RTC MORTGAGE TRUST 1995 NP3-3

Audit Report No. 99-019
March 26, 1999

OFFICE OF AUDITS

OFFICE OF INSPECTOR GENERAL

DATE: March 26, 1999

MEMORANDUM TO: John F. Bovenzi, Director
Division of Resolutions and Receiverships

FROM: Sharon M. Smith
Director, Field Audit Operations

SUBJECT: *RTC Mortgage Trust 1995 NP3-3* (Audit Report No. 99-019)

This report presents the results of the Federal Deposit Insurance Corporation (FDIC) Office of Inspector General's (OIG) audit of the Resolution Trust Corporation's (RTC) Mortgage Trust 1995 NP3-3. The trust, created on October 31, 1995, consists of a Class A certificate holder (Phoenician Investments, LLC) and a Class B certificate holder (FDIC).[1] Generally, we found that the trust servicers adequately performed the tasks required under the Deposit Trust Agreement and the Service Agreement. However, we identified $11,152 in unallowable and unsupported expenses. In addition, the trust income statements did not reflect $14,752 in sales proceeds.

BACKGROUND

The RTC, acting in its corporate capacity and its capacity as conservator or receiver, had the authority to create a trust that sold, through a competitive bid sale, certificates representing a percentage of beneficial ownership in that trust. The 1995 NP3-3, one such trust, was initially valued at $38,909,928 (book value) and consisted of 37 real estate owned (REO) and non-performing loan assets.

The 1995 NP3-3 was organized as a limited purpose Delaware trust. The purpose of the trust was to dispose of the assets purchased from the RTC as promptly as possible in a manner that maximized economic return. On October 31, 1995, the RTC entered into a Deposit Trust Agreement with Wilmington Trust Company. In exchange for the assets RTC contributed to the trust, the RTC received from Wilmington Trust two types of certificates—the controlling Class A certificate and the non-controlling Class B certificate. The RTC, in a competitive award, sold the Class A certificate to Phoenician Investments, LLC, which is made up of five investors: Nevander Asset Management, Inc.; ING Real Estate Investors, Inc. (INGREI); Velocity One, Inc.; N/CT Partners; and CT Realty Corporation. The RTC retained the Class B certificate.

The Class A certificate entitled the holder to 49 percent of the income generated by the trust. The Class A certificate holder was also responsible for the daily operations of the trust. The Class A certificate holder, in conjunction with the purchase of the Class A certificate, entered into a servicing agreement with Nevander Asset Management, Inc. (a Class A investor), located in Irvine, California, to service non-performing loans and manage, market, and dispose of REO.

[1] In accordance with the RTC Completion Act of 1993, the RTC ceased to exist on December 31, 1995. Responsibility for all RTC-related work was transferred to FDIC as of that date.

Nevander Asset Management, in turn, subcontracted certain servicing responsibilities to INGREI (another Class A investor).[2]

The Class A certificate holder purchased its 49 percent interest in the trust for $5.8 million. RTC, the Class B certificate holder, retained a 51 percent interest in the trust. In addition, the trust, pursuant to an agreement between the trust and State Street Bank (bond trustee), issued $10.2 million of bonds to the public to provide operating funds to the trust, which were secured by a collateral assignment of the trust assets to the bond trustee. Sales proceeds generated from the liquidation of assets were applied first to the retirement of the bond debt and second to operating funds for the trust. The bonds were retired in May 1996.

For 1995 NP3-3, the servicer created two REO subsidiaries, Phoenician Investments, LP, and Boulder Phoenician Investments, LP. Both REO subsidiaries were created as limited partnerships. In each subsidiary the trust was a limited partner with a 99-percent interest, and CPR Investments, Inc., was the General Partner with a 1-percent interest. CPR Investments, Inc., is wholly owned by the trust.

The FDIC's Division of Resolutions and Receiverships (DRR) is responsible for the oversight of the trust. DRR contracted with Aldridge, Eastman, and Waltch (AEW) to assist in overseeing the Class B interests in all NP Series transactions.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit focused on the servicing of RTC Mortgage Trust 1995 NP3-3 for the period of October 31, 1995 through June 30, 1998. The objectives of the audit were to determine whether the servicer (1) accurately reported income, (2) claimed only allowable expenses, (3) and made appropriate equity distributions. During the audit period, the servicer's general ledger accounts showed trust income totaling $30,068,862 and expenses totaling $27,944,446, which includes equity distributions of $16,500,000 and bond payments of $10,328,759.

To gain a general understanding of RTC Mortgage Trust 1995 NP3-3, we interviewed FDIC oversight personnel from DRR's Asset Management Branch and its contractor, AEW. We also interviewed knowledgeable personnel from Nevander Asset Management, Inc., and INGREI. In addition, we researched and reviewed pertinent trust-related documents, including the Deposit Trust Agreement; the Assignment and Assumption of Assets; the Servicing Agreement; the Sub-Servicing Agreement; the Operating Agreement for Phoenician Investments, LLC; and the Asset Management Agreement.

To accomplish our audit objectives, we judgmentally selected a sample of 8 (5 loans and 3 REO assets) of the 37 total assets for our initial review. For these assets, we tested transactions representing 100 percent of the income and expenses totaling $14,208,066 and $460,467, respectively. We selected a mix of loan and REO assets from the trust portfolio in order to review different types of income and expenses associated with these assets. Based on the results of our

[2] Throughout this report, when we use the term "servicer," we are referring to both Nevander Asset Management, Inc. and ING Real Estate Investors, Inc.

initial sample, we expanded our testing to other income, expense, and equity distribution areas. The specific tests we performed on the initial eight assets and our subsequent tests are described below.

To determine whether the servicer properly reported income associated with the trust assets, we reviewed 100 percent of the income resulting from the sales of loan and REO assets totaling $11,175,922. Specifically, for each of the 37 assets sold, we traced each asset sale to supporting documentation. From title company documentation and sales settlement statements, we identified the date the asset was sold, the buyer, and the amount of the sales proceeds. We then traced this information to the servicer's general ledger and to the trust bank account to ensure that the servicer recorded and deposited the correct amount of income. In addition, for our initial sample of eight assets, we also tested to determine whether the servicer accurately reported other asset-related income, such as interest income and rent receipts. In total, our tests of income-related transactions totaled $25,383,988, or 84 percent of the total income recorded in the servicer's general ledger.

To determine whether the servicer claimed only allowable trust expenses, we traced expense transactions to supporting documentation maintained by the servicer. We identified the nature of the expense and the date the expense was incurred and paid. We then determined whether the amount of the expense agreed with the amount recorded in the trust bank statement, the servicer's monthly *Servicer Report*, and related invoices.

Using the Servicing Agreement, we then determined whether the expense was allowable and appeared reasonable. We first applied these tests to 100 percent of the expenses related to the eight sample assets, or $460,467 in expenses. Next, we judgmentally selected an additional 130 expense transactions totaling $277,946 that were not specifically associated with individual trust assets. We selected these transactions based on their being vulnerable to fraud and noncompliance, such as having no description of the expense, the payee not appropriately identified, and the expense not supported. Finally, we reviewed all five transactions representing $10,328,759 in trust payments for the retirement of the bonds. For the bond-related payments, we compared the principal and interest payments to the Deposit Trust Agreement and Bond Indenture to ensure that the payments were proper.

To determine whether the trust servicer made equity distributions accurately, timely, and in accordance with the Deposit Trust Agreement, we reviewed all four equity distributions totaling $16,500,000 distributed through November 1997. We identified each distribution and calculated amounts that should be distributed to the Class A and Class B certificate holders and compared the amount of the actual distribution with the amount available for distribution to determine if the distributions were made timely. In total, including equity distributions and bond payments, we reviewed $27,567,172 (99 percent) out of a total of $27,944,446 in trust expenses.

We did not review the internal control systems for either Nevander Asset Management, Inc., or INGREI because we concluded that the audit objectives could be met more efficiently by conducting substantive tests rather than placing reliance on their respective internal control systems. Accordingly, we do not express an opinion on internal controls. We conducted the audit from May 1, 1998 through November 30, 1998 in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Generally, the servicer accurately reported trust income and made equity distributions in accordance with the deposit trust agreement. However, we identified $11,152 in unallowable and unsupported expenses. Specifically, the servicer improperly charged the trust $5,256 related to the preparation of a required compliance report (the reimbursement of which was specifically not allowed under the servicing agreement) and $4,404 for certain general overhead expenses that we believe should have been covered under the servicer's 1-percent servicing fee. Moreover, the servicer charged the trust $1,492 for travel expenses that were not adequately supported. Table 1 summarizes the questioned costs.

Table 1: Schedule of Questioned Costs

Description of Audit Finding	Amount Questioned
Servicer Improperly Charged Compliance Report Expenses	$5,256
Servicer Improperly Charged Overhead Expenses	4,404
Servicer Did Not Adequately Support Travel Expenses	1,492
Total	**$11,152**

Source: OIG analysis of servicer records

In addition to the questioned costs mentioned above, the servicer did not report $14,752 in REO subsidiary proceeds in the annual trust income statements. We did not characterize the $14,752 as questioned costs because the funds were properly included in the trust bank account.

SERVICER IMPROPERLY CHARGED COMPLIANCE REPORT EXPENSES

The servicer improperly charged the trust $5,256 for fees associated with the preparation of a compliance report for the year ended December 31, 1996. An independent public accounting firm conducted both the trust's annual financial statement audit and a compliance review. For the year ended December 31, 1996, the independent public accounting firm billed the servicer $5,256 for work associated with its compliance review. The servicer then improperly charged the trust a like amount, $5,000 for professional fees and an additional $256 for unspecified expenses, related to the calendar year 1996 compliance report.

The trust is required to have an annual compliance report prepared by the auditors to describe the servicer's compliance with 12 specific sections of the Service Agreement. According to the agreement, the servicer is expected to issue a compliance report annually at its own expense. Specifically, section 3.03 of the Service Agreement, titled <u>Annual Accountant's Reports</u>, states that:

> On or before 120 days after the end of the first fiscal year of the Servicer that ends more than 3 months after the closing date and for each fiscal year thereafter, the Servicer **at its expense** shall cause a firm of independent public accountants…to furnish a statement to the Bond Trustee, the Class B Certificate Holder, the Class A Certificate Holder, each

> Rating Agency and the issuer to the effect that such firm has examined certain documents and records to the servicing of the Mortgage Loans and management of REO Property and Foreclosed Property under this Agreement and that, on the basis of such examination, such servicing…has been conducted in compliance with this agreement except for such significant exceptions or errors in records as are set forth in such statement. (emphasis added)

When asked about the costs associated with the 1996 compliance report, the servicer agreed that it had improperly used $5,000 in trust funds to pay for the preparation of the 1996 compliance report. We also asked the servicer about possible similar improper charges for compliance reports for 1995 and 1997. The servicer informed us that because the trust was in existence for only 2 months in calendar year 1995, there was no compliance report required for 1995. With regard to calendar year 1997, the Class A certificate holder paid the expense for preparing the compliance report. The servicer provided us copies of the invoice from the accounting firm and the Class A certificate holder's corresponding check issued to the accounting firm for the 1997 compliance report.

As a result of our audit, on July 24, 1998, Phoenicians Investment, LLC, issued a $5,000 check to the trust reimbursing it for the improper charge. However, the $256 claimed for unspecified expenses associated with the compliance report is still in question.

SERVICER IMPROPERLY CHARGED OVERHEAD EXPENSES

The servicer improperly charged the trust $4,404 for miscellaneous general and administrative expenses that we believe should have been covered under its 1-percent servicing fee. Specifically, the servicer used trust funds to pay for the following expenses:

- Check printing charges, bank service charges, and excess bank activity fees totaling $2,601 for maintaining the trust bank accounts.
- Overnight courier fees totaling $1,424 for overnight fees between the two servicers, and between Nevander Asset Management and various other entities such as law firms, the due diligence firm, and RTC/FDIC. A large percentage of the questioned courier fees occurred between Nevander and INGREI.
- Other miscellaneous expenses totaling $379 for charges such as reimbursements for postage and federal withholding by the servicers' bank on interest paid.

We believe these expenses should not have been paid with trust funds for two reasons. First, the miscellaneous expenses the servicer charged did not have a direct relationship to any specific trust asset. We recognize that the Service Agreement allows the servicer to charge the trust for "property protection expenses." However, section 1.01 of the Service Agreement lists certain allowable property protection expenses, including real estate taxes, utility costs, and property management fees. We believe the intent of the agreement is that such expenses be directly related to a specific asset. Second, these expenses do not appear to be recoverable from future trust collections. Section 2.19 of the Service Agreement states that no property protection expenses shall be paid from any source unless the servicer believes that such expenses are recoverable from future payments and collections on the related trust asset.

The servicer does not agree with our position. The servicer believes that all expenses claimed were valid trust expenses and well within the definition of property protection expenses. The servicer cited the Service Agreement, provision (zz) of the Property Protection Expenses definition, that says: "…other reasonable fees and expenses incurred by the Servicer in connection with the enforcement, collection, foreclosure, management, operation and disposition **of the assets** of the Trust and the performance of its servicing activities." (emphasis added) We disagree with the servicer. It is our position that these expenses were not reasonable because they were not related to a specific asset and would not be recovered from future payments.

Our position is further supported by DRR's *Equity Transactions Oversight Manual*. According to the manual, the servicer is entitled to a monthly servicing fee to cover overhead. We believe the $4,404 in expenses described earlier clearly fit into the category of overhead. Specifically, the expenses occurred because of the unique service contract relationship between Nevander Asset management and INGREI and the fact that both entities are very dependent upon each other for daily administrative support activities. It takes both entities acting as a team to comply with the trust requirements. In summary, we believe these expenses clearly fit the category of overhead-type expenses and are not asset-related expenses. Accordingly, we question the $4,404 as unallowable expenses.

SERVICER DID NOT ADEQUATELY SUPPORT TRAVEL EXPENSES

The servicer did not adequately support $1,492 in travel-related expenses. Specifically, when we reviewed general trust expenses, we determined that costs were being claimed for the reimbursement of out-of-pocket travel expenses. However, when we reviewed the asset files, we found the documentation inadequate to determine whether the travel incurred was for the benefit of the trust. There were no receipts supporting the expenses nor was there a trip report, itinerary, or other evidence documenting the specifics as to why the costs were incurred. As we previously stated, we contend that an expense is not allowable unless it can be directly associated with an asset and properly supported. Accordingly, because the servicer’s file documentation did not show adequate information relating to these travel costs, we question $1,492 in travel costs as unsupported.

For these expenses, as in other expenses questioned, the servicer believes the expenses are allowable. We asked twice for support for these expenses and essentially received the same information such as a cancelled check indicating that the charge was for the reimbursement of travel expenses. The OIG does not believe that such documentation is adequate to support travel expenses. Based on the documentation submitted, the servicer believes the expenses to be adequately supported.

SERVICER DID NOT REPORT ALL REO SUBSIDIARY PROCEEDS

The servicer did not ensure that all REO sales proceeds were recorded in the trust income statement. Specifically, the servicer allowed CPR Investments, Inc., to record its 1-percent share of the REO sales proceeds, or $14,752, as general partner income instead of reporting the income annually in the trust's income statements. Although the servicer properly remitted the proceeds to the trust bank account, the proceeds remain on the books of the subsidiaries, and the income was not part of the equity distributions. Table 2 shows the source and amount of the proceeds that were not reported in the trust's income statement.

Table 2: Schedule of CPR Investments, Inc., Net Proceeds

CPR Investment's Share of REO Proceeds	**Amount**
REO Income	$2,728
Sale of REO	2,717
Capital Gains	5,496
Interest/Portfolio Income	3,811
Total	**$14,752**

Source: OIG analysis of CPR Investments income tax returns

The servicer allowed CPR Investments, Inc., to record its 1-percent share of the proceeds from asset sales or $14,752 received as general partner income. This income was not reported in the trust income statement and was not part of any of the equity distributions. However, all expenses associated with the formation and operation of CPR Investments, Inc., including legal fees, accounting charges, and income taxes were charged to the trust. Because all expenses associated with the REO subsidiaries (including those of CPR Investments, Inc.) were charged to the trust, all proceeds associated with these REO subsidiaries should also have been forwarded to the trust and reflected in its income tax returns. CPR Investments, Inc., filed its 1995, 1996, and 1997 income tax returns showing a combined net income of $14,752. According to the servicer, INGREI, the net proceeds from CPR Investments, Inc., are deposited in a bank account and, when the trust is terminated, all income from all sources will be closed to the trust. This action will consolidate all trust income into the trust's final income statement.

CONCLUSION AND RECOMMENDATIONS

The FDIC has the right to protect its investment by requiring efficient and economic use of the trust's funds. The FDIC's trust oversight is managed and conducted by DRR and AEW, yet neither DRR nor AEW tests the source documentation for property transactions. As such, they have no assurance that the trust activities are accurately reported and distributions properly made.[3] Our audit determined that the servicer claimed unallowable expenses and did not report all subsidiary income in the yearly trust income statements. Accordingly, we recommend that the Director, DRR:

(1) Disallow $11,152 in questioned costs for unallowable expenses of which $5,687 represents FDIC's 51-percent share (questioned costs of $11,152, of which $1,492 is unsupported).

(2) Monitor the trust income statements and, at termination of the trust, ensure that the servicer remits to the trust all CPR Investment, Inc., income for equity distribution.

[3] On January 8, 1999, the OIG issued a report entitled AEW's *Performance Under Contract Number 0700-92-0016-003* wherein DRR has agreed to instruct AEW to obtain, review and verify the accuracy of net sales proceeds on sales transactions.

CORPORATION COMMENTS AND OIG EVALUATION

On March 15, 1999, the Assistant Director, Asset Management Branch, DRR, provided a written response (including several attachments) to the draft report. The Assistant Director's response without its attachments is presented in appendix I of this report. The Assistant Director stated that he agreed in part with the OIG's recommendations. As supplemented, we accept his decision and no further response to this report is necessary.

A summary of the Assistant Director's response to the draft recommendations and our analysis follows.

Disallow $11,152 in questioned costs for unallowable expenses of which $5,687 represents FDIC's 51-percent share (questioned costs of $11,152, of which $1,492 is unsupported) (recommendation 1): The Assistant Director agreed to part of the recommendation. Specifically, he concurred that INGREI improperly charged the trust $5,256 for compliance report expenses. He also agreed, preliminarily, that the OIG properly characterized $1,365 in postage and overnight delivery expenses as service overhead and, therefore, covered by the monthly service fee. The remaining issue is whether these delivery expenses facilitated the subservicer agreement or were fees related to individual assets or operating and administrative activities of the Trust. Management anticipates resolving the issue within 120 days after completion of the audit.

The Assistant Director disagreed with the OIG's findings regarding $3,039 in overhead expenses, stating that Section 2.04 of the Deposit Trust Agreement allows for certain operating and administrative expenses to be charged to the trust. According to the Assistant Director, bank charges, withholding taxes, and wire fees were charges related to maintaining and operating the Trust. He said that these expenses would be payable under either the Servicing Agreement or the Deposit Trust Agreement. The Assistant Director added that, after the audit, the servicer provided documentation that he believes supports the $1,492 in questionable travel expenses. We reviewed this documentation and found it adequate to support the fact that the travel was for the benefit of the trust.

We continue to believe that the $3,039 in bank charges, wire fees, and income tax withholding costs should be related to a particular asset to be acceptable. Moreover, we believe that the Service Agreement is specific about the requirement that no property protection expenses shall be paid from any source unless the servicer believes that such expenses are recoverable from future payments and collections on the related trust asset. However, we acknowledge that it would not be cost-effective to pursue collection. Accordingly, we do not consider the disagreement to be significant, and we accept the Assistant Director's decision, as supplemented by additional information provided by the servicer.

Monitor the trust income statements and, at termination of the trust, ensure that the servicer remits to the trust all CPR Investment, Inc., income for equity distribution (recommendation 2): The Assistant Director agreed with our recommendation and directed its equity partnership oversight contractor to monitor the distribution of REO subsidiary proceeds as part of its closeout procedures for the trust.

The Corporation's response to the draft report, as supplemented, provided the elements necessary for management decisions on the report’s recommendations. Therefore, no further response to this report is necessary. Appendix II 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 audit work, the OIG will report questioned costs of $9,660 in its *Semiannual Report to the Congress*.

CORPORATION COMMENTS

FDIC

Federal Deposit Insurance Corporation
Washington D.C. 20429 Division of Resolutions and Receiverships

DATE: March 15, 1999

MEMORANDUM TO: Sharon Smith, Director
Field Audit Operations
Office of the Inspector General

FROM: Douglas Stinchcum, Assistant Director
Agreement Management Section
Asset Management Branch

SUBJECT: OIG Draft Report:
RTC Mortgage Trust 1995 NP3-3

On January 20, 1999, the Office of the Inspector General (OIG) issued a draft report on the results of its audit of RTC Mortgage Trust 1995 NP3-3, in which the FDIC has a non-controlling interest as the Class B Certificateholder. DRR requested that the OIG include this Trust in its audit schedule for 1998. The OIG's report concludes that the Servicer, ING Real Estate Investment, Inc. (INGREI), accurately reported Trust income and made equity distributions in accordance with the provisions of the Deposit Trust Agreement, except as noted below.

Following are Management's responses to the areas questioned in the audit report.

1. *INGREI improperly charged the Trust for compliance report expenses totaling $5,256 in connection with the preparation of the annual compliance report contrary to the provisions of Section 3.03 of the Servicing Agreement.*

We concur with the finding and OIG's recommendation that INGREI reimburse the Trust *$5,256* which the Servicer charged the Trust for the preparation of the annual compliance report. INGREI reimbursed the Trust $5,000 during the period of the OIG review as noted in the report. After further investigation of the remaining *$256* expense, the Class A Certificateholder determined that the expense related to the 1996 compliance report and reimbursed the Trust the remaining *$256*. Evidence of the payment was sent to OIG by INGREI on December 17, 1998 and is attached to this memo. Consequently, INGREI has satisfied this condition and no further action is required.

2. *INGREI inappropriately charged the Trust for miscellaneous general and administrative expenses totaling $4,404 which QIG believes should be covered by the 1-percent servicing fee received by the Servicer under the terms of the Servicing Agreement.*

Based on information provided us by the OIG and the Servicer, this finding can be broken out into the following categories: a) bank charges of $2,601, b) wiring fees of $95, c) income tax withholding associated with various bank accounts maintained for the benefit of the Trust in the amount of $343, d) postage reimbursement expenses of $36, and e) overnight delivery expenses of $1,329.

OIG asserted that all of the above expenses should have been covered under the 1-percent servicing fee in accordance with the Servicing Agreement because the expenses were not related directly to any specific Trust asset and do not appear to be recoverable from future Trust collections.

The Servicing Agreement referenced by OIG is not the only source for reimbursement of Trust expenses. In addition to expenses permitted under the Servicing Agreement (Property Protection Expenses, Property Improvement Expenses and Liquidation Expenses (together, "Servicing Expenses")), certain expenses are also payable or reimbursable that can be considered "operating or administrative expenses" under Section 2.04 of the Deposit Trust Agreement (DTA). Operating expenses are those incurred in the ordinary course of operating the Trust and administrative expenses are those incurred with the management or administration of the Trust. These expenses do not have to be related to a particular asset. As long as these expenses were incurred on behalf of the Trust, the DTA would allow for the expenses to be paid at the direction of the Class A Certificateholder.

With respect to the expenses noted in the first three categories, we disagree with OIG's reasoning for finding that the Servicer is not permitted to charge the Trust for these expenses which total $3,039 because Section 2.04 of the DTA allows for operating and administrative expenses to be charged to the Trust as explained in the preceding paragraph. Since bank charges (including check printing charges, bank service charges, and excess bank activity fees), and the withholding taxes were charges related to maintaining and operating the Trust bank accounts, and the wire fees related to the payment of routine Trust expenses, such expenses are Trust operating expenses payable under the DTA.

In relation to the expenses noted in the last two categories, Management agrees preliminarily with the OIG findings that $1,365 in courier and postage expenses are properly categorized as Servicer overhead, provided they were for deliveries between Nevander and INGREI. Such expenses are covered by the monthly servicing fee. According to Section 2.02 of the Servicing Agreement, Nevander must engage subservicers at its own expense and we presume the courier expenses facilitated the subservicer arrangement. However, to the extent the courier and postage expenses were for correspondence between the Servicers and other entities such as the FDIC/RTC and law firms working the assets, and such fees were related to individual assets or operating or administrative activities of the Trust, such expenses would be payable under either the Servicing Agreement or the DTA.

The following table summarizes Management's position with respect to the overhead expenses, noting which were proper Trust expenses incurred in operating the Trust and those which appear to not be permissible, pending further research.

Description	Amount	Disallowed[c]	Allowed
Bank Charges	$2,601	$ 0	$ 2,601
Other Wire Fees	95[a]	0	95
Income Taxes Withholding	343[b]	0	343
Postage Reimbursement	36[b]	36	0
Overnight & Fed-X	1,329[a]	1329	0
Totals	**$ 4,404**	**$ 1,365**	**$ 3,039**

Management anticipates resolving the issue with respect to the courier and postage reimbursement expenses within 120 days after completion of the audit and will seek reimbursement of any overnight, courier and postage fees between Nevander and INGREI (disallowed costs).

3. INGREI did not adequately support $1,492 in travel expenses.

Based on documents received from INGREI, Management disagrees with OIG's finding. Subsequent to the audit, INGREI supplied FDIC copies of checks, expense receipts and travel documentation for the above amount. The information has been reviewed and found to be for travel related to assets of the Trust. The request forms identify the assets visited, and allocate the expense among the assets. Support for the expenses is also included. Consequently, the additional documentation resolves the finding and no further action is necessary by Management. The documentation provided by INGREI is attached to this memo.

[a] Referenced together as overnight courier fees in OIG draft report but split into $1,329 for overnight courier services and $95 for other wire fees by DRR based upon documentation provided by OIG and Servicer.

[b] Corresponds to $379 in miscellaneous expenses for postage and Federal withholding taxes classified as miscellaneous expenses in OIG draft report.

[c] Disallowed means category of expenses Management preliminarily agrees should not be charged to the Trust.

4. Servicer did not report all REO subsidiary proceeds.

OIG recommends that the Program Office monitor the Trust income statements and, at termination of the Trust, ensure that the servicer remits to the Trust all CPR Investment, Inc. income for equity distribution. Management agrees with OIG's recommendation. Management has directed its equity partnership oversight contractor to monitor the distribution of the income as part of its closeout procedures for the Trust.

Attachments

cc: Giovanni G. Recchia, DRR
Cynthia Shaughnessy, Legal
Dean Eisenberg, DRR
James Mealey, AEW
Douglas Stinchcum, DRR
Henry Abbot, DRR
Ronald Sommers, DRR
Edward Dox, AEW

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.

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 with certain aspects of the recommendation. Specifically, the Corporation stated that INGREI reimbursed the trust for questioned amounts totaling $5,256. Also, the Corporation agreed to disallow $1,365 in courier and postage expenses, although it planned some additional research that it should complete within 120 days of the final report. The Corporation provided documentation from INGREI supporting $1,492 in previously unsupported travel expenses. Finally, the Corporation disagreed with $3,039 in charges that we believed were overhead. Although we continue to question these costs, we accept management's decision on this matter.	120 days from final report	Copy of the payment checks and supplemental supporting documentation	$6,621 disallowed costs	Yes
2	The Corporation agreed to direct its equity partnership oversight contractor to monitor distributions of REO subsidiary proceeds as part of the contractor's trust closeout procedures.	Completed	Copies of the Trust Income Statements at closeout	None	Yes