



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-9000

GOVERNMENT NATIONAL
MORTGAGE ASSOCIATION

March 16, 2006

APM 06-02

MEMORANDUM FOR: All Participants in Ginnie Mae Programs

FROM: Michael J. Frenz, Executive Vice President

SUBJECT: Representations and Warranties and Corporate Guaranty
Guide Changes

Ginnie Mae is updating its Mortgage-Backed Securities Guide 5500.3, Rev. 1 (“Guide”) to clarify its policy in two areas. First, it is clarifying its Representations and Warranties policy for issuers that participate in its single-family program. Second, it is clarifying its policy for the acceptance of a corporate guaranty as consideration for reclassifying certain assets.

Representations and Warranties (“R&W”)

An approved R&W agreement permits an issuer’s custodian to finally certify pools without receipt and review of the security instrument, title policy, and intervening assignments. These documents are still required to be procured in the normal course of business and forwarded to the custodian for fiduciary tracking and storage. In considering whether or not to enter into an R&W agreement with an issuer, Ginnie Mae evaluates various factors that include, but are not limited to the following:

- Tenure as an issuer;
- Results of compliance reviews;
- An evaluation of an issuer’s annual audit report;
- Status as a supervised institution or affiliate of a supervised institution, if applicable;
- Bond rating of issuer or affiliated institution, if applicable;
- Matters involving the internal control structure and operations that have been identified by the issuer’s Independent Public Accountant;
- Results of the issuer’s Independent Public Accountant’s test of compliance;
- Adjusted net worth relative to Ginnie Mae’s requirement;
- Rate of obtaining FHA insurance relative to peer group; and

- Status with Ginnie Mae, the Government Sponsored Enterprises, and Federal Regulators.

Issuers desiring to participate in the R&W program must submit a written request and narrative, including supporting documentation, explaining how they meet the terms of the R&W Agreement ([Attachment 1](#)). Accepted issuers shall enter into a written agreement with Ginnie Mae, whereby the issuer makes the following representations and warranties:

- All records needed for final certification will be obtained in the normal course of business and held by the document custodian;
- Issuer indemnifies and holds Ginnie Mae (and its successors and assigns) harmless against all losses, damages, judgments, or legal fees based on, or resulting from, issuer's failure, or alleged failure, to obtain the original or a copy of the mortgage, record (if required) intervening assignments or title policies;
- Issuer represents and warrants that issuer is the record owner of the mortgage, unless the mortgage has been assigned to MERS. If the mortgage was assigned to issuer, the assignment to issuer or MERS validly transfers the mortgage, free and clear of any pledge, lien, encumbrance or security interest;
- Issuer represents and warrants that the mortgages backing the guaranteed securities are federally insured or guaranteed eligible mortgages pursuant to 12 U.S.C. 1721(g)(1) and the Guide;
- Issuer represents and warrants that it maintains, and will continue to maintain a document tracking system and an internal auditing department, which may be examined or audited by Ginnie Mae at any time to ensure compliance with mortgage pool requirements;
- Issuer represents and warrants that with the exception of compliance with the requirement that the issuer provide the document custodian with copies of the mortgage, recorded (if required) intervening assignments and title policies, issuer is, and will remain in compliance with all Ginnie Mae requirements and all federal regulations; and
- Issuer represents and warrants that prior to transferring pools to a non R&W issuer, issuer/seller shall direct its custodian to perform a complete final certification of all applicable pools, as described in the Guide.

Corporate Guaranty

At its sole discretion, Ginnie Mae may accept a corporate guaranty as consideration for reclassifying certain assets that are treated as unacceptable under the HUD Consolidated Audit Guide. For example, Ginnie Mae may elect to accept a corporate guaranty from an issuer's parent as consideration for acceptance of an issuer's assets that are pledged to secure a line of credit with a Government Sponsored Enterprise on behalf of its parent. Approval is generally restricted to a related party entity with more than 40% ownership in the issuer and/or to an affiliated company

with an investment grade bond rating. The relevant Corporate Guaranty is included as [Attachment 2](#).

Additional information pertaining to R&W requirements and Corporate Guarantees may be found in Chapter 2-13, Chapter 33-3 and Appendix V-1 of the Guide, and is accessible on Ginnie Mae's web site at www.ginniemae.gov. If you have any questions regarding this announcement, please contact your account executive at (202) 708-1535.

Attachments

[Ginnie Mae Representations and Warranties Agreement](#)
[Corporate Guaranty](#)