

# Office of Inspector General



July 21, 2000  
Audit Report No. 00-028

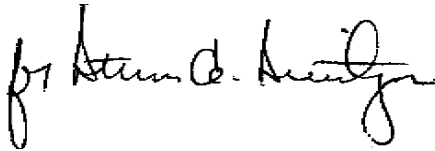
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Review of the Claims Made to the  
Credit Enhancement Reserve Fund for  
Securitization Transaction 1991-09



**DATE:** July 21, 2000

**MEMORANDUM 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 1991-09 (Report No. 00-028)*

This report presents the results of a review of the claims made to the Credit Enhancement Reserve Fund (Reserve Fund) for securitization transaction 1991-09. This is the second 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 \$17.5 million of claims made to the Reserve Fund from September 1991 (inception of the transaction) through August 1995 (when the Reserve Fund was depleted).

The Division of Resolutions and Receiverships (DRR) issued a written response received July 12, 2000 (see Appendix II) to a draft report. In this response, DRR disallowed questioned costs totaling \$1,350,837 and outlined its plan of corrective action. This response 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.



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McLean, VA 22102

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July 18, 2000

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

**Subject:** Report Entitled *Review of Credit Enhancement Reserve Fund for Transaction 1991-09*

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 1991-09.

This report presents the results of our review of claims from the Credit Enhancement Reserve Fund for RTC Transaction 1991-09 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  
*Managing Director*

Attachment



## *Review of Credit Enhancement Reserve Fund for Securitization Transaction 1991-09*

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 1991-09. 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")<sup>1</sup> 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

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<sup>1</sup> 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.

## Review of Credit Enhancement Reserve Fund for Securitization Transaction 1991-09

Reserve Fund. Any remaining balance in the Reserve Fund returns to the FDIC after the 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 below 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**

<b>Transaction Number</b>	<b>Initial Reserve Fund Balance<sup>2</sup></b>	<b>Realized Losses Claimed through May 1998<sup>3</sup></b>
91-01	\$51,335,000	\$28,322,467
91-03	\$128,578,493	\$7,375,105
91-07	\$173,998,810	\$13,538,760
<b>91-09</b>	<b>\$17,461,645</b>	<b>\$17,461,645<sup>4</sup></b>
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
<b>Total</b>	<b>\$895,568,920</b>	<b>\$172,222,012</b>

Source: See Footnotes 2 and 3

### **SECURITIZATION TRANSACTION 1991-09**

At the inception of securitization transaction 1991-09 in September 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 totaled \$17.5 million. During our audit period, Ryland was the only loan servicer for securitization transaction 1991-09. Ryland charged \$17.5 million in realized losses to the Reserve Fund from its inception until the fund was depleted in August 1995. All losses incurred subsequent to August 1995 were passed on directly to the investors.

<sup>2</sup> Source: RTC and FDIC Guide to Mortgage-Backed Securities, June 1998

<sup>3</sup> Per Statements to Certificateholders provided to OIG by the trustee and the FDIC Public Reading Room

<sup>4</sup> The Reserve Funds were depleted in August 1995 for 91-09.

## **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 1991-09 for the sample items tested were allowable and adequately supported by documentation.<sup>5</sup> To meet this objective, we reviewed a predetermined sample of realized losses charged to the Reserve Fund for the period of September 1991 through August 1995. Our sample size, determined by the OIG, was comprised of 53 loans with realized losses totaling \$4.1 million, or 24 percent of the \$17.5 million in realized losses charged to the Reserve Fund through August 1995.

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 the 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:<sup>6</sup>

- 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;

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<sup>5</sup> 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

<sup>6</sup> Testwork performed in accordance with audit procedures stated in the Statement of Work for Audit for FDIC Delivery Order #99-00337-C-LH – Attachment A.

**Review of Credit Enhancement Reserve Fund for Securitization Transaction 1991-09**

- 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.

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 53 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 financial related audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. The review began on January 3, 2000 and fieldwork was completed on May 12, 2000.

**RESULTS**

Of the \$4.1 million in claims to the Reserve Fund, we identified questioned costs totaling \$1,350,837, or 33 percent of total claims reviewed. Of the total questioned costs, \$1,226,316 was considered to be unsupported and \$124,521 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 53 sample loans.

**Table 2: Summary of Total Questioned Costs Totaling \$1,352,458**

Description	Dollars	Percent of	
		Total Questioned Costs	Total Realized Losses Tested
Unsupported Costs	\$1,226,316	91%	30%
Other Questioned Costs	\$124,521	9%	3%
<b>Total</b>	<b>\$1,350,837</b>	100%	33%
<b>Total Realized Losses Tested</b>	<b>\$4,131,777</b>		

**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

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Table 3 reports the relationship of each category as a component of total unsupported costs for 1991-09:

**Table 3: Summary of Unsupported Costs Totaling \$1,226,316**

Category	Number of Loans With Errors	Amount of Unsupported Costs	Percent of	
			Total Unsupported Costs	Total Realized Losses Tested
Unsupported Liquidations	9	\$673,114	55%	16%
Unsupported Escrow Disbursements	41	\$234,817	19%	6%
Unsupported Liquidation Expenses/Corporate Advances	40	\$121,287	10%	3%
Unsupported Principal and Interest Advances	6	\$128,805	10%	3%
Other Unsupported Costs	2	\$68,293	6%	2%
<b>TOTAL</b>		<b>\$1,226,316</b>	<b>100%</b>	<b>30%</b>

### Unsupported Liquidations

Most significantly, KPMG was unable to verify the claims, totaling \$673,114, for nine 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 was 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 55 percent of total unsupported costs and 16 percent of total realized losses tested.

### **Unsupported Escrow Disbursements**

KPMG identified \$234,817 of unsupported escrow disbursements made for 41 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<sup>7</sup> from the vendor who provided the service or utility; and, (2) no 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. Acceptable evidence of payment includes copies of checks, wire transfer confirmations that agree to amounts claimed and third party invoices indicating that a previous balance was paid. Unsupported escrow disbursements of \$234,817 account for 19 percent of total unsupported costs and 6 percent of total realized losses tested.

### **Unsupported Liquidation Expenses/Corporate Advances**

KPMG identified \$121,287 in unsupported liquidation expenses/corporate advances. For 40 of the sample loans tested, 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 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/corporate advances account for 10 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 \$128,805 related to six loans. KPMG could not recalculate the advances because the loan files did not contain the mortgage note. Although the loan files 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 note for loan

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<sup>7</sup> 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.

**Review of Credit Enhancement Reserve Fund for Securitization Transaction 1991-09**

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 advances claimed by the servicer could not be verified, and this amount was considered unsupported. Unsupported principal and interest advances account for 10 percent of total unsupported costs and 3 percent of total realized losses tested.

**Other Unsupported Costs**

Two of Ryland’s loan files did not provide sufficient documentation to support either the total net realized loss calculation, or a portion of it. KPMG therefore, classified the unsubstantiated claim amounts of \$68,293 related to these loans as unsupported costs. The loan files for these two sample items did not contain any supporting documentation to substantiate the claims. Other miscellaneous unsupported costs account for 6 percent of total unsupported costs and 2 percent of all realized losses tested.

**Recommendation**

We recommend that the Manager, MBS, DRR:

- (1) Disallow the unsupported costs of \$1,226,316 as detailed below:

Unsupported Liquidations	\$673,114
Unsupported Escrow Disbursements	\$234,817
Unsupported Liquidation Expenses/Corporate Advances	\$121,287
Unsupported Principal and Interest Advances	\$128,805
Other Unsupported Costs	\$68,293

**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 audit into five categories for the purpose of this report:

- Unrecorded Income
- Unallowable or 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 1991-09.

**Table 4: Summary of Other Questioned Costs Totaling \$124,521**

Category	Number of Loans With Errors	Amount of Other Questioned Costs	Percent of	
			Total Other Questioned Costs	Total Realized Losses Tested
<b>Unrecorded Income</b>	35	\$26,826	22%	1%
<b>Unallowable or Excessive Liquidation Expenses/Corporate Advances</b>	40	\$45,754	36%	1%
<b>Unallowable Principal and Interest Advances</b>	26	\$47,747	38%	1%
<b>Unallowable Escrow Disbursements</b>	5	\$881	1%	<1%
<b>Miscellaneous Unallowable Costs</b>	8	\$3,313	3%	<1%
<b>TOTAL</b>		<b>\$124,521</b>	<b>100%</b>	<b>3%</b>

### **Unrecorded Income**

For 35 of the sampled assets, KPMG identified instances where Ryland did not credit the Reserve Fund for refunds of unused hazard or flood insurance premiums after the loan liquidated. These exceptions totaled \$26,826. Unrecorded income represents 22 percent of total other questioned costs and less than 1 percent of total realized losses tested.

### **Unallowable or Excessive Liquidation Expenses/Corporate Advances**

Ryland included \$45,754 of unallowable or excessive liquidation expenses or corporate advances in 40 of the sampled loans. Most significantly, Ryland paid sales commissions in excess of 6 percent 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 of \$25,114, referral or coordination fees of \$10,625, and property management fees of \$6,178, in its net realized loss calculation for 40 loans resulting in \$41,917 of unallowable costs. Other instances were noted wherein Ryland deducted expenses from sales proceeds that were not allowable under the terms of the sales contract, or were paid

**Review of Credit Enhancement Reserve Fund for Securitization Transaction 1991-09**

incorrectly, such as taxes. Unallowable or excessive liquidation expenses/corporate advances account for 36 percent of total other questioned costs and 1 percent of total realized losses tested.

**Unallowable Principal and Interest Advances**

Ryland made errors totaling \$47,747 in the calculation of principal and interest advances claimed in the realized loss calculation in 26 of the loans sampled. Ryland inappropriately included servicing fees in the calculation of principal and interest advances and improperly claimed additional months of advances beyond the liquidation date. However, the loan files did not always contain copies of amortization schedules to support Ryland’s principal and interest advances. Therefore, we could not always determine the reason why Ryland’s principal and interest advances were miscalculated. Unallowable principal and interest advances account for 38 percent of total other questioned costs and 1 percent of total realized losses tested.

**Unallowable Escrow Disbursements**

Ryland charged the Reserve Fund \$881 for avoidable late fees and other unallowable escrow disbursements for five loans. We considered late fees to be unallowable because they were incurred during the period that Ryland was responsible for paying either taxes or 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 charged the Reserve Fund \$3,313 for miscellaneous unallowable costs associated with eight loans. This error is comprised of expenses paid for and reimbursed by the Reserve Fund twice and mathematical errors in Ryland’s calculation of realized losses. Miscellaneous unallowable costs account for 3 percent of total other questioned costs and less than 1 percent of total realized losses tested.

**Recommendation**

We recommend that the Manager, MBS, DRR:

(2) Disallow the other questioned costs of \$124,521 as detailed below:

Unrecorded Income	\$26,826
Unallowable or Excessive Liquidation Expenses/Corporate Advances	\$45,754
Unallowable Principal and Interest Advances	\$47,747
Unallowable Escrow Disbursements	\$881
Miscellaneous Unallowable Costs	\$3,313

## APPENDIX I

### MANAGEMENT COMMENTS AND OIG EVALUATION

On July 12, 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 \$1,350,837. DRR also stated that it is pursuing collection of the disallowed amount through formal settlement negotiations with Ryland's outside counsel. DRR expects the settlement negotiations to be completed by December 31, 2000. However, if DRR is unsuccessful in the collection of the disallowed funds from Ryland, then the matter will be referred to the FDIC for litigation. DRR will maintain all documents pertaining to the settlement discussions with Ryland, or if necessary, the documents surrounding the initiation of the litigation.


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 \$1,350,837 (of which \$1,226,316 is unsupported) in its *Semiannual Report to the Congress*.



**Date:** July 12, 2000

**To:** David Loewenstein  
Assistant Inspector General

**From:** James R. Wigand   
Deputy Director 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 1991-09*

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

1) Disallow the unsupported costs of \$1,226,316 as detailed below:

Unsupported Liquidations - \$673,114  
Unsupported Escrow Disbursements - \$234,817  
Unsupported Liquidation Expenses - \$121,287  
Unsupported Principal and Interest Expenses/Corporate Advances - \$128,805  
Other Unsupported Costs - \$68,293

A) Specific Corrective Action Already Taken:

MBS Administration concurs with the OIG's findings to disallow the \$1,226,316 of unsupported costs claimed by Ryland to the Credit Enhancement Fund for each detailed category listed above. MBS Administration is pursuing collection of the disallowed amount through formal settlement negotiations with Ryland's outside counsel.

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

We expect the settlement negotiations to be completed by December 31, 2000. However, if MBS Administration is unsuccessful in the collection of the disallowed funds from Ryland, the matter will be referred to the FDIC Legal Division for Litigation<sup>1</sup>.

C) Documentation that will confirm the completion of the corrective action.

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<sup>1</sup> Litigation would encompass all audit exceptions for all of the Pooling & Servicing Agreements between the FDIC, Ryland, and the Trustee.

MBS Administration will maintain all documents pertaining to the settlement discussions with Ryland. If the negotiations are unsuccessful, MBS Administration will maintain copies of the documents surrounding the initiation of litigation.

2) Disallow the other questioned cost of \$124,521 as detailed below:

Unrecorded Income - \$26,826  
Unallowable or Excessive Liquidation Expenses/Corporate Advances - \$45,754  
Unallowable Principal and Interest Advances - \$47,747  
Unallowable Escrow Disbursements - \$881  
Miscellaneous Unallowable Costs - \$3,313

A) Specific Corrective Action Already Taken:

MBS Administration concurs with the OIG's findings to disallow the \$124,521 of unsupported costs claimed by Ryland to the Credit Enhancement Fund for each detailed category listed above. MBS Administration is pursuing collection of the disallowed amount through formal settlement negotiations with Ryland's outside counsel.

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

We expect the settlement negotiations to be completed by December 31, 2000. However, if MBS Administration is unsuccessful in the collection of the disallowed funds from Ryland, the matter will be referred to the FDIC Legal Division for Litigation<sup>2</sup>.

C) Documentation that will confirm the completion of the corrective action.

MBS Administration will maintain all documents pertaining to the settlement discussions with Ryland. If the negotiations are unsuccessful, MBS Administration will maintain copies of the documents surrounding the initiation of litigation.

cc: Director, Office of Internal Control Management  
Director, Division of Resolutions and Receiverships  
Associate Director of Internal Review, DRR  
Internal Control Liaison, DRR

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<sup>2</sup> 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.



<b>Rec. Number</b>	<b>Corrective Action: Taken or Planned/Status</b>	<b>Expected Completion Date</b>	<b>Documentation That Will Confirm Final Action</b>	<b>Monetary Benefits</b>	<b>Management Decision: Yes or No</b>
1	The Corporation agreed to disallow \$1,226,316 and will pursue collection of this amount through formal settlement negotiations. If negotiations are unsuccessful, then the matter will be referred to the FDIC Legal Division for litigation.	December 31, 2000	Documents pertaining to the settlement discussions with Ryland, or if necessary, documents surrounding the initiation of litigation.	\$1,226,316	Yes
2	The Corporation agreed to disallow \$124,521 and will pursue collection of this amount through formal settlement negotiations. If negotiations are unsuccessful, then the matter will be referred to the FDIC Legal Division for litigation.	December 31, 2000	Documents pertaining to the settlement discussions with Ryland, or if necessary, documents surrounding the initiation of litigation.	\$124,521	Yes