix II) to a draft report. In this response, DRR disallowed questioned costs totaling $230,678 and outlined its plan of corrective action. In a follow-up communication, DRR clarified its response as it related to the confirmation of completion of the corrective actions. These responses provided the requisites for a management decision on our two recommendations. The OIG's evaluation of management's comments is presented in Appendix I.

If you have any questions, please call me at (202) 416-2412 or Marilyn Rother Kraus, Deputy Assistant Inspector General, at (202) 416-2426.

KPMG Consulting

1676 International Drive
McLean, VA 22102

Telephone 703 747 3000

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June 12, 2000

Ms. Marilyn Rother Kraus
Deputy Assistant Inspector General
Office of Audits
Office of Inspector General
Federal Deposit Insurance Corporation
801 17th Street, NW
Washington, DC 20434

Subject: Report Entitled *Review of Credit Enhancement Reserve Fund for Transaction 1991-03*

Dear Ms. Kraus:

In accordance with FDIC Delivery Order No. 99-00337-C-LH, KPMG Consulting is pleased to provide you with our final review report for RTC Transaction 1991-03.

This report presents the results of our review of claims from the Credit Enhancement Reserve Fund for RTC Transaction 1991-03 made by Ryland Mortgage Company. Our review was conducted in accordance with the standards applicable to financial related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

If you have any questions, please contact Robert Schmid at (703) 747-4154 or me at (703) 747-3056.

Sincerely,

KPMG Consulting LLC

Timothy F. Kenny by JMA

Timothy F. Kenny
Managing Director

Attachment

In accordance with Federal Deposit Insurance Corporation ("FDIC") Delivery Order Number 99-00337-C-LH, KPMG completed a review of claims made to the Credit Enhancement Reserve Fund ("Reserve Fund") for securitization transaction 1991-03. The FDIC Division of Resolutions and Receiverships ("DRR") Mortgage-Backed Securities Administration ("MBS") is responsible for the administration and oversight of the securitization program.

This report presents the results of one of nine reviews of claims made to Reserve Funds for securitization transactions that KPMG has been engaged to perform by the FDIC's Office of Inspector General ("OIG"). These reviews are all related to single-family residential ("SFR") loan securitizations serviced by Ryland Mortgage Company ("Ryland").

BACKGROUND

Securitization is the process by which loans are packaged into pools that are then used as collateral to back securities sold to investors in the capital markets. The Resolution Trust Corporation ("RTC")[1] used securitization as a method to sell loans from failed institutions. To obtain a high credit rating, the RTC created Reserve Funds for each securitization. The purpose of the Reserve Fund is to provide investors with a limited amount of protection against credit risks in the event that borrowers default or fail to make timely remittances on loans included in the securitization.

The RTC, the trustee, and the servicer signed a Pooling and Servicing Agreement ("PSA") at each securitization transaction's closing that describes the obligations of the trustee and servicer. The trustee is responsible for maintaining and investing the Reserve Funds and remitting interest earned to the FDIC on a monthly basis. The trustee adjusts the Reserve Funds to reimburse the servicer for realized losses and to reimburse the FDIC for any rating agency-approved reserve releases. The servicer is responsible for performing traditional loan servicing functions, including collecting and accounting for borrowers' payments and resolving delinquent loans. The servicer is also responsible for making advances of principal and interest payments, and for making corporate advances to pay property maintenance expenses and attorney fees on defaulted loans. The servicer remits all collections and advances to the trustee monthly, along with electronic collection reports. The trustee then passes the collections and principal and interest advances through to the investors.

Upon liquidation of a defaulted loan, the servicer prepares an officer's certificate that reports the realized loss or gain. An itemization of the net liquidation proceeds, non-recoverable advances, and the remaining principal balance of the defaulted loan support the officer's certificate. Upon receipt of the officer's certificate, the trustee releases the amount of the realized loss or deposits the amount of the realized gain from/to the Reserve Fund. Any remaining balance in the Reserve Fund returns to the FDIC after the

[1] The RTC's legislatively mandated sunset date was December 31, 1995. Responsibility for all RTC-related work as of that date was transferred to the FDIC in accordance with the RTC Completion Act.

securitization transaction terminates. Therefore, claims to the Reserve Fund directly impact the value of the FDIC's residual interest in the Reserve Fund.

SECURITIZATION TRANSACTIONS SERVICED BY RYLAND

The RTC entered into nine PSAs with Ryland Mortgage Company ("Ryland") as the servicer. Table 1 presents each of the nine securitized transactions serviced by Ryland, the amount of the initial Reserve Fund balance, and the amount of realized losses charged to the Reserve Fund through May 1998. In May 1998, Ryland ceased servicing these securitizations and transferred servicing to another servicer, PNC Mortgage Corporation of America.

Table 1: Summary of Reserve Fund Balances and Realized Losses

Transaction Number	Initial Reserve Fund Balance[2]	Realized Losses Claimed through May 1998[3]
91-01	$51,335,000	$28,322,467
91-03	**$128,578,493**	**$7,375,105**
91-07	$173,998,810	$13,538,760
91-09	$17,461,645	$17,461,645[4]
91-12	$68,451,306	$32,164,552
91-15	$45,177,381	$10,735,406
92-01	$77,554,433	$10,864,625
92-03	$199,092,010	$28,393,589
92-04	$133,919,842	$23,365,863
Total	**$895,568,920**	**$172,222,210**

Source: See Footnotes 2 and 3

SECURITIZATION TRANSACTION 1991-03

At the inception of securitization transaction 1991-03 in August 1991, State Street Bank & Trust ("State Street") was named as the trustee and Ryland was named as the servicer. As shown above, the initial Reserve Fund balance established at inception totaled $128.6 million. During the period selected for review, Ryland was the only loan servicer for 91-03. Ryland charged $7.4 million in realized losses to the Reserve Fund through May 1998.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the review was to determine if the realized losses that caused reductions to the Reserve Fund for securitization transaction 1991-03 for the sample items tested

[2] Source: RTC and FDIC Guide to Mortgage-Backed Securities, June 1998.
[3] Source: Statements to Certificateholders provided to OIG by the trustee and the FDIC Public Reading Room.
[4] The Reserve Funds were depleted in August 1995 for transaction number 91-09.

were allowable and adequately supported by documentation.[5] To meet this objective, we reviewed a predetermined sample of realized losses charged to the Reserve Fund for the period of August 1991 through May 1998. Our sample size, determined by the OIG, was comprised of 25 loans with realized losses totaling $536,368, or 7 percent of the $7.4 million in realized losses charged to the Reserve Fund through May 1998.

We did not have access to Ryland's staff, systems, or general ledger. Therefore, KPMG could not interview Ryland personnel or conduct tests of Ryland's systems and general ledgers in order to detect accounting errors. Our scope was further limited to a review of the opening scheduled principal balances and escrow account balances of the sampled loans as of the default date because previous loan period activity was not available for our review.

Our methodology consisted of a review of the documentation in the loan files supplied to the OIG by Ryland under subpoena, as well as a review of officer's certificates provided to OIG by Ryland, State Street, and MBS. Our work also included a review of the documentation contained in the files of MBS's oversight contractor, MGIC Investor Services Corporation ("MGIC") that were provided to OIG by MBS. One of MGIC's duties under its contract was to review the realized losses for reasonableness after the servicer sent the officer's certificate to the trustee and to report to MBS on the results of those reviews.

During our examination of the loan files and MGIC files, we: [6]

- reviewed all available settlement statements and other disposition documents to confirm the amount of the net proceeds;
- reviewed loan histories and amortization schedules, where available, to verify the proper amount of principal and interest advances and the remaining scheduled principal balances;
- reviewed the adequacy of the documentation supporting the corporate advances charged to the realized loss; searched for unrecorded income and overstated advances;
- recalculated the amortization of the sampled loans to verify that the principal and interest advances that Ryland charged to the Reserve Fund conformed to the terms of the note and that the proper interest rate was used in the calculation;
- traced the interest rate used to the appropriate index to verify that the interest rate used by Ryland was correct;
- confirmed that servicing fees were excluded from interest advances;
- verified the default and liquidation dates using evidence in the loan files and verified that Ryland ceased principal and interest advances in the month of liquidation; and,
- recalculated the unused insurance premium refunds that did not appear to have been credited to the Reserve Fund.

[5] In accordance with the overall objective of the Task Requirements set forth in the Statement of Work for FDIC Delivery Order #99-00337-C-LH.

[6] Testwork performed in accordance with the procedures stated in the Statement of Work for FDIC Delivery Order #99-00337-C-LH – Attachment A.

Ryland chose to submit to the OIG the original loan files containing the documentation to support the realized losses charged to the Reserve Fund for the 25 sampled loans. Therefore, we performed all of our work in the FDIC OIG's offices in Washington, D.C. We conducted the work in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The review began on October 13, 1999 and fieldwork was completed on March 24, 2000.

RESULTS

Overall, we found that each of the calculations of realized losses for the 25 sample loans contained unsupported costs and other questioned costs. Of the $536,368 in claims to the Reserve Fund, we identified questioned costs totaling $230,678, or 43 percent of total claims reviewed. Of the total questioned costs, $206,168 was considered to be unsupported and $24,510 was considered to be other questioned costs that were unallowable or excessive under the terms of the PSA. Table 2 presents an overall summary of the results of our testing of the 25 sample loans.

Table 2: Summary of Total Questioned Costs Totaling $230,678

Description	Dollars	Percent of	
		Total Questioned Costs	Total Realized Losses Tested
Unsupported Costs	**$206,168**	89%	38%
Other Questioned Costs	**$24,510**	11%	5%
Total	**$230,678**	100%	43%
Total Realized Losses Tested	**$536,368**		

UNSUPPORTED COSTS

Unsupported costs are those costs included in the realized loss calculation that were not supported by adequate documentation. KPMG categorized the unsupported costs into five categories for the purpose of this report:

- Unsupported Liquidations
- Unsupported Escrow Disbursements
- Unsupported Liquidation Expenses/Corporate Advances
- Unsupported Principal and Interest Advances
- Other Unsupported Costs

Table 3 reports the relationship of each category as a component of total unsupported costs for 1991-03.

Table 3: Summary of Unsupported Costs Totaling $206,168

Category	Number of Loans With Errors	Amount of Unsupported Costs	Percent of Total Unsupported Costs	Percent of Total Realized Losses Tested
Unsupported Liquidations	5	$147,952	72%	28%
Unsupported Escrow Disbursements	12	$30,778	15%	6%
Unsupported Liquidation Expenses/Corporate Advances	12	$18,840	9%	3%
Unsupported Principal and Interest Advances	1	$4,954	2%	1%
Other Unsupported Costs	4	$3,644	2%	<1%
TOTAL		**$206,168**	**100%**	**38%**

Unsupported Liquidations

Most significantly, KPMG was unable to verify the claims, totaling $147,952, for five loans in our sample because there was insufficient evidence in the loan file to support that the liquidation took place. For example, the loan file may not have contained a closing statement (e.g., HUD-1 document) which supports the sales price, the date of the sale or the liquidation expenses. Without the HUD-1 document, KPMG could not verify the net proceeds that the servicer received from the sale of the foreclosed property and included in the calculation of the realized loss. In some instances, we could not verify that a sale actually occurred because there was insufficient evidence in the loan file to document that the property was sold to a third party and that the net proceeds were remitted to the servicer.

Initial claims are only valid if the foreclosed property is liquidated. The servicer would maintain the property as an asset in the absence of a foreclosure sale. Because we could not always verify that a foreclosure sale occurred and that the property is no longer the responsibility of the servicer, these claim amounts were considered unsupported. In addition to the initial claim, KPMG considered all supplemental claims and refunds to the

Reserve Fund to be unsupported as well. Unsupported liquidations account for 72 percent of total unsupported costs and 28 percent of total realized losses tested.

Unsupported Escrow Disbursements

KPMG identified $30,778 of unsupported escrow disbursements made for 12 of the sampled loans. These unsupported costs related to attorney fees, bankruptcy fees, property management/repairs, and other expenses paid by the servicer prior to liquidation. Ryland's practice was to pay all of these types of costs from the escrow account. KPMG considered any escrow disbursement to be unsupported if there was (1) no detailed invoice[7] from the vendor who provided the service or utility; and, (2) evidence of Ryland's actual payment. If one or the other was missing from the loan file, then KPMG considered the expense to be an unsupported cost. Because KPMG did not have access to Ryland's general ledger, we could not perform tests of the system. We determined that the only acceptable evidence of payment would be a copy of a check or wire transfer confirmation. Unsupported escrow disbursements of $30,778 account for 15 percent of total unsupported costs and 6 percent of total realized losses tested.

Unsupported Liquidation Expenses/Corporate Advances

KPMG identified $18,840 of unsupported liquidation expenses and corporate advances. For 12 of the sampled loans, KPMG could not locate sufficient evidence in the file (i.e. invoice and evidence of payment) to substantiate the deductions from sales proceeds on the HUD-1, property management expenses paid from net sales proceeds, or corporate advances. These expenses and advances were normally deducted from the net proceeds of the liquidation, or claimed for reimbursement subsequent to the submission of the initial officer’s certificate. Examples of liquidation expenses and corporate advances were broker/management bills, unusual expenses deducted from proceeds on the closing statement, and utilities. Unsupported liquidation expenses and corporate advances account for 9 percent of total unsupported costs and 3 percent of total realized losses tested.

Unsupported Principal and Interest Advances

KPMG identified unsupported principal and interest advances totaling $4,954 related to one loan. KPMG could not recalculate the principal and interest advances because the loan file did not contain the mortgage note. Although the loan file contained information such as payment dates, interest rate(s) and payment adjustment frequency, we could not verify the loan terms necessary for the principal and interest advance calculation. Because it is possible for an individual to inadvertently enter incorrect information related to the terms of a loan into a servicing system, we relied solely on the mortgage

[7] For example, property managers would often pay expenses and claim reimbursement from Ryland by submitting an invoice that itemized these expenses. KPMG considered these property management expenses to be unsupported if the underlying detailed invoices from the actual third party vendors were not available to adequately support the property management invoices.

note for loan information such as the interest rate, payment dates, rate changes and payment changes. Without the mortgage note, we cannot verify that the information used in the calculation of principal and interest reflects the true characteristics of the loan. Accordingly, the total amount of principal and interest advances claimed by the servicer could not be verified, and this amount was considered unsupported. Unsupported principal and interest advances account for 2 percent of total unsupported costs and 1 percent of total realized losses tested.

Other Unsupported Costs

Four of Ryland's loan files did not contain sufficient documentation to substantiate either the total net realized loss calculation, or a portion of it. KPMG therefore, classified the unsubstantiated claim amounts of $3,644 related to these loans as unsupported costs. Other miscellaneous unsupported costs account for 2 percent of total questioned costs and less than 1 percent of all realized losses tested.

Recommendation

We recommend that the Manager, MBS, DRR:

(1) Disallow the unsupported costs of $206,168 as detailed below:

Unsupported Liquidations	$147,952
Unsupported Escrow Disbursements	$30,778
Unsupported Liquidation Expenses/Corporate Advances	$18,840
Unsupported Principal and Interest Advances	$4,954
Other Unsupported Costs	$3,644

OTHER QUESTIONED COSTS

Other questioned costs are those costs that were included in the realized loss calculation and that KPMG determined to be unallowable under the terms of the PSA or excessive under standard industry loan servicing practices. KPMG categorized unallowable or excessive costs identified during the review into five categories for the purpose of this report:

- Unrecorded Income
- Unallowable/Excessive Liquidation Expenses/Corporate Advances
- Unallowable Principal and Interest Advances
- Unallowable Escrow Disbursements
- Miscellaneous Unallowable Costs

Table 4 reports the relationship of each category as components of total other questioned costs for 1991-03.

Table 4: Summary of Other Questioned Costs Totaling $24,510

Category	Number of Loans	Amount of Other Questioned Costs	Percent of	
			Total Other Questioned Costs	Total Realized Losses Tested
Unrecorded Income	12	$7,815	32%	2%
Unallowable or Excessive Liquidation Expenses/Corporate Advances	11	$6,706	27%	1%
Unallowable Principal and Interest Advances	13	$6,841	28%	1%
Unallowable Escrow Disbursements	2	$144	1%	<1%
Miscellaneous Unallowable Costs	1	$3,004	12%	1%
TOTAL		**$24,510**	**100%**	**5%**

Unrecorded Income

For twelve of the sampled assets, KPMG identified instances where Ryland did not credit the Reserve Fund for refunds of unused insurance premiums, or insurance proceeds, totaling $7,815. Most significantly, there was no evidence in the loan files to show that Ryland refunded $7,287 of unused hazard or flood insurance premiums after the loan liquidated. Unrecorded income represents 32 percent of total other questioned costs and 2 percent of total realized losses tested.

Unallowable or Excessive Liquidation Expenses/Corporate Advances

Ryland included $6,706 of unallowable or excessive liquidation expenses or corporate advances in 11 of the sampled loans. Most significantly, Ryland paid sales commissions in excess of 6% of the contract sales price, which we considered to be excessive for the servicing industry during the period under review. In addition, any excess cost incurred by Ryland through the contracting-out of property management or other servicing functions (i.e., property management fees) may not be reimbursed from the Reserve Fund per section 3.01(b) of the PSA. Ryland included excessive commissions totaling $4,751 and property management fees, totaling $1,523, in its net realized loss calculation for 10 loans resulting in $6,274 of unallowable costs. The remaining $432 related to two loans where Ryland erroneously underreported liquidation proceeds on the officer's certificate. Unallowable or excessive liquidation expenses and corporate advances account for 27 percent of total other questioned costs and 1 percent of total realized losses tested.

Unallowable Principal and Interest Advances

Ryland made errors totaling $6,841 in the calculation of principal and interest advances claimed in the realized loss calculation. Ryland inappropriately included servicing fees in the calculation of principal and interest advances and improperly claimed additional months of principal and interest advances beyond the liquidation date. Ryland erroneously included a servicing fee in the principal and interest advances in 13 of our sampled loans, causing an overstatement of $3,006. Furthermore, in 5 of those 13 loans, Ryland also advanced more months of principal and interest than was allowable under the terms of the PSA, causing the realized losses to be overstated by $3,835. Unallowable principal and interest advances account for 28 percent of total other questioned costs and 1 percent of total realized losses tested.

Unallowable Escrow Disbursements

Ryland charged the Reserve Fund $144 for avoidable late fees associated with homeowners' association dues for two loans. We considered these late fees to be unallowable because they were incurred during the period that Ryland was responsible for paying homeowners' association dues. Ryland’s responsibility under section 3.01(a) of the PSA is to ensure timely payment of taxes and assessments on mortgaged properties and timely payment of other property protection expenses. Unallowable escrow disbursements account for 1 percent of total other questioned costs and less than 1 percent of total realized losses tested.

Miscellaneous Unallowable Costs

Ryland received a tax refund of $1,502 for one of the sampled loans. However, instead of crediting the Reserve Fund for $1,502, Ryland mistakenly included this amount as an expense on the April 1998 officer’s certificate. Therefore, Ryland should reimburse the Reserve Fund for $3,004 to reverse this error. Miscellaneous unallowable costs account for 12 percent of total other questioned costs and 1 percent of total realized losses tested.

Recommendation

We recommend that the Manager, MBS, DRR:

(2) Disallow the other questioned costs of $24,510 as detailed below:

Unrecorded Income	$7,815
Unallowable or Excessive Liquidation Expenses/Corporate Advances	$6,706
Unallowable Principal and Interest Advances	$6,841
Unallowable Escrow Disbursements	$144
Miscellaneous Unallowable Costs	$3,004

MANAGEMENT COMMENTS AND OIG EVALUATION

On May 17, 2000, the Deputy Director, Franchise and Asset Marketing, DRR, provided a written response to the draft report. The response is presented in Appendix II to this report.

DRR Management agreed to disallow all of the questioned costs in Recommendations 1 and 2, totaling $230,678. DRR also stated that once all nine Ryland reviews are completed by the OIG, DRR will pursue collection of the total disallowed amount. If DRR is unsuccessful in the collection of the funds from Ryland, DRR will refer the matter to the FDIC Legal Division for litigation. Further communications with DRR confirmed that DRR will issue a demand letter to Ryland as confirmation of its corrective actions. DRR expects that corrective actions will be completed by August 31, 2000.

The Corporation's response to the draft report, as well as the subsequent communications, provided the elements necessary for management decisions on the report's recommendations. Therefore, no further response to this report is necessary. Appendix III presents management's proposed action on our recommendations and shows that there is a management decision for each recommendation in this report.

Based on the review work, the OIG will report questioned costs of $230,678 (of which $206,168 is unsupported) in its *Semiannual Report to the Congress*.

FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

APPENDIX II

Division of Resolutions and Receiverships

May 17, 2000

TO: David Lowenstein
Assistant Inspector General

FROM: James R. Wigand
Deputy Director, DRR
Franchise and Asset Marketing

SUBJECT: Response to Draft Report Entitled *Review of the Claims Made to the Credit Enhancement Reserve Fund for the Securitization Transaction 1991-03*

The following describes the management actions in response to recommendations contained in the above referenced report.

1) Disallow the unsupported costs of $206,168 as detailed below:

- Unsupported Liquidations - $147,452
- Unsupported Escrow Disbursements - $30,778
- Unsupported Liquidation Expenses/Corporate Advances - $18,840
- Unsupported Interest Advances - $4,954
- Other Unsupported Costs - $3,644

A) Specific Corrective Action Already Taken:

MBS Administration concurs with the OIG's findings to disallow the $206,168 in unsupported costs claimed by Ryland to the Credit Enhancement Fund for each detailed category listed above.

B) Corrective Actions to be Taken Together with Expected Completion Date:

MBS Administration will pursue collection of the disallowed amount of $206,168 as soon as the OIG has completed the audit reports for the remaining eight (8) MBS transactions serviced by Ryland. If MBS Administration is unsuccessful in the collection of the funds from Ryland, the matter will be referred to the FDIC Legal Division for litigation[1]. We expect these actions to be completed by August 31, 2000.

[1] Litigation would encompass all audit exceptions for all of the contracts between the FDIC and Ryland.

2) Disallow the other questioned costs of $24,510 as detailed below:

- Unrecorded Income - $7,815
- Unallowable or Excessive Liquidation Expenses/Corporate Advances - $6,706
- Unallowable Principal and Interest Advances - $6,841
- Unallowable Escrow Disbursements - $144
- Miscellaneous Unallowable Costs - $3,004

A) Specific Corrective Action Already Taken:

MBS Administration concurs with the OIG's findings to disallow the $24,510 in unsupported costs claimed by Ryland to the Credit Enhancement Fund for each detailed category listed above.

B) Corrective Actions to be Taken Together with Expected Completion Date:

MBS Administration will pursue collection of the disallowed amount of $24,510 as soon as the OIG has completed the audit reports for the remaining eight (8) MBS transactions serviced by Ryland. If MBS Administration is unsuccessful in the collection of the funds from Ryland, the matter will be referred to the FDIC Legal Division for litigation[2]. We expect these actions to be completed by August 31, 2000.

cc: Director of Internal Control
Director, Division of Resolutions and Receiverships
Associate Director for Internal Review, DRR

[2] Id.

MANAGEMENT RESPONSES TO RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires the OIG to report the status of management decisions on its recommendations in its semiannual reports to the Congress. To consider FDIC's responses as management decisions in accordance with the act and related guidance, several conditions are necessary. First, the response must describe for each recommendation

- the specific corrective actions already taken, if applicable;
- corrective actions to be taken together with the expected completion dates for their implementation; and
- documentation that will confirm completion of corrective actions.

If any recommendation identifies specific monetary benefits, FDIC management must state the amount agreed or disagreed with and the reasons for any disagreement. In the case of questioned costs, the amount FDIC plans to disallow must be included in management's response.

If management does not agree that a recommendation should be implemented, it must describe why the recommendation is not considered valid.

Second, the OIG must determine that management's descriptions of (1) the course of action already taken or proposed and (2) the documentation confirming completion of corrective actions are responsive to its recommendations.

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management's written response to our report. Subsequent communications between OIG and FDIC management resulted in identifying the documentation that will confirm management's completion of corrective actions.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	The Corporation agreed to disallow $206,168 and will pursue collection of this amount upon OIG's completion of the reviews of the other MBS transactions serviced by Ryland.	August 31, 2000	Demand Letter	$206,168	Yes
2	The Corporation agreed to disallow $24,510 and will pursue collection of this amount upon OIG's completion of the reviews of the other MBS transactions serviced by Ryland.	August 31, 2000	Demand Letter	$24,510	Yes