

# Single Family Issuer Training



Compliance Reviews  
Training Manual

## COMPLIANCE REVIEWS AGENDA

- Background information to set the stage
- Value and objectives of compliance reviews
- Compliance review process
  - Specific review areas
  - Case Studies
- Wrap-up/discussion

## Agenda

The compliance review process is an integral component of the Ginnie Mae Mortgage-Backed Securities (MBS) Program. The review process permits Ginnie Mae to observe how the Issuer performs its obligations under the terms of the Guaranty Agreements, and the regulations stated in the Ginnie Mae Guide and All Participants Memos.

An important function of compliance reviews is that they promote uniformity within the Issuer community. Ginnie Mae securities remain attractive investments when the underlying collateral is perceived by investors as carrying the same level of risk from pool to pool. This benefits the Security Holders, the industry and Ginnie Mae.

In this session, we will focus on the background of compliance reviews, explaining their value to Ginnie Mae and the Issuer community. We will also discuss how the Issuers are selected for review, and the areas of most concern to Ginnie Mae. As part of the general overview of the compliance review approach, we will look at how results are measured, and how findings are relayed to the Issuers and the Ginnie Mae Account Executives. We will also address specific areas that are reviewed as a part of this process and briefly touch on the role of the document custodian. Case studies will be provided to highlight key areas.

## COMPLIANCE REVIEWS BACKGROUND

- Ginnie Mae Guaranty Agreement
- Ginnie Mae guarantees payment to Security Holders
- Ginnie Mae encourages uniformity in mortgage servicing
- Ginnie Mae or its agents can audit/review the Issuer's records

## Background

The Ginnie Mae Guaranty Agreement is the contract between Ginnie Mae and the Issuer that establishes the rights and obligations of each party in connection with Ginnie Mae Mortgage Backed Securities (MBS) pools and the related securities. By entering into this contract, the Issuer agrees to comply with Ginnie Mae regulations.

Under the Guaranty Agreement Ginnie Mae guarantees that all required payments to Securities Holders will be made in full, and in a timely manner. Ginnie Mae is authorized by contract and by legislation to perform compliance reviews to ensure that Issuers participating in the MBS Program are complying with acceptable program standards. These reviews test the Issuer's ability to pay Securities Holders, and also assist the Issuers with possible improvements in their operations. Compliance reviews examine Issuer-prepared written policies and procedures, accounting reports, loan servicing records, and evidence of remittances to the Securities Holders.

The compliance review process helps Ginnie Mae fulfill its obligation to Securities Holders as outlined in the Guaranty Agreement by determining that Securities Holders are receiving all payments to which they are entitled. The compliance review process also provides Ginnie Mae with additional information to manage program risk efficiently and effectively and to help minimize losses to Ginnie Mae. This process also assists Ginnie Mae in promoting uniformity in mortgage servicing, which benefits the Securities Holders, Ginnie Mae and the industry as a whole.

## VALUE OF COMPLIANCE REVIEWS

- Reduces overall program risk
- Reinforces policy interpretations
- Improves long term program compliance
- Provides knowledge transfer to Issuer personnel
- Promotes uniformity of mortgage servicing
- Maintains market confidence

## Value of Compliance Reviews

The Guaranty Agreement states that the Issuer shall establish and maintain such controls and procedures necessary to enable it to accurately project whether or not it will have sufficient funds to meet payments required under the Securities.

The compliance review process gives Ginnie Mae confidence that participants in the Program are meeting their responsibilities in a manner that minimizes risk of Issuer default and loss to Ginnie Mae. This process reduces overall risk to the MBS Program. A value-added factor is the availability of Ginnie Mae representatives to the Issuers at their operational sites to discuss servicing methods.

The compliance review process results in considerable improvement in the quality of portfolio servicing, documentation, and accuracy of monthly accounting reports. The process helps reduce the likelihood of Ginnie Mae being called upon to fund its guarantee. This leads to greater market confidence, marketability and value of the securities.

## OBJECTIVES OF COMPLIANCE REVIEWS

Determine if:

- Issuer has financial ability to advance funds
- Adequate internal controls have been established
- Ginnie Mae guidelines consistently followed
- Personnel have sufficient level of understanding
- Documentation and procedures support reports submitted to Ginnie Mae and/or agents

## Objectives of Compliance Reviews

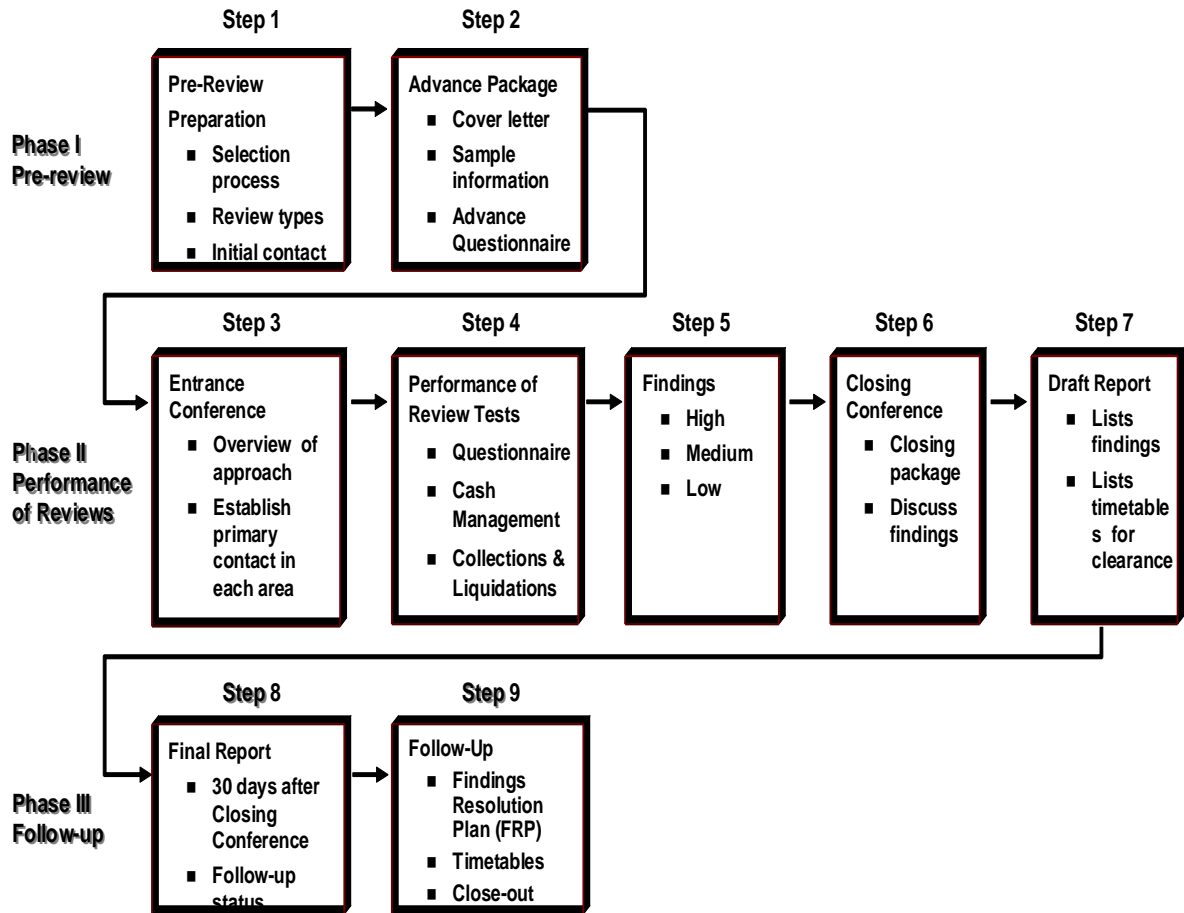
Compliance reviews are designed to reassure Ginnie Mae that its Issuers are operating within acceptable program standards that minimize risk to Ginnie Mae.

The compliance review process is designed to benefit the Securities Holders, Ginnie Mae, and the Issuers.

Compliance reviews are designed to determine the following:

- The Issuer demonstrates the ability to advance its own funds when required so that payments to Securities Holders are made in a timely manner
- The Issuer provides adequate controls on funds from collection through the payment to Securities Holders or debiting by the Central Paying Transfer Agent (CPTA)
- The Issuer follows industry standards and Ginnie Mae Program specific steps to minimize the risk of loss to Ginnie Mae
- The Issuer has the necessary level of understanding of, and performance within, the Ginnie Mae Program guidelines
- The Issuer's documentation and procedures support the information as presented on the reports required by Ginnie Mae and/or its agents

# Compliance Review Process Map



## COMPLIANCE REVIEWS

### SELECTION PROCESS

#### Phase I - Step 1

##### Whom to review?

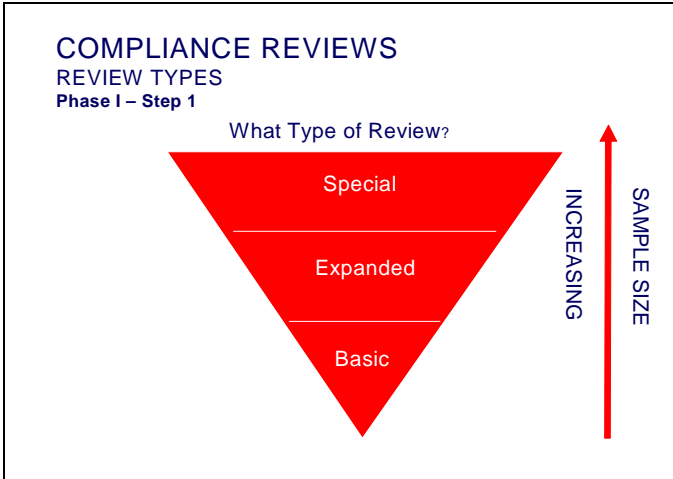
- Review at least every three years
- Previous review findings
- Portfolio performance
  - High delinquencies
  - Rapid Growth
- Management changes
- IPA findings
- Referral by Ginnie Mae Account Executive

## Step 1 – Pre-Review Preparation - Selection Process

The selection process is designed to review in greater detail Issuers that could pose a higher risk potential to Ginnie Mae. Some of the criteria used in the selection process are summarized in this section.

An Issuer is reviewed at least once every three years. Results from previous reviews are a reliable indicator of the Issuer's compliance and internal controls, and therefore are a significant factor in the selection process. An Issuer with "High Risk" findings in its most recent review would probably be reviewed the following year, not three years later. Other important indicators are delinquencies, sudden changes in portfolio performance, substantial portfolio growth, changes in management, and Independent Public Accountant (IPA) findings. Additional factors such as late recertification of pools, problems in monthly reporting, and information received by Ginnie Mae from others that indicates potential financial and/or servicing problems with the Issuer could result in a request for a review.

For example, if an Issuer's MBS portfolio grew by 100% or more in a short time, Ginnie Mae would want to be assured that the quality of servicing did not suffer. If the CEO, CFO and VP of Servicing were replaced all at once, Ginnie Mae would have some concerns of the Issuer's ability to maintain the quality of its operation. An Issuer whose net worth, as shown in its annual financial statements, dropped 50% from the previous year may be a candidate for a review.



**Step 1 – Pre-Review Preparation-  
 Review Types**

The Compliance Review Agent (Field Review Team) develops and Ginnie Mae approves the list of Issuers to be reviewed. In addition Ginnie Mae staff may also request the Field Review Team to schedule a review of an Issuer.

There are three different levels of review:

**Special** –This level of review is for Issuers that have the greatest perceived level of risk to Ginnie Mae.

**Expanded** –This level of review is for Issuers that have above average risk ratings.

**Basic** –This level of review is for Issuers that have moderate risk ratings.

In all levels of reviews, an in-depth review is done to determine that information from primary documents (i.e., trial balance) is reflected on reports sent to Ginnie Mae and that the Issuer is performing all duties in accordance with the Program guidelines. The difference between the three levels of review is the sample size of individual tests, such as the number of preselected pools, the total number of loans, and the total deposits and withdrawals selected for review.



## COMPLIANCE REVIEWS

### INITIAL CONTACT / TIMING

#### Phase I - Step 1

Scheduler's responsibility to initiate first contact.

- Discuss with Issuer four weeks before review
  - Date and length of review
    - factors = level of review, # of pools serviced, # of staff available, # of liquidations, # of delinquent pools
  - Type of review and information needed
  - Confirm Issuer personnel names, addresses and phone numbers
  - Availability of Issuer key personnel
  - Access to work space and equipment
  - Send advance package three weeks prior to arrival
- Follow-up call one week before review

## Step 1 – Pre-Review Preparation- Initial Contact

The pre-review preparation process is designed to permit reviews of Issuers to be conducted in the most efficient manner. The goal is to perform an effective examination of the Issuer's activities, without interfering with the Issuer's ability to conduct day-to-day operations.

At least **four** weeks prior to the visit, the Field Review Scheduler calls the Issuer's contact person to schedule the compliance review\*. If the Issuer is subserviced, the review is coordinated directly with the subservicer after the Issuer is contacted. The following will be discussed:

- The proposed level of review
- Timely completion of the Advance Questionnaire (refer to Step 2 – Advance Package for details)
- Availability of key personnel and notification to senior management of the planned visit
- The correctness of all information on the Issuer Fact Sheet, such as names, addresses, contact person, CEO, titles, fax and other phone numbers
- Exact review dates, arrival times and accommodations
- Administrative requirements such as access to work space, telephone and fax

The Field Review Team Leader will contact the Issuer by telephone at least **one** week prior to the scheduled review to reconfirm the dates, the estimated time of arrival and arrangements previously discussed. At that time the Field Review Team Leader also confirms that the Issuer will have all requested documentation and the Advance Questionnaire completed and available when the compliance review team arrives.

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\* At times, Ginnie Mae may request that a review be scheduled to begin as soon as possible. When this happens, the Field Review Scheduler will contact the Issuer to inform it of the review. In such a case, the Advance Package will be sent by e-mail, courier, or fax.

## COMPLIANCE REVIEWS

### ADVANCE PACKAGE

#### Phase I - Step 2

- Sent to Issuer three weeks before review
- Package contents
  - Cover letter (confirms date and type of review scheduled)
  - Communicates test month
  - List of pools to be tested and documentation required
  - Advance Questionnaire
- Subserviced?

It is **very important** that the information requested be assembled completely and accurately before the review begins. Insufficient information will prolong the review. If you have questions about the documentation requested, please call the Field Review Manager.

## Step 2 – Advance Package

The advance package is the most important part of the pre-review preparation. It provides the compliance review team with much of the information that will be tested during the review. The Issuer's timely completion of this material and the availability of the requested information are critical to the performance of the review within the scheduled time.

At least **three** weeks prior to the review, the Field Review Scheduler will send the advance package to the Issuer via certified-receipt overnight delivery. If the Issuer is subserviced, a copy of the advance package is also sent to the subservicer.

The advance package (Exhibit II) contains the following:

**Cover Letter:** The cover letter confirms each item discussed in the initial telephone conversation including the date of the review, the review type, and the preselected pools.

#### **List of documentation needed:**

- The Trial Balances of the preselected pools. Although certain tests concentrate on the activity of the preselected pools, many other tests are done at a loan level and bank account level.
- Internal Servicing documentation for the reporting month to be tested, and the months prior and subsequent to the test month. For example, if June 2005 is selected, the accounting activity examined will be as of the May, June, and July 2005 cut-off dates.
- Documents requested include: form HUD 11710A for each preselected pool; form HUD 11710D for each month tested; form HUD 11710E for all loans in the preselected pools liquidated within the 12 months preceding the test month; reconciliations and related supporting documentation of each Ginnie Mae related bank account, including collections clearing account(s); delinquent loan collection efforts; and any other internal servicing documentation deemed necessary to complete a test.

**Advance Questionnaire:** The questionnaire must be completed before the arrival of the review team. Among other items, the questionnaire provides Ginnie Mae with information pertaining to:

- Issuer's eligibility requirements
- Management of internal controls
- Operational procedures
- Data management

**Field review information:** The name, phone number and address of the contact person of the field review contact person are included. The Issuer should call that person if there are any questions about the Advance Questionnaire, required documentation, or the review process.

## COMPLIANCE REVIEWS

### ENTRANCE CONFERENCE

#### Phase II - Step 3

- Meeting with Issuer personnel conducted by review team leader
- Discuss compliance review
  - Type of review
  - Length of review
  - Key areas that the FRC will test
  - Documentation needed by review team
- Issuer provides the completed Advance Questionnaire to the review team

### Step 3 – Entrance Conference

The entrance conference is the first step of the compliance review conducted on-site.

The Field Review Team, as well as key Issuer representatives, including senior level Issuer personnel, should be present. If the portfolio is subserviced, the field review is conducted at the subservicer's office. At a minimum, an Issuer representative should participate in the Entrance Conference by telephone. An important objective of the Entrance Conference is to establish a cooperative working relationship between both parties.

#### Field Review Team

- Field Review Team members are introduced
- The compliance review approach is discussed in detail
- Items covered include the type of review, the timing, and the areas to be reviewed

#### Issuer

- Provides the Field Review team with the documentation requested in the advance package, including the completed Advance Questionnaire
- Identifies the point of contact for each area to be reviewed in order to facilitate the review process

**COMPLIANCE REVIEWS**  
**PERFORMANCE OF REVIEW TESTS**  
**Phase II - Step 4**

- Major areas of compliance review
  - Information in the Advance Questionnaire
  - Cash Management
  - Collections and Liquidations

**Step 4– Performance of Review Tests**

This process includes all activities and work performed while the field team is at the Issuer’s office. The availability of the completed Advance Questionnaire and other requested information helps the Field Review Team to conduct the review efficiently. The availability of appropriate Issuer representatives to respond to questions is absolutely essential.

In addition to matters covered in the Advance Questionnaire, the specific areas that are reviewed include:

1. Cash Management
  - Reconciliation of Mortgage Collateral
  - Test of expected P&I
  - Collection clearing accounts
  - P&I custodial accounts
  - Corporate advances
  - P&I disbursement accounts
  - T&I custodial accounts
  - Special escrow account (e.g., 203k; buydown)
  - Payments to Securities Holders
  
2. Collections and Liquidations
  - Delinquency reporting and the Issuer’s collection processes
  - Bankruptcy
  - Foreclosures and claims
  - Liquidations
  - Loan endorsements

## Step 5 – Findings

### COMPLIANCE REVIEWS

#### FINDINGS

##### Phase II - Step 5

- Categories of findings
  - High Risk (Immediate risk)
    - Must be cleared within 48 hours
  - Medium Risk (Substantial impact)
    - Must be cleared within 30 days
  - Low Risk (Minimal impact)
    - Must be cleared within 90 days
- Issuer kept informed of potential findings
- Ginnie Mae informed of severe findings
- Issued as “Open” until resolved in Findings Resolution Plan (FRP) (except non-recurring, Low Risk findings)

The compliance review may result in the identification of potential findings. The field team will discuss them with the Issuer to establish whether an actual finding exists and if additional documentation is needed to explain the matter. If the compliance review team leader determines that there is a High Risk finding, it will be formally raised after discussion with the field team’s Manager, along with any Medium Risk and/or Low Risk findings noted. In addition, the Field Review Manager will notify Ginnie Mae of the existence of unusual issues. In such a case, Ginnie Mae may expand the testing.

Findings are coded numerically and classified into three categories:

**High Risk findings** are findings that have the potential to cause an immediate risk to Ginnie Mae, Securities Holders, and Issuers. The Field Review Manager discusses these findings with the Ginnie Mae Account Executive within 24 hours of the determination that a High Risk finding does exist. An example of a High Risk finding is: reported overdrafts in the bank statements of a P&I custodial account. High Risk findings must be cleared within 48 hours.

**Medium Risk findings** are findings that could have a substantial impact on Ginnie Mae, Securities Holders and Issuers. An example of a Medium Risk finding is: the Security Holders register or alternate documentation does not contain all required information. Medium Risk findings must be cleared within 30 days.

**Low Risk findings** result in a lesser impact on Ginnie Mae, Securities Holders, and Issuers. An example of a Low Risk finding is: the P&I Custodial bank account reconciliation was not prepared within 30 days of the monthly reporting cut-off day. Low Risk findings must be cleared within 90 days.

A reoccurring High Risk finding or Medium Risk Finding will result in an additional High Risk Finding. This is done in order to emphasize to the recipients of the field review Report that the Issuer has the same High Risk or Medium Risk finding that it had in the previous field review, either after it was resolved or referred to Ginnie Mae.

Even though a matter may have already been cleared by the time of the review, a finding may still be raised which will require the Issuer to describe in its response the action it has taken to avoid reoccurrence. The reason is that most Findings are the result of a procedural issue that needs correction. For example, an overdraft in the collections clearing account might be the result of the timing of the debits and credits into the account. If the funds are moved out of the account before they are deposited, an overdraft may occur.

At times, the field team is unable to conduct a required test that could result in a High Risk finding because the Issuer cannot provide the necessary information. In that case, Ginnie Mae may require the Issuer to have its own independent accountant perform the test or have the field team return to perform the test at the Issuer’s expense.

## COMPLIANCE REVIEWS FREQUENT FINDINGS

Frequency of High Risk Findings for 102 Issuer Compliance Reviews  
Conducted from November 1, 2004 through October 31, 2005

<u>Frequency of Finding</u>	<u>Description of Finding</u>
43	Findings from a previous review that were cleared have reoccurred.
38	Unresolved reconciling items appear in three consecutive bank reconciliations.
19	Bank statements show overdraft in custodial account.
24	Custodial bank reconciliations were prepared/reviewed by persons involved in cash receipt/disbursement functions.
17	Claim proceeds were not deposited into the P&I custodial account within one business day of receipt.

## COMPLIANCE REVIEWS FREQUENT FINDINGS

Frequency of Medium Risk Findings for 102 Issuer Compliance Reviews  
Conducted from November 1, 2004 through October 31, 2005

<u>Frequency of Finding</u>	<u>Description of Finding</u>
50	Loan(s) found in pool(s) which do not match FHA endorsement database.
45	Loan(s) found in pool(s) which have incorrect case numbers reported to Ginnie Mae
22	Loan(s) found where the liquidation code used was not correct on form HUD 11710E
22	Bank statements show overdrafts in the Collection Clearing Account.
20	T&I funds reported on form HUD 11710D do not agree with Issuer's internal servicing records nor ending balance of T&I reconciliation.

## COMPLIANCE REVIEWS FREQUENT FINDINGS

Frequency of Medium Risk Findings for 102 Issuer Compliance Reviews  
Conducted from November 1, 2004 through October 31, 2005

<u>Frequency of Finding</u>	<u>Description of Finding</u>
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45	Loan(s) found in pool(s) which have incorrect case numbers reported to Ginnie Mae
22	Loan(s) found where the liquidation code used was not correct on form HUD 11710E
22	Bank statements show overdrafts in the Collection Clearing Account.
20	T&I funds reported on form HUD 11710D do not agree with Issuer's internal servicing records nor ending balance of T&I reconciliation.





## COMPLIANCE REVIEWS

### CLOSING CONFERENCE

#### Phase II - Step 6

- Review findings with Issuer management
- Management signs individual findings forms
- Overview of the follow-up process
- Discuss FRP requirements

## Step 6 – Closing Conference

The closing conference is the final on-site step of the compliance review process. The purpose of the closing conference is to discuss findings and the timelines for clearing the findings with the Issuer.

The Field Review Team, as well as key Issuer representatives, including senior level Issuer personnel, should be present. If the portfolio is subserviced, the Closing Conference is conducted with subservicer personnel and the Issuer should, at a minimum, participate by telephone. A Field Review Findings form, detailing each finding, is provided for the Issuer's management representative to sign and to comment on, whether the Issuer agrees fully, partially, or disagrees with the findings. The Issuer's comments are included in the attachments to the final report subsequently sent to the Issuer and Ginnie Mae. During the conference the Field Team Leader will provide an overview of the follow-up process, including a discussion of the Findings Resolution Plan (FRP) requirements.

## COMPLIANCE REVIEWS

### DRAFT REPORT

#### Phase II - Step 7

- Dates and level of review
- Closing conference attendees
- Contents
  - Findings grouped by severity level
  - Timetables for clearing and closing each finding
- Distribution

## Step 7 – Draft Report

The draft report is delivered at the completion of the on-site compliance review. Its purpose is to provide both the Issuer and Ginnie Mae with information about the results of the review. The Issuer is expected to immediately begin responding to the findings based on the draft report, without waiting for the final report to be issued.

The Field Team is required to send the draft report to Ginnie Mae within one week of the Closing Conference. It is usually provided to the Issuer at the time of the Closing Conference. The report contains a list of findings by category, along with a timetable for clearing the findings. The draft report is addressed to the Issuer's senior operations manager and copied to the Issuer's field review contact person and to the assigned Ginnie Mae Account Executive.

## COMPLIANCE REVIEWS

### FINAL REPORT

#### Phase III - Step 8

- Review specific
- Due 30 days from the closing conference
- Summarizes
  - Review
  - Closing Conference date
  - Findings issued
  - Current status of Finding Resolution Plan
- Indicates if the review is closed out
- Distribution

## Step 8 – Final Report

The final report is issued within 30 days of the closing conference. It summarizes the findings, timetables and corrective actions to be taken by the Issuer to resolve the findings. A complete copy of the Closing Field Review Findings is attached to the final report.

The final report is substantially identical to the draft report, but it may contain corrections noted by the Field Review Manager and/or follow-up.

For reviews performed by the Field Review Team itself, if the Issuer has provided the Follow-up Team with the documentation necessary to clear all the findings, or if no further action is required, the final report will state that the review will be closed out. If not, the Follow-up status note will describe the status of each Finding and what is needed to close out the review. The final report for reviews performed by a subcontractor will not contain follow-up information.

The final report is sent to the Issuer's senior operations manager, the Issuer's point of contact for the field review and to the assigned Ginnie Mae Account Executive.

## COMPLIANCE REVIEWS

### FOLLOW-UP PROCESS

#### Phase III - Step 9

- Tracks and documents Issuer compliance
- Findings Resolution Plan
  - Begins with **WHY** infraction occurred
  - Describes **HOW** and **WHEN** findings were cleared
  - Documentation required for High Risk findings, optional for others
  - Explains **WHAT** procedures were adopted to avoid reoccurrence
- Reviewed for reasonableness and approval by FRC
- Review follow-up completed
  - All findings cleared (documented in final report or approval letter)
  - After 120 days (open findings referred to Ginnie Mae for action)

## Step 9 – Follow-up Process

At the Closing Conference, the Field Review Team Leader describes the requirement to develop and submit an FRP. The FRP documents the Issuer's correction of identified findings and actions taken to ensure future compliance. The FRP is sent to the Field Review Follow-up Team for review and approval.

The FRP, submitted by the Issuer to the Field Review Follow-up Team, is a document that explains the findings from the Issuer's point of view and puts forth the actions the Issuer will take to correct the problems found and prevent reoccurrence. It includes supporting documentation to show that High Risk findings have been cleared. If necessary, the Follow-up Team will discuss the findings and the FRP with the Issuer to facilitate the resolution of the findings. The FRP should contain certain specific information, as follows:

For High Risk findings:

- Explanation of what was done to clear the finding, with supporting documentation
- Description of procedures changed or put in place to ensure that the finding will not reoccur

For Medium Risk findings:

- Explanation of what was done to clear the finding, with supporting documentation optional
- Description of procedures changed or put in place to ensure that the finding will not reoccur

For Low Risk findings that are recurring (raised in the previous review), the requirements are the same as for Medium Risk findings. For all other (non-recurring) Low Risk findings, nothing is required to be submitted to the Follow-up Team. However, within 90 days, the Issuer is expected to clear each of those findings and put in place procedures to ensure that the findings will not reoccur.

Findings are often resolved subsequent to the issuance of the final report. In that case, the Follow-up Team will send an "approval letter" to the Issuer, with a copy to Ginnie Mae. The letter will advise the Issuer that the review is complete and that no further action is required.

The final report for a subcontracted review will not contain follow-up information. An approval letter will be issued when the review is complete.

Any findings not resolved within 120 days of the Closing Conference will be referred to Ginnie Mae. In that case, no further follow-up activity will be performed by the Follow-up Team.

**COMPLIANCE REVIEWS**  
**FINDINGS RESOLUTION PLAN (FRP)**  
 (Finding Specific)

Timetable for FRP and Resolving Findings			
	High Risk	Medium Risk	Low Risk
Must be cleared within	48 hours	30 days	90 days
FRP must be submitted within	7 days	30 days	90 days
Final Close out within	21 days	45 days	120 days

**Step 9 – Follow-up Process**  
**(continued)**  
**Findings Resolution Plan**

The findings should be resolved and the Follow-up Team should receive the FRP from the Issuer in accordance with the established timetable. The due dates are calendar days measured from the date of the Closing Conference. The period for clearing High Risk findings is two business days and the FRP is due seven calendar days after the Closing Conference.

**High Risk** findings must be cleared within 48 hours. All High Risk findings require an FRP which must be submitted to the Follow-up Team within seven calendar days. Final close-out of High Risk findings must take place within 21 days.

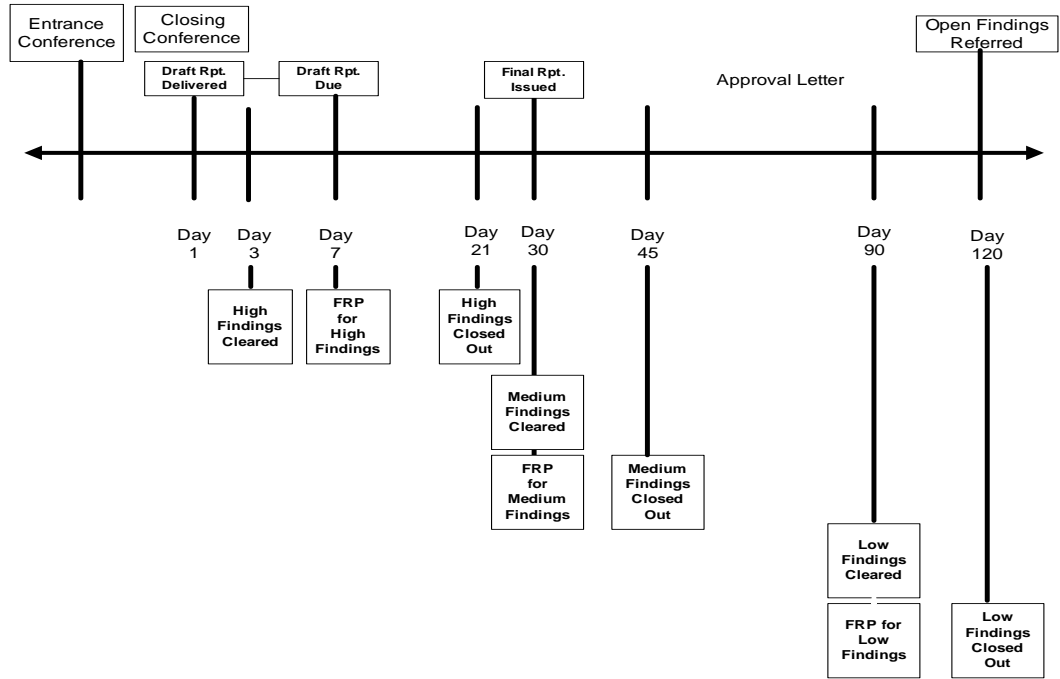
**Medium Risk** findings must be cleared within 30 days. All Medium Risk findings require an FRP which must be submitted within 30 calendar days. Final close-out must take place within 45 days.

**Low Risk** findings must be cleared within 90 days. Only Low Risk findings that are recurring from the previous review require an FRP. The FRP must be submitted within 90 calendar days and close-out must take place within 120 days.

While these are the latest dates by which the action must be completed, we strongly encourage Issuers to resolve all findings as quickly as possible. It is far more efficient for an Issuer to deal with problems raised by the on-site review immediately.

An Issuer “clears” a finding by fixing the problem, if possible. For example, to “clear” an overdraft, the Issuer deposits funds. To “close-out” a finding, an Issuer must “clear” the finding, put procedures in place that will prevent reoccurrence of the finding, include that information (with any required documentation) in its FRP, and submit to the Follow-up Team.

# FRP Timetable



## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- Reconciliation of mortgage collateral
- Test of expected P&I
- Collection clearing accounts
- P&I custodial accounts
- Corporate advances
- P&I disbursement accounts
- T&I custodial accounts
- Special escrow accounts

## Cash Management

As mentioned before, payments to Securities Holders must be made in a timely manner. The basic intent of the compliance review is to test the Issuer's controls and procedures that ensure that custodial funds are handled properly and that Securities Holder payments are made on time every month.

Ginnie Mae Issuer compliance reviews focus on the following specific areas that represent risk to the Ginnie Mae Program.

**Reconciliation of Mortgage Collateral to Securities Outstanding:** Ginnie Mae requires that the remaining principal balances of the mortgages provide sufficient collateral for the outstanding securities.

**Test of Expected P&I:** This test identifies a minimum dollar amount expected in the P&I account for any particular pool as of a given cutoff date and also confirms the accuracy of the P&I balance reported in Section 5, Block B2 of the form HUD 11710A report.

**Collection Clearing Accounts:** Ginnie Mae requires that Ginnie Mae related funds be transferred to the respective Principal & Interest (P&I), Taxes and Insurance (T&I) custodial accounts and other escrow or reserve accounts within 24 hours, or 48 hours if the Issuer uses ACH processing. Ginnie Mae also requires that the account be free of overdrafts.

**P&I Custodial Accounts:** Ginnie Mae requires that collected funds be available as of the Securities Holders payment date and that the Issuer performs monthly reconciliations of the accounts to the bank statement and to the form HUD 11710D on a timely manner. Ginnie Mae also requires that form HUD 11709 be current, that the bank account be properly styled and that the account be free of overdrafts.

**Corporate Advances:** Ginnie Mae requires that the Issuer make corporate advances and/or properly utilizes excess funds to make the remittance to the Securities Holders if sufficient funds are not received through normal collections.

**P&I Disbursement Accounts:** Ginnie Mae requires that the Issuer perform monthly reconciliations of the account to the bank statement in a timely manner. Ginnie Mae also requires that form HUD 11709 be current and the bank account be properly styled.

**COMPLIANCE REVIEWS**  
CASH MANAGEMENT

- Reconciliation of mortgage collateral
- Test of expected P&I
- Collection clearing accounts
- P&I custodial accounts
- Corporate advances
- P&I disbursement accounts
- T&I custodial accounts
- Special escrow accounts

**Cash Management**  
**(continued)**

**T&I Custodial Accounts:** Ginnie Mae requires that (a) the Issuer perform monthly reconciliations of the accounts to the bank statement in a timely manner (b) the form HUD 11720 be current (c) the bank account be properly styled (d) Issuer's records on corporate advances and recoveries for T&I funds agree to bank account statements, and (e) payments of escrowed items (i.e., taxes, insurance, MIP) be made timely.

**Special Escrow Accounts:** Ginnie Mae requires the Issuer to perform monthly reconciliations of the accounts to the bank statement in a timely manner. Ginnie Mae also requires that form HUD 11720 be current, that the bank account be properly styled and that the account be free of overdrafts.



**COMPLIANCE REVIEWS**  
**PAYMENTS TO SECURITIES HOLDERS**

- **Payments to Securities Holders**
  - Timely remittance of principal and interest
  - Directly to Securities Holders for Ginnie Mae I
  - ACH debit by CPTA for Ginnie Mae II
  
- **Issuers must maintain**
  - Securities Holders Register
  - Issuer's Monthly Remittance Advice, form HUD 11714 for Ginnie Mae I)
  - Monthly Accounting Report, form HUD 11710A

**Payments to Securities Holders**

This section discusses the Issuer's obligation to make timely payments and the documentation that the Issuer must maintain for Securities Holders.

The compliance review examines the Issuer's records on Securities Holders payments to determine whether the payments are made timely and whether the payments are in agreement with the form HUD 11710D.

Section 6.01 of the Guaranty Agreement states:

<b>GINNIE MAE I</b>	<b>GINNIE MAE II</b>
<p>That the Issuer shall remit to the Security Holders all payments to be made under the terms and conditions of all Securities issued and outstanding under the Guaranty Agreement.</p>	<p>That the Issuers shall deposit to the Central P&amp;I Custodial Account funds sufficient to enable the CPTA to make all payments to Security Holders required to be made under the terms and conditions of all Securities issued and outstanding under the Guarantee Agreement.</p>
<p>All such payments must be made in a timely manner such that, with respect to the payment for any given month, the Security Holders will receive payment by the 15<sup>th</sup> day of each month, with final payment to be only on receipt of the Security by the Issuer; provided, however, that payments by electronic transfer shall be completed on the 15<sup>th</sup> day of each month or, if the 15<sup>th</sup> day of the month is not a business day, by 1:00 p.m. Eastern Time on the first business day following the 15<sup>th</sup> day of the month.</p>	<p>All such deposits must be made in a timely manner on the 19<sup>th</sup> calendar day of the month or, if the 19<sup>th</sup> calendar is not a business day, on the 20<sup>th</sup> calendar day or, if the 20<sup>th</sup> calendar day also is not a business day, on the business day immediately preceding the 19<sup>th</sup> calendar day.</p>



**COMPLIANCE REVIEWS**  
**PAYMENTS TO SECURITIES HOLDERS**  
**Findings**

- 1 H Amount of investor payments was not calculated correctly
- 1 H Total cash distribution due security holders, per form HUD 11710A, did not agree with amounts per forms HUD 11714
- 1 M Security holders register or alternate documentation did not include all required information

**Payments to Securities Holders**  
**(Continued)**

Section 6.02(a) states that the Issuer shall establish and maintain such controls and procedures to enable it to accurately project in advance whether or not it will have available sufficient funds to meet payments/deposits required under the Securities in a timely manner.

As part of the Securities Holders payment, the compliance review also examines other Issuer's Securities Holder documentation, such as:

**Securities Holders register**

Each Issuer of Ginnie Mae I Securities must maintain a register of Securities Holders for each Ginnie Mae I pool for which the Issuer is responsible. The register must contain the pool number, security number, Securities Holder's name and address, tax ID number, original principal amount of the security, date of issue, interest rate, initial payment date, and maturity date. The Issuer is responsible for updating the register for any changes received prior to the date of the investor remittances through to the seventh day of each month and must notify the CPTA in writing of any changes or corrections.

The CPTA maintains an electronic central registry of Securities Holders and transfer information for all pools formed under the Ginnie Mae MBS Programs, including Ginnie Mae II Securities.

**Issuer's Monthly Remittance Advice, form HUD 11714 – Ginnie Mae I Securities Must:**

1. Contain Ginnie Mae pool number, date, certificate number, reporting month, security interest rate, pro-rata share distribution, scheduled principal, interest, additional principal, adjustment (requires written explanation), Federal income tax withheld (if applicable), total cash distribution, and outstanding balance of the certificate after credit of all principal
2. Be received by the Security Holder no later than the 15th of the month
3. Tie to the Monthly Accounting Report, HUD 11710A

## COMPLIANCE REVIEWS COLLECTIONS AND LIQUIDATIONS

- Delinquency reporting and Issuer collections
  - Agency regulations
  - Industry standards
  - High delinquency means Issuer risk
  - Review areas include
    - Accurate reporting
    - Records
    - Procedures

## Collections and Liquidations

The Ginnie Mae Guaranty Agreement requires that the Issuer pursue collections, foreclose and dispose of properties, file claims, and liquidate delinquent loans in a timely manner. The Issuer is also required to report to Ginnie Mae on the status of delinquent loans in the pools using form HUD 11710A-Issuer's Monthly Accounting Report and form HUD 11710D-Issuer's Monthly Summary Report.

An Issuer must service delinquent mortgages and manage foreclosure procedures in accordance with applicable servicing and claims collection requirements of the mortgage insurance or guaranty agency, the applicable Guaranty Agreement, and accepted mortgage lending and servicing practices, ethics, and standards. The compliance review examines the main aspects of loan delinquencies, including collections efforts, forbearance agreements, foreclosure procedures, submission of claims, and loan liquidations.

**Delinquency reporting and Issuer collection processes:** Ginnie Mae requires Issuers to service mortgage loans according to FHA, VA, RHS or PIH ("agency") regulations (i.e., delinquent notification, notices of default or reinstatement, physical inspections, financial relief program approval, application of payments received, corporate advances, T&I payments, etc.) as well as accepted industry standards. High delinquencies require large Issuer advances which may create risk to Ginnie Mae. Delinquency rates are monitored by Ginnie Mae based on information provided by the Issuers in the forms HUD 11710A and 11710D. If an Issuer fails to maintain delinquency rates below the threshold levels established by Ginnie Mae, sanctions, such as denial of further commitment authority, can be imposed on the Issuer by Ginnie Mae. Compliance procedures review the accuracy of delinquency reporting, records retention and adherence to collection policies and procedures.

**COMPLIANCE REVIEWS**  
COLLECTIONS AND LIQUIDATIONS

- Bankruptcy
- Foreclosures
  - Foreclosure procedures
  - Deed in lieu of foreclosure
- Claims
  - Filing claims
  - Deposit of proceeds

**Collections and Liquidations  
(continued)**

**Bankruptcies:** Ginnie Mae requires Issuers to adhere to agency regulations, as well as state and federal bankruptcy laws. Issuers must take whatever actions are necessary to protect their interest as first lienholder and to preserve the security. Those actions would include filing the appropriate documents (including lift-of-stay) to assure interest is adequately protected. The compliance review examines individual loans to ensure that agency requirements are followed and actions are taken by the Issuer in a timely manner.

**Forbearance Agreements:** Forbearance agreements are permitted under the provisions allowed by the agency. Loans with forbearance agreements must have a fully executed and current agreement on file. Compliance reviews examine these agreements and test adherence to the terms of the agreement.

**Foreclosures and Claims:** When an incurable default occurs, the Issuer must first acquire marketable title to the real estate either by foreclosure or by accepting a deed-in-lieu of foreclosure. The Issuer's foreclosure and claim filing activities must be in accordance with the agency requirements as well as the Issuer's own procedures. By following the required procedures, the Issuer increases the likelihood that claims will be honored. In cases where claim benefits are denied, the Issuer must repurchase the loan from the pool.

## COMPLIANCE REVIEWS COLLECTIONS AND LIQUIDATIONS

- Liquidations
  - Definition
  - Reasons for removal
  - Remittance to Security Holders
  - Liquidation schedule (form HUD 11710E)
  - P&I Shortfalls
- Loan Endorsements
  - Endorsement/Guaranty exists
  - Data reported accurately
  - Agreement with guarantor records

## Collections and Liquidations (continued) Loan Endorsements

**Liquidations:** A liquidation is any transaction that reduces the unpaid principal balance of a loan to zero. A loan may be liquidated as a result of mortgagor payoff, foreclosure or repurchase. The Issuer must pass through to the Securities Holders all principal and interest payments received from the mortgagors, in a mortgage payoff, from the Issuer, in a loan repurchased, or from the agency in a claim filing. Compliance reviews examine the mechanics of that process, including the timing of the pass through, the accuracy of liquidation reporting, the reasons for removal (i.e., mortgagor payoff, foreclosure with claim payment), P&I shortfalls, and record documentation and retention.

### **Loan Endorsements**

Each pooled mortgage must be, and must remain, insured or guaranteed under the National Housing Act, Title V of the Housing Act of 1949, the Servicemen's Readjustment Act of 1944, chapter 37 of Title 38, United States Code, or section 184 of the Housing and Community Development Act of 1992, and must at all times comply with the requirements for obtaining and maintaining such insurance or guaranty. The information reported by the Issuer to Ginnie Mae needs to be accurate and must agree to the guarantor agency data.

## COMPLIANCE REVIEWS

### DOCUMENT CUSTODIAN

- Certifies pool(s) and holds loan documents
- Contract between Issuer and document custodian
  - Master Custodial Agreement form HUD 11715
  - Subject to Ginnie Mae rules
- Special types of document custodian relationships
- Factors that affect scheduling of reviews

### Document Custodians

Document custodians receive and review documents for loans to be pooled in Ginnie Mae MBS, provide pool certifications to Ginnie Mae's agent and retain the documents for safekeeping. The three types of files required to be maintained and tracked by the custodian are the Issuer Master File, Pool Master File, and Loan Document File.

The document custodian works under a contract with the Issuer. The parties must execute form HUD 11715, the Master Custodial Agreement, file it with Ginnie Mae's Pool Processing Agent (PPA) and, annually, either file a new form showing changes or certify that there are no changes. While an Issuer may use more than one document custodian, the documents for each pool may be held by only one document custodian.

The document custodian must be regulated by one of the following authorities: Federal Deposit Insurance Corporation, Federal Reserve System, Office of the Comptroller of the Currency, Office of Thrift Supervision, or the National Credit Union Administration.

The Issuer provides the document custodian with loan files containing the required documents as listed in the Ginnie Mae Guide. The Issuer is responsible for resolving any defects in the documents identified by the document custodian.

Ginnie Mae's obligation to Securities Holders specifies that the pool of outstanding securities will be collateralized by final mortgage loan documents certified by a document custodian that meets the requirements in the Guide. The document custodian reviews the documents for correctness and completion, and submits the required pool certifications to the PPA. The document custodian must maintain physical and custodial control of the pool and loan documents on behalf of Issuers, Ginnie Mae and Securities Holders for the life of the pooled mortgages or until its custodial responsibilities are transferred to another document custodian by the Issuer or Ginnie Mae.

Document custodians may be affiliated with Issuers or use "self-custody". For example, under self-custody a commercial bank issues Ginnie Mae MBS and uses its Trust Department as the document custodian. In this situation, the document custodian must meet special requirements listed in the Ginnie Mae Guide.

Ginnie Mae reserves the right to examine every aspect of a high-risk Issuer's performance including the collateral documents. Inadequate or nonexistent quality control of accounting procedures may extend to the loan documents as well. A review of one party can occur as a result of the other party's performance. Factors considered include affiliation between the parties, Issuer's perceived risk level, a high percentage of pools past the recertification due date and rapid portfolio growth. For example, when a mortgage servicing portfolio undergoes rapid expansion, Ginnie Mae wants to be assured that the Issuer and document custodian both maintain a high level of quality performance.

# **EXHIBIT I**

## **CASE STUDIES**



# Ginnie Mae Issuer Training

## Compliance Reviews

### CASE STUDY I

#### Exercise

The following scenario contains errors. Identify these errors and provide the correct answers.

#### Assumptions

Ginnie Mae Issuer, ABC Mortgage Company  
Ginnie Mae I Pools

The morning mail on May 4, 2005, brought several mortgagor loan payments to the Loan Servicing department of ABC Mortgage company. All of these payments were deposited into the collections clearing account that day. On May 7, 2005, the Ginnie Mae Principal and Interest and Taxes and Insurance payments were transferred to the respective custodial accounts. On May 20, 2005, real estate taxes were paid to Arlington County, Virginia. The check was drawn on the Ginnie Mae Taxes and Insurance custodial account to cover all of the loans serviced by ABC located in that county. On May 25, 2005, a loan payoff was processed, which included principal and interest until month end.

On May 31, 2005, ABC cut off for the month – the last business day is their established cutoff date. Before they prepared their Monthly Accounting Reports, they included one additional payoff that they received on June 1, 2005. The accounting reports are not due until June 10, 2005, and they did send corrected forms HUD 11710A and 11710D to Ginnie Mae's agent. The delinquency data listed two loans, one that was one month past due and the other one two months delinquent.

Securities holder checks the following month were mailed on June 16, 2005. ABC withdrew funds from the collections clearing account to cover any shortages. The investor accounting manager, the same person responsible for remitting funds to the Securities Holders, received the May 31, 2005 bank statement for the Principal and Interest custodial account, reflecting a zero ending balance. The manager reviewed the statement and initialed next to the ending balance as indication that the account was reconciled.

# Ginnie Mae Issuer Training

## Compliance Reviews

### CASE STUDY II

#### Exercise

The following scenarios contain errors. Identify these errors and provide the correct answers.

#### Assumptions

ABC Mortgage Company is about to acquire all of the assets and liabilities of XYZ Mortgage Company, including 100 Ginnie Mae pools which XYZ issued and is currently servicing. As a member of the due diligence task force, your assignment is to examine XYZ's delinquent Ginnie Mae pool loans. Among other items, your examination includes Ginnie Mae accounting report, servicing records, and mortgagor loan files.

#### Situation #1

For pool #46999CD, the monthly accounting report for May 2005, listed a total of 10 loans, one of which was reported as "Three + months." The internal servicing records showed 9 current loans and one loan 120 days delinquent. The mortgagor loan history indicated that loan #101 was sent a "notice of default" during the month. That appears to be the only evidence of contact with the mortgagor since the initial loan set up.

#### Situation #2

Loan #201 in pool #46999CD is 14 months past due. The forbearance agreement provides for an increase in the P&I payment from \$500.00 to \$550.00 per month for a term up to 30 months.

#### Situation #3

XYZ received an initial claim check from FHA on May 10, 2005, for loan #401 in pool #46999CD. The proceeds were deposited into the collections clearing account that same day, and transferred to the Ginnie Mae I P&I custodial account the next day. The Issuer used only the funds received from FHA to liquidate the loan from the pool on the June accounting report and remitted funds to the Securities Holders on July 15, 2005.

# Ginnie Mae Issuer Training

## Compliance Reviews

### CASE STUDY III

#### Exercise

The following scenarios contain errors. Identify these errors and provide the correct answers.

#### Assumptions

ABC Mortgage Company had a profitable year. The Board of Directors decided to increase their Ginnie Mae portfolio through another acquisition effective November 2005. This time they will acquire all of the assets and liabilities of the RD Mortgage Company, including the 1,000 Ginnie Mae pools which RD issued and is currently servicing. This will bring ABC's total Ginnie Mae portfolio to 2,000 pools. As with the previous acquisition, your task is to examine RD's Ginnie Mae accounting and servicing records.

#### Situation #1

RD uses a P&I Disbursement Account to remit funds to the Security Holders. You notice that the deposit on July 18, 2005 is the same amount as a withdrawal from the P&I Custodial Account, also the 18<sup>th</sup>. This deposit more than offsets the overdrawn balance in the P&I Disbursement Account on the 15<sup>th</sup>. Since all is in order, you turn your attention to the escrow account.

#### Situation #2

Your analysis of the T&I Custodial Account includes comparing disbursements to cancelled checks for July 2005.

Date	Amount	Payee
7/12/05	\$ 9,168.00	Jones Insurance Company
7/12/05	\$34,697.70	Treasurer, Fairfax County, VA
7/12/05	\$13,009.88	Ginnie Mae fee

Since all of these checks cleared prior to month end, you continue your examination.

CASE STUDY III  
Continued

Situation #3

In comparing the bank account statements to the Letter Agreements, you notice:

- a. The account numbers on the P&I and T&I custodial accounts agree with the Letter Agreements.
- b. The name and location of the bank agrees with the Letter Agreements.
- c. The Letter Agreements are signed and dated May 1, 2004.

Since all of the Letter Agreements are in order, you continue.

Situation #4

The following items appeared on the reconciliation of the P&I custodial account for July 29, 2005:

- |                         |              |                   |
|-------------------------|--------------|-------------------|
| a. Deposit-in-transit   | + 157,126.78 | – cleared 9/2/05  |
| b. Corporate Advance    | - 30,000.00  | – cleared 8/12/05 |
| c. Adj. For loan payoff | + 2,241.77   | – cleared 9/2/05  |

Since all of these items cleared, you continue.

Since ABC Mortgage Company and RD Mortgage Company both had field reviews in 2004, when will ABC receive its next compliance review?

**EXHIBIT II**

**ADVANCE PACKAGE**

November 16, 2005

Ms. Nellie Bluebell  
Senior Vice President  
XYZ Company  
15 Main Street, Suite 600  
Sacramento, CA 95800

Issuer Identification #1602

Dear Ms. Bluebell:

This letter is a follow up to the telephone call regarding the upcoming field review. To confirm our conversation, we plan to perform procedures for a **Type of Review** of the Ginnie Mae mortgage-backed securities and associated internal documents for which your company is a participating Issuer *beginning \_\_\_\_\_ and ending \_\_\_\_\_*.

Please make sure that key officers and employees are aware of our visit so they will be available to meet with and assist our staff. Although part of the sample selections will be made and communicated to you prior to the start of the field review, please note that certain samples will need to be taken during the field review. It is therefore imperative that the documentation requested with this letter be available upon the field review team's arrival. Sufficient workspace to accommodate the files and staff, as well as ready access to a telephone and analog modem hookup, will assist our staff in completing its work expeditiously.

The following pools have been selected for review for the reporting month of *Month of Review*:

Pool#	Pool#	Pool#
Pool#	Pool#	Pool#
Pool#	Pool#	Pool#
Pool#	Pool#	Pool#

The specific tests we will conduct fall into the following categories - Cash Management and Collections and Liquidations. The documentation required for the tests, to be available at the Entrance Conference, is noted below by test category.

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## CASH MANAGEMENT

- ✍ Reconciliation of Mortgage Loan Collateral to Ginnie Mae Securities Outstanding
- ✍ Test of Expected P&I
- ✍ Collections Clearing Account
- ✍ P&I Custodial Account(s) and Reporting
- ✍ Issuer Advances, Excess Funds, and Pool Advance Agreement (if used)
- ✍ P&I Disbursement Account(s) (if used)
- ✍ Payment to Securities Holders
- ✍ T&I Custodial Accounts, Escrow Analyses, and Special Escrow Accounts




### Documentation Required

- 📄 Forms HUD 11710A, 11710D, and 11710B (serial notes, if applicable) for the following months:
  - month tested
  - eleventh month preceding the month tested (Le. if test month is 11/05 the 11<sup>th</sup> month preceding would be 12/04)
  - the month just preceding the month tested
  - the month just subsequent to the month tested
- 📄 Other internal records supporting reported P&I on forms HUD 11710A (i.e. *Ginnie Mae Pool Reconciliation of Principal and Calculation of Minimum Cash Required reports*)
- 📄 Bank statements and reconciliation support for all Ginnie Mae P&I Custodial, P&I Disbursement, T&I Custodial, Collections Clearing, and any other Escrow account related to Ginnie Mae pools for the month tested as well as the months immediately preceding and following the month tested
- 📄 Reserve for Replacement (RFR) bank account statements, if applicable, for the preselected pools (listed on the front page of this letter) plus the two RFR bank accounts with the largest balances, if not already provided as part of the preselected pools, for the month tested, the month subsequent to the test month, and the ten-month period preceding the month tested (plus reconciliation statements for each if not already provided)
- 📄 Forms HUD 11709 and HUD 11720 for each custodial and disbursement account
- 📄 Copies of Pool Advance Agreements (if any, including Schedules A and B)
- 📄 Corporate advance ledger and excess funds ledger for test month with sufficient backup detail to track specific advances, use of excess funds, and recoveries
- 📄 Securities Holders Register (plus internal policies governing updates to the register)
- 📄 Forms HUD 11714 for the preselected pools corresponding to the securities holders payments occurring during the test month (if applicable)
- 📄 Canceled securities holders' checks for remittance associated with test month, or wire transfer log (plus internal policies governing identification and proper handling of undelivered or returned funds)








## COLLECTIONS AND LIQUIDATIONS

-  Delinquency Reporting and Issuer Collection Processes
-  Forbearance Agreements and Bankruptcy Procedures
-  Foreclosure, Deed in Lieu of Foreclosure, and VA Refund Program Procedures
-  Claim Filing and Payment Pass-Through Procedures
-  Loan Liquidation and Reporting
-  Agency Endorsements

### Documentation Required

-  Written procedures governing use of Forbearance Agreements and handling of Bankruptcies
-  Written procedures for handling FHA, VA, RHS Foreclosures and/or Deeds in Lieu (plus any tracking logs associated with these actions)
-  Written procedures for FHA, VA, RHS claims filing and monitoring processes

The team leader, or another member designated by our office, will contact you by phone to provide further instructions of where to submit the following documentation related to Ginnie Mae pools which will be needed at least one week prior to the start of the field review:

-  Mortgage Loan Trial balances for the preselected pools (listed on the first page of this letter) as of the test month cutoff date
-  A list of all delinquent loans (from your entire Ginnie Mae portfolio), as of the test month cutoff date including pool number, loan number, loan type (VAIFHAIRHS), last paid installment date, loan status (foreclosure, forbearance, loss mitigation, and bankruptcy - Chapter 7 and 13 etc.)
-  A list of all loans (from your entire Ginnie Mae portfolio) that have been foreclosed within the last twelve months as of the test month cutoff date, which includes pool number, loan number, and loan type (i.e. FHA, VA, RHS)
-  A list of loans that have been liquidated from the preselected pools (listed on the first page of this letter) within the last twelve months as of the test month cutoff date, which includes pool number, loan number, loan type and removal code
-  A list of all loans (from your entire Ginnie Mae portfolio) that have had a claim outstanding while still in a Ginnie Mae pool in the last twelve months. The listing should include pool number, loan number, and loan type
-  A list of all claims paid and denied (from your entire Ginnie Mae portfolio) in the last twelve months while the loan was still in a Ginnie Mae pool. The listing should include pool number, loan number, and loan type (ie. FHA, VA, RHS)
-  A list of all loans (from your entire Ginnie Mae portfolio) in the past twelve months while still in Ginnie Mae pools at the time a VA Refund, Deed in Lieu, FHA Pre-foreclosure Sale, or VA Compromise was completed

We will make every effort to provide you with a list of our loan selections prior to our review. To do that, we need to receive all of the information requested for each of the loans described above at least one



week before the beginning of the review. For these tests we will also need the applicable loans files, correspondence, and loan histories when our field review team arrives at your offices.

Even if not specified for a given test, your company's written policies and procedures governing your practices will also need to be available for review.

Finally, the enclosed Advance Questionnaire should be completed prior to the beginning of the review and given to the field review team at the Entrance conference. An overview of the field review process is also enclosed. Please share it with your staff.

Should you have any questions about these requests or arrangements, call me at (918) 477-8858. We appreciate your assistance in this review process.

Sincerely,

Deloitte & Touche LLP

Melissa Caperton  
Manager, Field Reviews

Enclosures

## OVERVIEW OF RISK-BASED REVIEW PROCESS

The Issuer and Document Custodian Risk Based Reviews are designed to assure Ginnie Mae that its Issuers and Document Custodians are operating within program standards. The process for determining which Issuer or Document Custodian to review, as well as the level of testing to be performed, is based on risk factors related to performance as measured by data from a variety of sources, including information reported to Ginnie Mae. These reports are supplemented by information added by your Ginnie Mae Account Executive.

The field review process starts with the Entrance Conference. The purpose of the Entrance Conference is to discuss the objectives of the review and to introduce members of the field review team. The Entrance Conference will also give you the opportunity to introduce your staff and to go over any additional logistical items or concerns.

Upon completion of the field review tests, Findings, if any, will be discussed with you at the Closing Conference. You will be asked to sign off on the fact that the Findings were reviewed and explained to you, whether or not you fully agree with them. A Draft Report will be provided to you for the review at the end of the Closing Conference. A Final Report will be provided within thirty days of the Closing Conference. The Final Report will include your comments regarding the Findings, if any, and the status of our Follow-up activities as of the date of the Final Report.

There are three types of Findings. The timetables associated with their resolution follow:

<b>High Risk</b>	<i>To be <u>cleared within 2 business days</u> after the Closing Conference.</i>
<b>Medium Risk</b>	<i>To be cleared within 30 calendar days after the Closing Conference.</i>
<b>Low Risk</b>	<i>To be cleared within 90 calendar days after the Closing Conference.</i>

Your response to the Findings must include a Findings Resolution Plan (FRP) describing steps you have taken to correct the problems that have been identified, as well as the steps that you will take to assure similar Findings will not occur in the future. The FRP must be prepared and submitted within the following timetable:

<b>High Risk</b>	<i>To be <u>submitted within 7 calendar days</u> after the Closing Conference.</i>
<b>Medium Risk</b>	<i>To be submitted within 30 calendar days after the Closing Conference.</i>

**It is important to note that, in order to meet the above timetables, you should begin to clear the Findings and prepare your FRP for submission as soon as you become aware of the Findings.**

Submit the FRP to Deloitte & Touche at the following address:

**David M. Kahrnoff  
Deloitte & Touche  
555 12<sup>th</sup> Street, NW, Suite 500  
Washington, DC 20004**

**Phone: (202) 220-2131  
Fax: (202) 638-7840**

Finally, the timetable for closing out the Findings and the FRPs are also predicated on the type of Finding:

**High Risk**    *No later than 21 calendar days after the Closing Conference*

**Medium Risk** *No later than 45 calendar days after the Closing Conference*

**Low Risk**    *No later than 120 calendar days after the Closing Conference (not required if the Low Risk Finding was non-recurring)*

If you have any questions regarding these procedures, please discuss them with the field review team leader during the Entrance Conference.

## ADVANCE QUESTIONNAIRE

### Management and Operations:

1. Using Form AQ-1, provide the names of officers and senior management of the Company. Indicate yes or no whether the individual has been in the current position for at least two years.
2. If the Issuer has any Single Family Pools, are procedures in place to track compliance with the three delinquency indicators (DQ3+, DQ2+, DQP) as defined in the Ginnie Mae Guide? Explain briefly.
3. If Issuer has any Multifamily Pools, have any calculation of allowances for loss reserves for any multifamily pools changed since submission of the PA (Independent Public Audit)? If so, please provide a copy of the previous and the revised calculations.
4. Does the Issuer maintain procedures to determine the financial integrity of the securities dealers, brokers and investors with whom business is conducted, including reviewing financial statements, obtaining business references and all other requirements in the Ginnie Mae Mortgage-Backed Securities Guide?
5. Do internal management controls exist to ensure coordination of delayed delivery contract activities, controls on the Issuer's market positions, and the competence and integrity of staff in accordance with the Ginnie Mae Mortgage- Backed Securities Guide?
6. If Issuer uses a Subservicer to assist in servicing its Ginnie Mae pools, complete Form AQ-2 for each Subservicer. Please provide a copy of the related form HUD-11707, Master Servicing Agreement, for each subservicer used.
7. Complete Form AQ-3 for any related or affiliated Ginnie Mae Issuers. If a Cross-Default Agreement is in effect, please provide a copy of the executed agreement.

## ADVANCE QUESTIONNAIRE

8. Has ownership status of Issuer changed (i.e., merged or acquired) since IPAs were provided?
- If so, is the other party a Ginnie Mae Issuer?
  - If you acquired or merged in another entity, list name of acquired entity, its ID numbers, and pool numbers.
    - List by pool number the current certification status of each of these pools.
    - Note which pools are past certification or recertification deadlines.
  - If you were acquired or merged, provide name and address of new entity and phone number and name of contact point for new entity.
  - Provide the number of pools by which the portfolio has increased, both in absolute and percent terms by means of merger or acquisition.
  - Provide the number of pools by which the portfolio has decreased, both in absolute and percent terms by means of merger or acquisition.
  - If the primary regulator has changed, provide the name of the new regulator.
9. Has Issuer's portfolio (number of pools) increased or decreased since last IPA (Independent Public Audit) report by means other than a merger or acquisition (i.e., pools acquired/sold)?
- If yes, provide the number of pools acquired/sold and associated percentages by pool numbers.
  - List by pool number the pools past due on (re)certification deadlines, how many months past due, and the Document Custodian ID number.
  - Provide an updated listing of the pools added or sold.
10. Has the financial condition of the Issuer changed materially since the last IPA?
- If so, in what way and attributable to what events?
  - Does Issuer still meet primary regulator's minimum capital requirements? If not, provide amount of capital deficiency, name of regulator and date of notice.

## ADVANCE QUESTIONNAIRE

11. Describe the status of any other material adverse changes in the Issuer's financial position or operations since last IPA, such as:
  - Loss of Fannie Mae servicing or approval?
  - Loss of Freddie Mac servicing or approval?
  - Loss of FHA-approved Mortgagee in good standing?
  - Probationary action by:
    - FHA
    - VA
    - Fannie Mae
    - Freddie Mac
    - RHS
    - Primary regulator
    - Other investors
12. Does an IPA perform on your behalf an annual compliance audit on site of your Document Custodian(s) in accordance with IG 2000.4?
13. Using form AQ-4, list ID number and name of all Document Custodians. If Issuer is directly or indirectly affiliated with an institution acting as its Document Custodian, also list the relation to Issuer of the institution.
14. Please provide a copy of your most recent IPA reports, including all supplement reports, in accordance with Appendix IX-1 of the Ginnie Mae Guide.
15. Please provide documentation for any findings from the prior review that were referred to Ginnie Mae, confirming that the finding(s) has been cleared. The documentation should include (1) an explanation on how the finding(s) was resolved, (2) the backup showing the item(s) cleared and (3) the procedures that have been put in place to prevent reoccurrence.

## ADVANCE QUESTIONNAIRE

### Cash Management:

1. Are all Ginnie Mae related bank account reconciliations *prepared* by persons not involved in cash disbursement or cash receipt functions?
2. Are all bank account reconciliations *reviewed* by persons not involved in cash disbursement or cash receipt functions?
3. Provide a copy of your internal written policy which establishes requirements for Issuer's staff to make a reasonable effort to locate security holders with checks outstanding for more than 3 months.
4. For each Custodial bank account transferred during the last year, from one institution to another or consolidated within the same institution, provide copy of Ginnie Mae's approval letter.
5. Complete Form AQ-5 indicating Institutions holding Ginnie Mae related P&I Custodial and P&I Disbursement funds.
6. Complete Form AQ-6 indicating Institutions holding Ginnie Mae related T&I Custodial and Other Escrow funds.
7. Complete Form AQ-7 indicating Institutions used for Payment Clearing and Lockbox processing of all Ginnie Mae related funds.

### Data Management

1. Complete Form AQ-8 if data processing is done "in-house", OR
2. Complete Form AQ-9 if a Service Bureau provides data processing.





**GINNIE MAE**  
**ADVANCE QUESTIONNAIRE FORM AQ-1**  
**ISSUER PORTFOLIO INFORMATION**  
**LISTING OF KEY OFFICERS**

ISSUER NAME: \_\_\_\_\_

ISSUER NUMBER: \_\_\_\_\_

DATE PREPARED: \_\_\_\_\_

List the officers for the Issuer as of the date prepared for the titles listed below. Answer yes or no for individual being in the position for at least two years.

YES/NO	NAME:	TITLE:
_____	_____	Chairman of the Board
_____	_____	President
_____	_____	Chief Financial Officer *
_____	_____	Controller/Treasurer *
_____	_____	Senior Ginnie Mae Marketing Officer
_____	_____	Senior Loan Production Officer
_____	_____	Loan Administration or Servicing Manager (Senior loan servicing officer) *
_____	_____	Investor Accounting Manager *
_____	_____	Foreclosure Manager *
_____	_____	Bankruptcy Manager *
_____	_____	Collections Manager *
_____	_____	Customer Service Manager *
_____	_____	Escrow Service Manager *
_____	_____	REO Manager *
_____	_____	Payoffs/Assumptions Manager *

\* If individual has been in position less than two years, note the reason for the turnover.



**GINNIE MAE**  
**ADVANCE QUESTIONNAIRE FORM AQ-2**  
**SUBSERVICERS USED BY ISSUER**

ISSUER NAME: \_\_\_\_\_

ISSUER NUMBER: \_\_\_\_\_

DATE PREAPRED: \_\_\_\_\_

All Subservicers that the Issuer uses to service its Ginnie Mae portfolio should be listed. Please provide a copy of the related Form HUD 11707, Servicing Agreement, for each Issuer listed below.

NOTE: In the cross-default agreement column, note "yes" to indicate that a cross-default agreement has been executed with Ginnie Mae between the Subservicer and the issuer being tested. If a cross-default agreement is not in force, note with a "no." If a cross-default agreement is in effect, please provide a copy of the agreement to the field team.

GINNIE MAE ISSUER NUMBER	NAME OF SUBSERVICER	ADDRESS OF SUBSERVICER	NUMBER OF GINNIE MAE POOLS SUBSERVICED FOR ISSUER	CONTACT PERSON	TELEPHONE NUMBER	RELATIONSHIP OR AFFILIATION WITH ISSUER, IF ANY	CROSS DEFAULT AGREEMENT (YES/NO)



**GINNIE MAE**  
**ADVANCE QUESTIONNAIRE FORM AQ-3**  
**RELATED OR AFFILIATED GINNIE MAE ISSUERS**

ISSUER NAME: \_\_\_\_\_

ISSUER NUMBER: \_\_\_\_\_

DATE PREPARED: \_\_\_\_\_

This schedule should be completed by the Issuer as of the date prepared. List below all Ginnie Mae Issuer(s) that are related or affiliated to the identified Ginnie Mae Issuer number being tested.

If a cross - default agreement is in effect, please provide copy of the agreement. In the cross - default agreement column, note "yes" to indicate that a cross - default agreement has been properly executed with Ginnie Mae between the related or affiliated Issuer and the Issuer being tested. If a cross - default agreement is not in force, note a "no".

GINNIE MAE ISSUER NUMBER	NAME OF RELATED OR AFFILIATED ISSUER	ADDRESS OF RELATED OR AFFILIATED ISSUER	CONTACT PERSON	TELEPHONE NUMBER	RELATIONSHIP OR AFFILIATION WITH ISSUER, IF ANY	CROSS-DEFAULT AGREEMENT (Yes/No)

List below all Ginnie Mae pools, belonging to the Related or Affiliated Issuer(s) listed above, that your servicing personnel and/ or loan administration functions perform services:

Issuer ID #	# of Pools	Pool Number
_____	_____	_____
_____	_____	_____
_____	_____	_____



# GINNIE MAE

## ADVANCE QUESTIONNAIRE FORM AQ-4

### P&I CUSTODIAL BANK ARRANGEMENTS

#### INQUIRIES REGARDING DIRECT OR INDIRECT AFFILIATE RELATIONSHIPS BETWEEN THE ISSUER AND ITS BANKING ENTITIES

ISSUER NAME: \_\_\_\_\_

ISSUER NUMBER: \_\_\_\_\_

DATE PREPARED: \_\_\_\_\_

BANK NAME	BANK LOCATION	TYPE OF RELATIONSHIP		
		IS THE ISSUER AND THE FINANCIAL INSTITUTION UNDER COMMON OWNERSHIP?	DOES THE ISSUER AND THE FINANCIAL INSTITUTION HAVE COMMON DIRECTORS?	DOES THE ISSUER AND THE FINANCIAL INSTITUTION HAVE SHARED MANAGEMENT?
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____

Note To Issuer:

List the banks that the Issuer uses for Ginnie Mae P&I custodial funds and note whether the relationships described exist. This schedule should reflect current information and be completed by the Issuer prior to the review date.





# GINNIE MAE

## ADVANCE QUESTIONNAIRE FORM AQ-5

### T&I CUSTODIAL BANK ARRANGEMENTS

#### INQUIRIES REGARDING DIRECT OR INDIRECT AFFILIATE RELATIONSHIPS BETWEEN THE ISSUER AND ITS BANKING ENTITIES

ISSUER NAME: \_\_\_\_\_

ISSUER NUMBER: \_\_\_\_\_

DATE PREPARED: \_\_\_\_\_

BANK NAME	BANK LOCATION	TYPE OF RELATIONSHIP		
		IS THE ISSUER AND THE FINANCIAL INSTITUTION UNDER COMMON OWNERSHIP?	DOES THE ISSUER AND THE FINANCIAL INSTITUTION HAVE COMMON DIRECTORS?	DOES THE ISSUER AND THE FINANCIAL INSTITUTION HAVE SHARED MANAGEMENT?
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____
		Yes____ No____	Yes____ No____	Yes____ No____

Note To Issuer:

List the banks that the Issuer uses for Ginnie Mae T&I custodial funds and note whether the relationships described exist. This schedule should reflect current information and be completed by the Issuer prior to the review date.



**GINNIE MAE**  
**ADVANCE QUESTIONNAIRE FORM AQ-6**  
**IN-HOUSE SYSTEM**

ISSUER NAME: \_\_\_\_\_

ISSUER NUMBER: \_\_\_\_\_

DATE PREPARED: \_\_\_\_\_

NOTE "N/A" ON THIS SCHEDULE IF AN IN-HOUSE SYSTEM IS NOT USED FOR GINNIE MAE POOL SERVICING.

COMPLETE THE FOLLOWING IF GINNIE MAE POOL SERVICING IS DONE IN-HOUSE	
INQUIRY	DESCRIPTION
ORGANIZATION:	
1) Data Processing contact name	1)
2) Installation address	2)
3) Number of staff in Data Processing department	3)
HARDWARE:	
4) Computer manufacturer and model	4)
Magnetic storage media (Circle yes or no):	
5) Magnetic tape      yes    no	N/A
6) Magnetic disk      yes    no	N/A
7) Diskettes            yes    no	N/A
8) Other                yes    no	N/A
SOFTWARE:	
9) Operating system	9)
10) Communications software	10)
11) Major programming language	11)
12) Inquiry/report writer packages available	12)

\_\_\_\_\_  
ISSUER REPRESENTATIVE SIGNATURE

\_\_\_\_\_  
TITLE

\_\_\_\_\_  
DATE



**GINNIE MAE**  
**ADVANCE QUESTIONNAIRE FORM AQ-7**  
**SERVICE BUREAU**

ISSUER NAME: \_\_\_\_\_

ISSUER NUMBER: \_\_\_\_\_

DATE PREPARED: \_\_\_\_\_

COMPLETE THE FOLLOWING IF GINNIE MAE POOL SERVICING IS DONE BY A SERVICE BUREAU.

INQUIRY	DESCRIPTION
1) Name and address of service bureau	1) _____ _____ _____
2) Number of years the service bureau has been used?	2) _____
3) Is a third party report on the computer service bureau provided to the Issuer?	3)    Yes            No
4) If a third party report is provided, is the report reviewed by the Issuer?	4)    Yes            No            N/A

\_\_\_\_\_  
 ISSUER REPRESENTATIVE SIGNATURE

\_\_\_\_\_  
 DATE

\_\_\_\_\_  
 TITLE



**EXHIBIT III**

**CLOSING**  
**CONFERENCE PACKAGE**

June 2, 2005

Ms. Nellie Bluebell  
Senior Vice President  
XYZ Company  
15 Main Street, Suite 600  
Sacramento, CA 95800

Re: Ginnie Mae ID# 1602

Dear Ms. Bluebell:

During the period from May 30, 2005 through June 2, 2005, we performed a Basic Review of the Ginnie Mae portfolio serviced by your organization. The compliance criteria for participants in Ginnie Mae's Mortgage-Backed Securities Program are set forth in the Ginnie Mae Guide, 5500.3 as amended. Our procedures were performed in accordance with our contract with Ginnie Mae, which incorporates by reference Ginnie Mae's Issuer and Document Custodian Risk Based Review Procedures.

On June 2, 2005, the results of that Review were discussed at a Closing Conference with you. You signed the attached Findings indicating acknowledgment of the exceptions. These Findings are presented in the following categories:

Category

High Risk

Medium Risk

Low Risk



A summary of the Findings is as follows:

### High Risk

**# 1 of 1 MBSIS Code 150030** Unresolved reconciling items appear in three consecutive bank reconciliations for P&I Custodial Account.

The January, February and March, 2005 reconciliations of the P&I custodial account #0611310061 contain an unresolved reconciling item of (\$1,602.63) dated 12/30/2004.

### Medium Risk

None

### Low Risk

None

As discussed in the Closing Conference, you should clear the Findings in accordance with the following schedule, measured from the date of the Closing Conference:

<u>Category</u>	<u>Cleared</u>
High Risk	48 hours (2 business days)
Medium Risk	30 calendar days
Low Risk	90 calendar days

In addition, at the Closing Conference, you were informed that your Findings Resolutions Plan (FRP) should be developed and submitted to Deloitte & Touche in Washington, DC with the goal of receiving approval of the FRP in accordance with the following schedule, measured in calendar days from the date of the Closing Conference:

<u>Category</u>	<u>FRP Submitted</u>	<u>Close-out</u>
High Risk	7 days (a)	21 days (a)
Medium Risk	30 days	45 days
Low Risk	90 days (b)	120 days (b)

(a) You must take immediate action to clear High Risk Findings, as soon as possible, without waiting for the Final Report to be issued. Note that in your submission of the FRP for any High Risk Findings, you should provide documentation confirming that each High Risk Finding has been cleared. This will be reviewed as part of the Close-out of all of the High Risk Findings.

(b) An FRP is required for a Low Risk Finding only if it is a recurring Finding, that is, listed in the previous review.

You are required to clear all Findings by correcting the problem (if the circumstances are such that it can be corrected) and taking action to assure that the situation will not occur again. Your

FRP should describe the actions that you have taken and include copies of any new procedures that have been implemented.

On each FRP, as well as in any correspondence to Deloitte & Touche, please include your Ginnie Mae Issuer Identification Number. All correspondence should be sent to:

David Kahrnoff  
Deloitte & Touche  
555 12<sup>th</sup> Street, NW  
Suite 500  
Washington, DC 20004

Phone: (202) 220-2131  
Fax: (202) 638-7840

This report is intended solely for the information and use of Ginnie Mae and your organization and should not be used for any other purpose.

Very truly yours,

Deloitte & Touche

By \_\_\_\_\_

Attachment(s)

cc: Mr. Jon McClain, Investor Accounting Manager  
Mr. John Kozak, Ginnie Mae (w/o attachments)

## GINNIE MAE FIELD REVIEW FINDINGS

<b>Ginnie Mae ID #:</b> 1602	<b>On Site Team Leader:</b> Melissa Caperton
<b>Issuer/Document Custodian Name:</b> XYZ Mortgage Company	<b>On Site Staff:</b> Julie Reinke
<b>Field Work Start Date:</b> 5/30/05	<b>D&amp;T Office or Subcontractor:</b> Deloitte & Touche LLP
<b>Exit Conference Date:</b> 6/2/05	<b>Review Manager:</b> Maribel Pagan

<b>Finding's Number:</b> # 1 OF 1			
<b>MBSIS Code</b>	<b>*Category</b>	<b>Workpaper Reference</b>	<b>Description of Finding</b>
150030	High Risk	IS/CM-4	Unresolved reconciling items appear in three consecutive bank reconciliations for P&I Custodial Account
<b>Detail of Finding</b>			
The January, February and March, 2005 reconciliations of the P&I custodial account #0611310061 contain an unresolved reconciling item of (\$1,602.63) dated 12/30/2004.			

*\*High Risk - Medium Risk - Low Risk*

*Issuer Representative must note one of the following:*

**Agree with finding**

**Name of Issuer Representative**

**Agree with finding, with conditions**

(Print) Nellie Bluebell

**Disagree with finding\*\***

Signed: Nellie Bluebell

\*\*Provide documentation

Date: 6/2/05

*By signing, Issuer Representative acknowledges receipt of a copy of this form and that the findings, as well as the applicable time frames for clearing each finding, were discussed.*

**EXHIBIT IV**

**FINAL REPORT/  
APPROVAL LETTER**

June 30, 2005 as of  
June 2, 2005

Ms. Nellie Bluebell  
Senior Vice President  
XYZ Company  
15 Main Street, Suite 600  
Sacramento, CA 95800

Re: Ginnie Mae ID# 1602

Dear Ms. Bluebell:

During the period from May 30, 2005 through June 2, 2005, we performed a Basic Review of the Ginnie Mae portfolio serviced by your organization. The compliance criteria for participants in Ginnie Mae's Mortgage-Backed Securities Program are set forth in the Ginnie Mae Guide 5500.3, as amended. Our procedures were performed in accordance with our contract with Ginnie Mae, which incorporates by reference Ginnie Mae's Issuer and Document Custodian Risk Based Review Procedures.

On June 2, 2005, the results of that Review were discussed at a Closing Conference with you. You signed the attached Findings indicating acknowledgment of the exceptions. These Findings are presented in the following categories:

Category

High Risk

Medium Risk

Low Risk

A summary of the Findings is as follows:

### High Risk

**# 1 of 1 MBSIS Code 150030** Unresolved reconciling items appear in three consecutive bank reconciliations for P&I Custodial Account.

The January, February and March, 2005 reconciliations of the P&I custodial account #0611310061 contain an unresolved reconciling item of (\$1,602.63) dated 12/30/2004.

### Medium Risk

None

### Low Risk

None

As discussed in the Closing Conference, you should clear the Findings in accordance with the following schedule, measured from the date of the Closing Conference:

<u>Category</u>	<u>Cleared</u>
High Risk	48 hours (2 business days)
Medium Risk	30 calendar days
Low Risk	90 calendar days

In addition, at the Closing Conference, you were informed that your Findings Resolutions Plan (FRP) should be developed and submitted to Deloitte & Touche in Washington, DC with the goal of receiving approval of the FRP in accordance with the following schedule, measured in calendar days from the date of the Closing Conference:

<u>Category</u>	<u>FRP Submitted</u>	<u>Close-out</u>
High Risk	7 days (a)	21 days (a)
Medium Risk	30 days	45 days
Low Risk	90 days (b)	120 days (b)

(a) You must take immediate action to clear High Risk Findings, as soon as possible, without waiting for the Final Report to be issued. Note that in your submission of the FRP for any High Risk Findings, you should provide documentation confirming that each High Risk Finding has been cleared. This will be reviewed as part of the Close-out of all of the High Risk Findings.

(b) An FRP is required for a Low Risk Finding only if it is a recurring Finding, that is, listed in the previous review.

You are required to clear all Findings by correcting the problem (if the circumstances are such that it can be corrected) and taking action to assure that the situation will not occur again. Your

FRP should describe the actions that you have taken and include copies of any new procedures that have been implemented.

On each FRP, as well as in any correspondence to Deloitte & Touche, please include your Ginnie Mae Issuer Identification Number. All correspondence should be sent to:

David Kahrnoff  
Deloitte & Touche  
555 12<sup>th</sup> Street, NW  
Suite 500  
Washington, DC 20004

Phone: (202) 220-2131  
Fax: (202) 638-7840

This report is intended solely for the information and use of Ginnie Mae and your organization and should not be used for any other purpose.

**Follow-up note dated as of June 30, 2005:**

**We have received your response enclosing a Findings Resolutions Plan (FRP) covering the High Risk Finding. The FRP indicates that the finding has been cleared and that procedures are now in place to avoid reoccurrence. We have requested that you send us the procedures that have been put into place to avoid the reoccurrence of the High Risk Finding. We need this information to complete our review of your FRP.**

**We appreciate your assistance in resolving the Findings.**

Very truly yours,

Deloitte & Touche

David M. Kahrnoff  
Director

Attachment(s)

cc: Mr. Jon McClain, Investor Accounting Manager  
Mr. John Kozak, Ginnie Mae

July 26, 2005

Ms. Nellie Bluebell  
Senior Vice President  
XYZ Company  
15 Main Street, Suite 600  
Sacramento, CA 95800

Re: Ginnie Mae ID# 1602

Dear Ms. Bluebell:

During the period from May 30, 2005 through June 2, 2005, we performed a Basic Review of the Ginnie Mae portfolio serviced by your organization. The Findings raised during that Review were listed in the Final Report that we issued to you on June 30, 2005. You have submitted a Findings Resolutions Plan (FRP) with respect to those Findings.

Pursuant to the follow-up requirements of the Ginnie Mae Issuer and Document Custodian Risk Based Review Procedures, we have reviewed the FRP to determine its appropriateness in dealing with those Findings. To be acceptable, the FRP proposed by XYZ Mortgage Company (the "Participant") must, as stated in those Procedures, "detail how the Participant will modify its processes both to correct the problem, if the circumstance is of a nature which will allow for the correction of prior occurrence, and to assure (*as defined by Ginnie Mae*) that the situation referenced in the FRP will not occur again".

Based on that criterion, your FRP submitted in connection with our Second Quarter, 2005 review of the Ginnie Mae portfolio serviced by your organization has been approved.

The FRP indicates that the High Risk Finding has been cleared in accordance with the requirements of the Ginnie Mae Issuer and Document Custodian Risk Based Review Procedures.

We appreciate your assistance in resolving the Finding.

Very truly yours,

Deloitte & Touche

David M. Kahrnoff  
Director

cc: Mr. Jon McClain, Investor Accounting Manager  
Mr. John Kozak, Ginnie Mae



**EXHIBIT V**

**FINDINGS ISSUED  
BY TEST**

## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- **Reconciliation of mortgage collateral**

- 11 M Differences between pool balances and underlying mortgage balances are more than \$1.00 per loan or \$50.00 per pool
- 2 M Insufficient information available to determine whether differences between pool balances and underlying mortgage balances are within Ginnie Mae's allowable tolerance levels

## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- **Test of expected P&I**

- 13 L The recalculation of the service fee does not agree with the 11710A
- 10 L The 11710A does not contain correct information
- 9 M Issuer did not timely fund shortfalls identified in the Test of Expected P&I
- 7 M The Fixed Installment Control per the Issuer's form HUD 11710A does not agree with the internal servicing records
- 6 M Test of expected P&I not computed accurately

## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- **Collection clearing accounts**

- 22 M Bank statements show overdraft(s) in the Collection Clearing account(s)
- 18 M Collections Clearing account is not styled as a Trusteed or Custodial account
- 8 N Collections clearing accounts reconciliations were not signed
- 8 M Unresolved reconciling items relating to Ginnie Mae funds appear in three consecutive bank reconciliations for Collections Clearing Account
- 6 H P&I and T&I funds were not transferred within one business day of receipt from collections clearing accounts to custodial bank account
- 6 H Bank reconciliations not prepared for Collections Clearing account(s)

## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- **P&I custodial accounts**

- 16 H Unresolved reconciling items appear in three consecutive bank reconciliations for P&I account.
- 14 H Bank statements show overdrafts in P&I custodial account.
- 12 L If HUD form 11709 is not current, Issuer has not provided written certification that information submitted to Ginnie Mae on HUD form 11709 for the P&I custodial account(s) has not changed.
- 12 M Issuer's pool bank reconciliation does not agree with Issuer's internal servicing records for P&I accounts.
- 5 L Insufficient documentation to determine if P&I custodial account reconciliations completed timely.
- 5 L P&I custodial accounts were not reconciled timely.

## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- **Corporate advances**
- 7 H P&I bank account(s) did not have sufficient funds on deposit at the ACH debit date and/or negotiable date of security holders remittances, and the corporate advance(s) was not made as required
- 5 M Insufficient information available to determine whether Excess Funds were returned to the P&I custodial account before corporate advances were recovered by either the Issuer or the Financial Institution advancing under Pool Advance Agreements
- 2 H Issuer had sufficient funds in P&I, custodial and/or disbursement account(s) on negotiable date of security holders remittances, however transfer of all needed funds to the P&I disbursement account was made after negotiable date of checks or electronic transfer
- 2 M Insufficient information available to determine whether corporate advance ledger recoveries are in excess of advances for P&I bank account(s)

## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- **P&I Disbursement accounts**
- 4 H Overdrafts were reported in the bank statements of the P&I disbursement bank accounts
- 3 M P&I Disbursement Accounts contained funds relating to undelivered securities holders checks over six months old
- 3 L If HUD form 11709 is not current, Issuer has not provided written certification that information submitted to Ginnie Mae on HUD form 11709 for the P&I disbursement account(s) has not changed
- 2 H Account title on bank resolution or signature card does not agree with form HUD 11709 for the P&I Disbursement

## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- **T&I custodial accounts**

- 20 M T&I funds reported on HUD Form 11710D do not agree with Issuer's internal servicing records nor the ending balance of T&I reconciliation.
- 13 H Unresolved reconciling items or adjustment entries appeared in three consecutive bank reconciliations for escrow account(s).
- 12 L If HUD form 11720 is not current, Issuer has not provided written certification that information submitted to Ginnie Mae on HUD form 11720 for the T&I escrow account(s) has not changed.
- 8 L T & I reconciliations were not timely prepared.
- 7 H Account title on bank resolution or signature card does not agree with form HUD 11720 for the T&I Custodial account(s).
- 4 M Complete information was not provided for T&I Custodial accounts therefore preventing the completion of compliance procedures.
- 3 H Bank reconciliations were not prepared for T&I Custodial account(s).

## COMPLIANCE REVIEWS

### CASH MANAGEMENT

- **Special escrow accounts**

- 4 L If form HUD 11720 is not current, Issuer has not provided written certification that information submitted to Ginnie Mae on form HUD 11720 for the special escrow account(s) has not changed
- 3 H Ginnie Mae custodial funds were found in the corporate (non-lettered) bank account(s)
- 2 H Unresolved reconciling items or adjusting entries appear in three consecutive bank reconciliations for escrow account(s)
- 2 H Buydown custodial account(s) not styled per Ginnie Mae requirements

## COMPLIANCE REVIEWS PAYMENTS TO SECURITIES HOLDERS

### Findings

- 1 H Amount of investor payments was not calculated correctly
- 1 H Total cash distribution due security holders, per form HUD 11710A, did not agree with amounts per forms HUD 11714
- 1 M Security holders register or alternate documentation did not include all required information

## COMPLIANCE REVIEWS COLLECTIONS AND LIQUIDATIONS

### • Delinquency reporting and Issuer collections

- 4 M Loan(s) more than six (6) months delinquent had not been referred to a foreclosure attorney
- 3 H Delinquent loan(s) found which are ineligible for Agency benefits that have not been repurchased from the pool(s)
- 3 L The number of delinquent loans reported on 11710D does not agree with the internal servicing records by less than 5%
- 3 L Insufficient documentation provided to determine whether the required actions regarding the delinquency were handled within the required time frames
- 3 L Information on the MIC/LGC/LNG does not agree with internal records
- 1 H Evidence of endorsement and all the requested documents (executed mortgage, title policy or title commitment, and appraisal) for delinquent loans originated less than two years earlier were not provided
- 1 M Loan file missing

## COMPLIANCE REVIEWS COLLECTIONS AND LIQUIDATIONS

- **Delinquency reporting and Issuer collections - cont.**
- 1 M The number of delinquent loans reported on form 11710D does not agree with the internal servicing records by 5% or more
- 1 M Issuer unable to produce delinquency reports as of the cutoff date as reported on form HUD 11710D
- 1 M For delinquent loans that have been referred to foreclosure, the process has exceeded FHA's allotted time requirement for that state and no extensions have been requested or granted
- 1 L Required notices and/or actions regarding the delinquency were not handled within the required time frames

## COMPLIANCE REVIEWS COLLECTIONS AND LIQUIDATIONS

- **Delinquency reporting and Issuer collections**
- 4 M Loan(s) more than six (6) months delinquent had not been referred to a foreclosure attorney
- 3 H Delinquent loan(s) found which are ineligible for Agency benefits that have not been repurchased from the pool(s)
- 3 L The number of delinquent loans reported on 11710D does not agree with the internal servicing records by less than 5%
- 3 L Insufficient documentation provided to determine whether the required actions regarding the delinquency were handled within the required time frames
- 3 L Information on the MIC/LGC/LNG does not agree with internal records
- 1 H Evidence of endorsement and all the requested documents (executed mortgage, title policy or title commitment, and appraisal) for delinquent loans originated less than two years earlier were not provided
- 1 M Loan file missing

## COMPLIANCE REVIEWS COLLECTIONS AND LIQUIDATIONS

- **Liquidations**

- 22 M Loan(s) found where the liquidation code used was not correct on HUD Form 11710E
- 7 H Loan(s) found where funds to liquidate the loan were not deposited in the P&I custodial account(s) within one business day of receipt
- 5 H Loan(s) found where P&I shortfalls were not fully funded when the loan(s) were liquidated from the security
- 3 H Loan(s) found where corporate funds to repurchase the loan from the pool were not deposited in the appropriate P&I custodial account(s) within one business day
- 5 H Insufficient information available to determine whether funds to liquidate the loan were deposited in the P&I custodial account(s) within one business day of receipt

## COMPLIANCE REVIEWS COLLECTIONS AND LIQUIDATIONS

- **Loan Endorsements**

- 50 M Loan(s) found in pool(s) which do not match FHA endorsement database
- 45 M Loan(s) found in pool(s) which have incorrect case numbers reported to Ginnie Mae
- 8 H Evidence of endorsement/guaranty and all requested documents (recorded mortgage, title policy, and assignment) were not provided for selected loans in pools issued longer than six months
- 5 H Loan(s) found which are ineligible for Agency benefits that have not been repurchased from the pool(s)
- 3 H Loan(s) found in pools issued more than three years previously not endorsed for insurance/guaranty, which have not been repurchased from the pool