

Single Family Issuer Training Compliance Reviews



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

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

VALUE OF COMPLIANCE REVIEWS

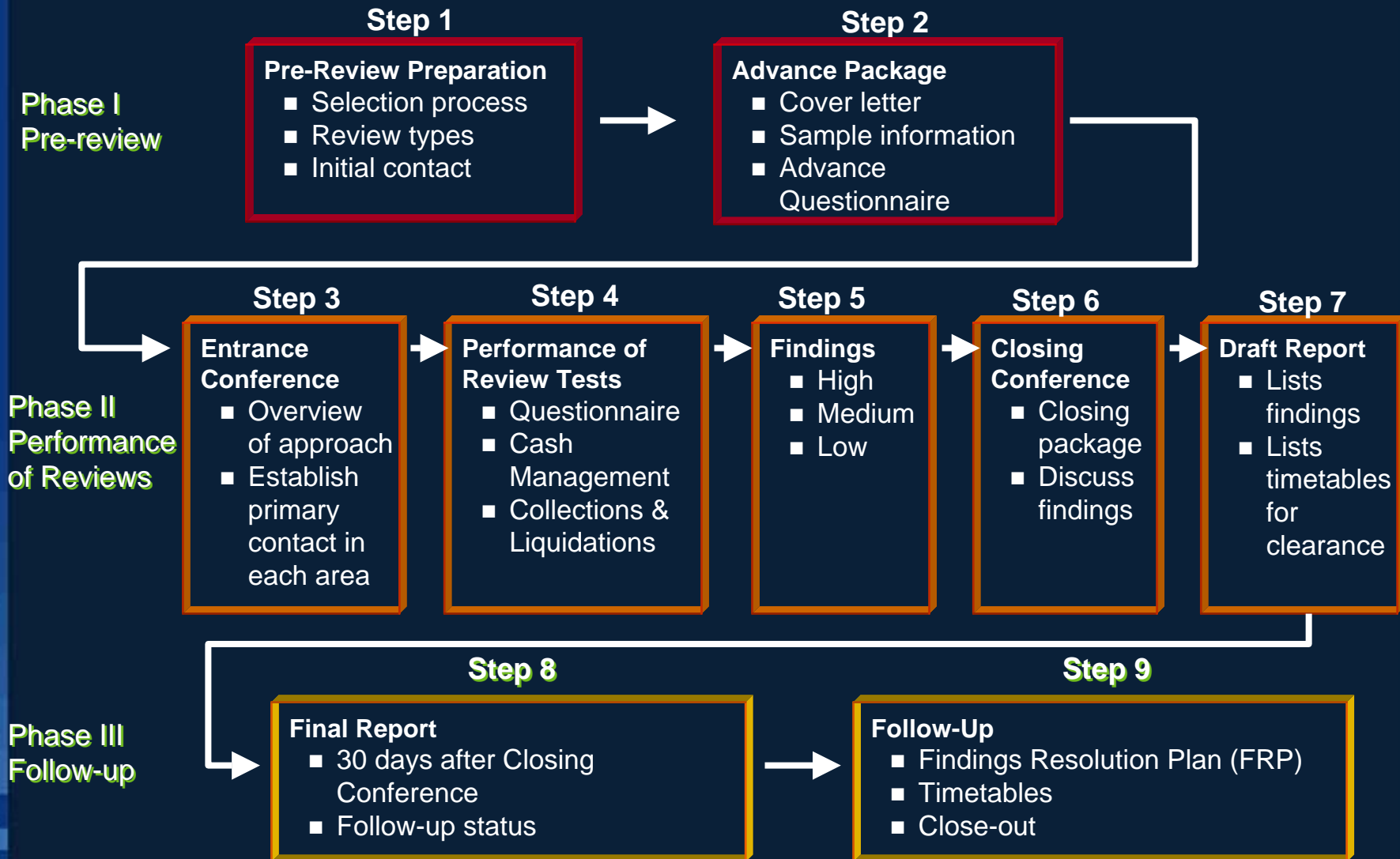
- Reduces overall program risk
- Reinforces policy interpretations
- Improves long term program compliance
- Provides knowledge transfer to Issuer personnel
- Promotes uniformity of mortgage servicing
- Maintains market confidence

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

Compliance Review Process Map



COMPLIANCE REVIEWS

SELECTION PROCESS

Phase I - Step 1

Whom to review?

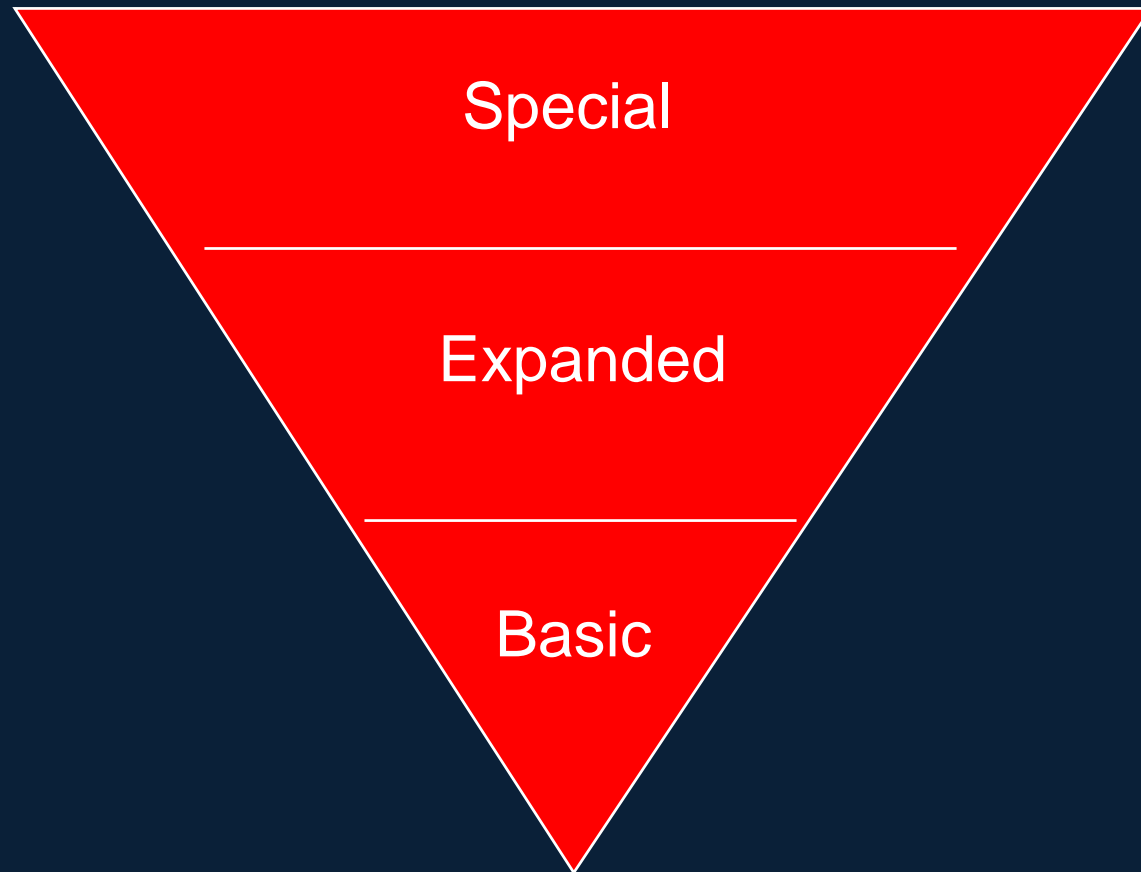
- Review at least every three years
- Previous review findings
- Portfolio performance
 - High delinquencies
 - Rapid Growth
- Management changes
- IPA findings
- Referral by Ginnie Mae Account Executive

COMPLIANCE REVIEWS

REVIEW TYPES

Phase I – Step 1

What Type of Review?



INCREASING

SAMPLE SIZE

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

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.

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

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

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)

COMPLIANCE REVIEWS

FREQUENT FINDINGS

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

Frequency
of Finding

Description of Finding

- | | |
|----|---|
| 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

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COMPLIANCE REVIEWS

FREQUENT FINDINGS

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

Frequency of Finding

Description of Finding

- 6 Multifamily interest-bearing account is not styled per Ginnie Mae requirements.
- 5 Reserve for Replacement account is not styled per Ginnie Mae requirements.
- 5 Unresolved reconciling items or adjusting entries appear in three consecutive bank reconciliations for escrow account(s).
- 4 No Form HUD 11720 exists for Reserve for Replacement account(s).
- 4 Bank reconciliations not prepared for Reserve for Replacement account(s).
- 2 Ginnie Mae custodial funds were found in the corporate (non-lettered) bank accounts.

COMPLIANCE REVIEWS

FREQUENT FINDINGS

Frequency of Medium Risk - **Multifamily Only** 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>
3	Multiple projects and multiple escrow types in a single lettered account.
2	Interest income was not properly credited to mortgagor.
1	Multiple escrow accounts indicated on a single HUD form 11720.

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

**GINNIE MAE
FIELD REVIEW FINDINGS**

Ginnie Mae ID #: 9999	On Site Team Leader: Melissa Caperton
Issuer/Document Custodian Name: XYZ Mortgage Company	On Site Staff: Becky Salas
Field Work Start Date: 2/7/05	D&T Office or Subcontractor: Deloitte & Touche LLP
Exit Conference Date: 2/10/05	Review Manager: Maribel Pagan

Finding's Number:
1 OF # 6

MBSIS Code	*Category	Workpaper Reference	Description of Finding
400428	High Risk	0	Findings from a previous review that were cleared have reoccurred.

Detail of Finding

Finding #400046 was issued and cleared in the previous review and has reoccurred in the current review.

****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) _____

Disagree with finding**

Signed: _____

****Provide documentation**

Date: _____

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.

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

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

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)

COMPLIANCE REVIEWS

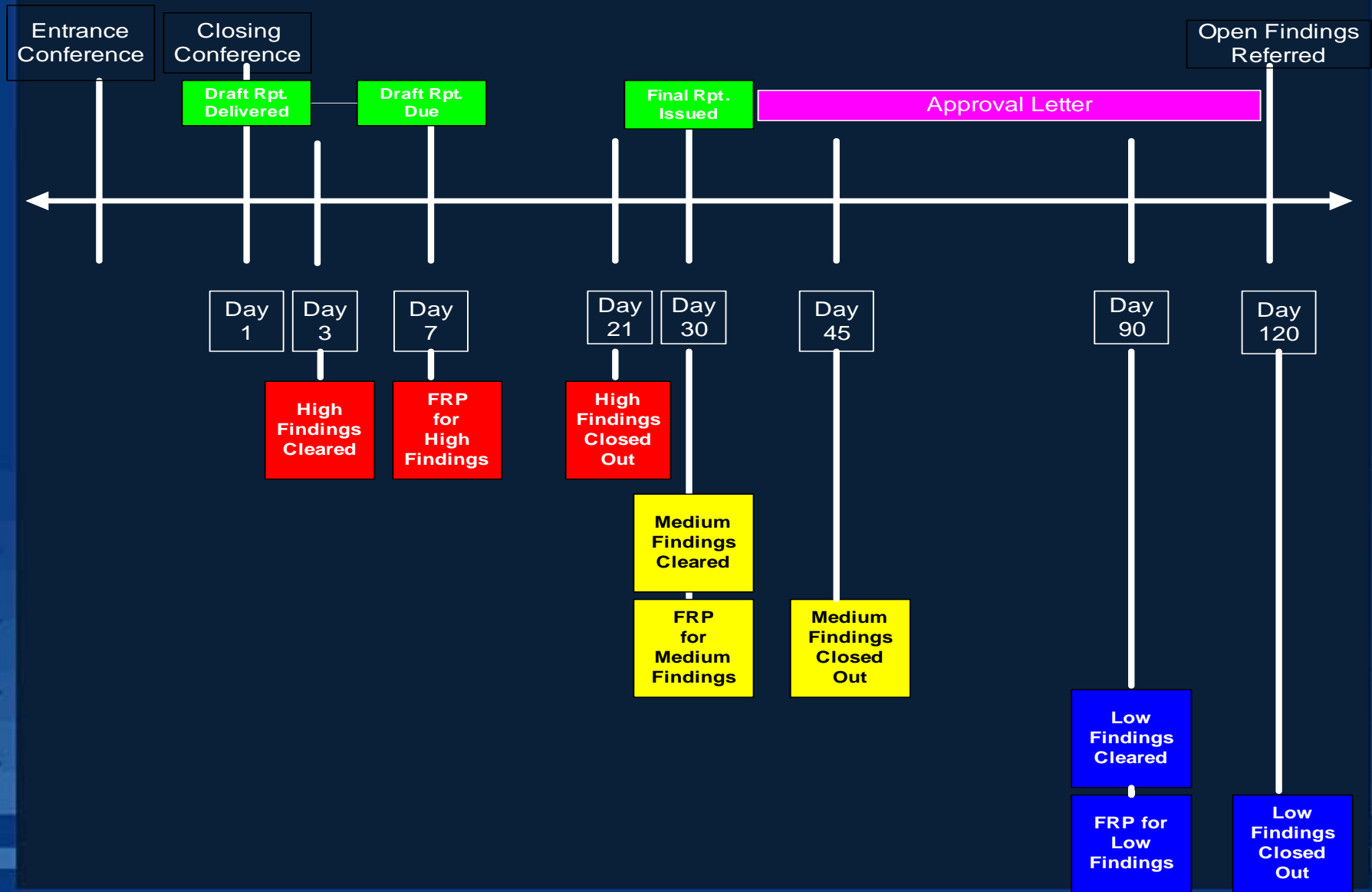
FINDINGS RESOLUTION PLAN (FRP)

(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

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

COMPLIANCE REVIEWS

CASH MANAGEMENT

- Reconciliation of mortgage collateral
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- T&I custodial accounts
- Special escrow accounts

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

- 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

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

- 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

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

- 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

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.
- 13 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

- 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

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

- 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

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

- 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

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

- 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**

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

- 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

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

CASH MANAGEMENT - CASE STUDY I

As members of the internal audit team at ABC Mortgage Company, review the activity for the reporting month of May 2005 for ABC Mortgage Company and identify the areas of non-compliance.

Findings:

- Custodial Funds not transferred timely
- Payoff liquidated after cutoff
- Late remittance to Security Holders
- Shortfalls not funded from corporate
- Person who remits also reconciles account
- Complete account reconciliation not prepared

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

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

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

COMPLIANCE REVIEWS

COLLECTIONS AND LIQUIDATIONS

- **Bankruptcy / Foreclosure / Claims**

- 17 H Loan(s) found where claim proceeds were not deposited into the P&I custodial account(s) within one business day of receipt
- 4 H Loan(s) found where final claim payments were received and the loan was not scheduled for liquidation in the month the payment was received
- 4 H Loan(s) found where net sales proceeds were not deposited into the P&I custodial account(s) within one business day of receipt
- 2 M Loan(s) found which were dismissed from bankruptcy more than three (3) months previously and loan is currently more than six (6) months delinquent but Issuer has not referred file to a foreclosure attorney

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

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

COMPLIANCE REVIEWS

COLLECTIONS AND LIQUIDATIONS - CASE STUDY II

ABC Mortgage Co. is about to acquire all of the assets and liabilities of XYZ Mortgage Co., 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 reports, servicing records, and mortgagor loan files.

Findings:

- **Inadequate collection efforts: no phone contact; no late notices; no property inspection.**
- **Notice of default sent to the borrower instead of the guarantee agency.**
- **For loan #201, increase in P&I payment not sufficient to cover the deficiency, and the 30 month term is over the allowed 24 month term.**
- **Only one loan reported as 120 days delinquent instead of two (#101 and #201).**
- **Claim received from FHA not passed through to Security Holders on the next reporting month, and only the claim funds received, instead of the full amount of the liquidation, were deposited to the P&I custodial account.**

COMPLIANCE REVIEWS

CASE STUDY III

ABC Mortgage Co. 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 Co., 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.

Findings:

- Overdraft in the P&I Disbursement account.
- Guaranty fees funded from T&I Custodial account.
- Deposit-in-transit and adjustment item not cleared timely.
- Next review will occur in 2006.

Final Questions / Wrap Up

Complete Evaluations