

# Office of Inspector General



March 8, 2001  
Audit Report No. 01-009

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Securitization Transactions Serviced by  
PNC Mortgage: Audit of Duplicate  
Principal and Interest Advances



**DATE:** March 8, 2001

**MEMORANDUM TO:** Mitchell Glassman, Director  
Division of Resolutions and Receiverships



**FROM:** David H. Loewenstein  
Assistant Inspector General

**SUBJECT:** *Securitization Transactions Serviced by PNC Mortgage:  
Audit of Duplicate Principal and Interest Advances  
(Audit Report No. 01-009)*

The Office of Inspector General (OIG) recently issued an audit report entitled *Audit of Claims Made to the Credit Enhancement Reserve Funds for Securitization Transactions 1992-03 and 1992-04* (Audit Report No. 01-008), related to two securitization transactions serviced by PNC Mortgage, Vernon Hills, Illinois (PNC). During the audit we found that PNC claimed principal and interest advances on certain loans that had also been claimed by the prior servicer, Ryland Mortgage Corporation (Ryland). After discussions with program officials in the Division of Resolutions and Receiverships Mortgage Backed Securities Administration (DRR MBS), we decided to review the remaining loans in the two sampled transactions, as well as the remaining six transactions that transferred from Ryland to PNC, to determine whether additional duplicate payments were claimed by PNC. This report presents the results of our audit work related to duplicate principal and interest advances in all of the transactions.

## **BACKGROUND**

The Pooling and Servicing Agreement (PSA) requires the servicer to advance principal and interest payments to the certificate holders for loans that are in default. Normally, the servicer (in this case, PNC) is reimbursed for these advances when the property is liquidated. Upon liquidation of the property, the servicer prepares an officer's certificate for submission to the trustee. The officer's certificate documents the realized loss or gain on the disposition of the loan. The servicer nets the sales proceeds from liquidation against the advances made on the property and the outstanding loan balance. The resulting loss or gain is submitted in the officer's certificate to the trustee for reimbursement or deposit. However, there are provisions within the PSA for the servicer to submit

claims for reimbursement when the servicer determines that its advances will not be recoverable from either liquidation or insurance proceeds. During Ryland's servicing of these securitization transactions, it submitted claims for reimbursement of non-recoverable advances for loans that had not been liquidated as of the date of the transfer of servicing to PNC. FDIC personnel were aware of the potential for duplicate principal and interest claims as a result of the transfer and explicitly warned PNC of the possibility of duplicate advances in its May 20, 1998 letter to PNC counsel. In that letter, the FDIC asked PNC to work with Ryland to ensure that duplicate claims did not occur. However, complete information from Ryland servicing files was not available to PNC to address adequately FDIC's concerns.

During our audit of securitization transactions 1992-03 and 1992-04, we found \$45,879 in duplicate principal and interest advance claims. Following discussions with DRR MBS officials, we decided to expand our review of this area to include all eight securitization transactions transferred from Ryland to PNC.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our audit was to determine the amount of questioned costs related to duplicate principal and interest claimed by Ryland and PNC. The OIG generated worksheets that summarized each of the officer's certificates filed by Ryland. These worksheets listed the amounts claimed for each individual loan during the period of Ryland's servicing. For the PNC review, we also created worksheets on a loan level basis of all claims submitted by PNC for the eight transactions that transferred to PNC. We then requested that PNC provide its database of all of the transferred Ryland loans. This database indicated PNC's loan number and each loan's corresponding Ryland loan number. Using the above information, we determined which loans had claims submitted by both Ryland and PNC. We further reviewed these loans to determine the total dollar value of the claims submitted by each servicer and identify which servicer liquidated the loan. We reviewed both sets of claims and calculated the duplicate claim amount.

We performed our work at the DRR MBS's offices in Washington, D.C. We conducted the audit in accordance with the standards applicable to financial-related audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. We began our audit on November 20, 2000 and completed the fieldwork on January 23, 2001.

## **RESULTS OF AUDIT**

We identified \$96,359 of questioned costs for duplicate principal and interest advances for four of the eight transactions that transferred to PNC, as outlined in table 1. Specifically, we identified additional questioned costs in the non-sampled loans of securitization transactions 1992-03 and 1992-04, as well as in securitization transactions 1991-15 and 1992-01. The duplicate claims for transactions 1992-03 and 1992-04 are in addition to those reported in our earlier audit report, *Audit of Claims Made to the Credit Enhancement Reserve Funds for Securitization Transactions 1992-03 and 1992-04*, and represent claims made for loans not included in our sampled items from that audit.

These amounts were provided to PNC for comment. PNC has agreed with our findings and discussed the duplicate advances with Ryland. However, as our report pointed out, PNC was responsible for filing the duplicate claim and is therefore responsible for reimbursing the reserve funds of the securitization transactions.

**Table 1: Summary of Duplicate Principal and Interest Claims by Transaction**

<b>Transaction Number</b>	<b>Number of Loans</b>	<b>Total Amount of Duplicate Claims</b>
1991-15	2	\$13,429
1992-01	4	18,975
1992-03	7	17,962
1992-04	7	45,993
<b>Total</b>	<b>20</b>	<b>\$96,359</b>

*Source:* OIG analysis.

**Recommendation**

We recommend that the Manager, MBS, DRR:

- (1) Disallow the duplicate principal and interest payments totaling \$96,359, as detailed below:
  - Securitization Transaction 1991-15: \$13,429
  - Securitization Transaction 1992-01: \$18,975
  - Securitization Transaction 1992-03: \$17,962
  - Securitization Transaction 1992-04: \$45,993

**CORPORATION COMMENTS AND OIG EVALUATION**

On February 20, 2001, the Deputy Director, Franchise and Asset Marketing, DRR, provided a written response to the draft report. The response is presented in Appendix I of this report. DRR management agreed to disallow \$96,359 in questioned costs. Further, DRR is pursuing collection of the disallowed amount through settlement discussions with PNC. DRR expects the discussions to be completed by June 30, 2001. DRR will maintain all documents pertaining to the settlement discussions with PNC.


The Corporation's response to the draft report provided the elements necessary for a management decision on the report's recommendation. Therefore, no further response to this report is necessary. Appendix I presents management's proposed action on our recommendation and shows that there is a management decision.

As a result of our audit, we will report questioned costs of \$96,359 in our *Semiannual Report to the Congress*.



**DATE:** February 20, 2001

**TO:** David Loewenstein  
Assistant Inspector General

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

**SUBJECT:** Response to Draft Report Entitled *Securitization Transactions Serviced by PNC Mortgage, Audit of Duplicate Principal and Interest Advances*

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

1) Disallow the duplicate principal and interest payments totaling \$96,359, as detailed below:

Securitization Transaction 1991-15	\$13,429
Securitization Transaction 1992-01	\$18,975
Securitization Transaction 1992-03	\$17,962
Securitization Transaction 1992-04	\$45,993

A) Specific Action Already Taken:

The FDIC concurs with the OIG findings to disallow \$96,359 in duplicate principal and interest payments claimed by both PNC and Ryland Mortgage to the Credit Enhancement Fund for each detailed transaction listed above. We are currently pursuing the collection of the disallowed amount from PNC Mortgage for the total duplicate principal and interest payments in accordance with Section 3.04 of the corresponding Pooling and Servicing Agreements.

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

DRR has contacted PNC regarding the disallowed principal and interest payment amount and it appears that PNC generally agrees with the disallowed amount. We will follow up with a written request for reimbursement. We expect that the collection of the deficiency will be completed by June 30, 2001.

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

DRR will maintain all documents pertaining to the settlement discussions with PNC.

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

**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.

<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 \$96,359 and will pursue collection of this amount through settlement discussions with PNC.	June 30, 2001	Documents pertaining to settlement discussions with PNC.	\$96,359 in disallowed costs	Yes



