



Ginnie Mae Multifamily Training Program Compliance Reviews

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Ginnie Mae Multifamily Training Program Compliance Reviews

Introduction

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Opening Remarks

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Presenters

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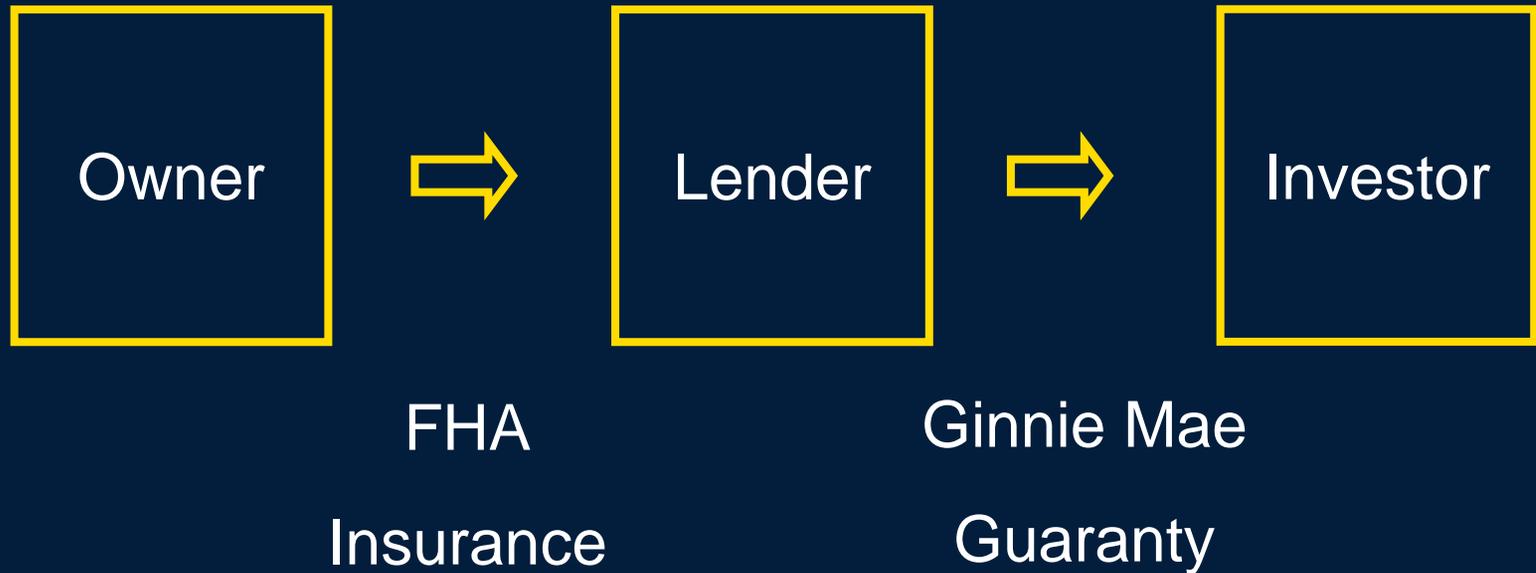
Compliance Reviews – Agenda

- Background
- Value of compliance reviews
- Objectives of Compliance Reviews
- Compliance reviews approach - overview
- Test areas
- Most Frequent Findings for Multifamily Issuers
- Document Custodian - Quick Overview
- Case studies
- Wrap-up / discussion

Compliance Reviews – Background

- The Guaranty Agreement is the contract between Ginnie Mae and the Issuer
- Ginnie Mae guarantees timely payment to Security Holders
- Ginnie Mae is authorized by contract and legislation to perform compliance reviews
- Compliance reviews:
 - Test Issuer's ability to pay Security Holders
 - Helps Ginnie Mae fulfill its obligation to Security Holders
 - Provides Ginnie Mae with additional information to manage program risk and minimize losses
 - Encourages uniformity in mortgage servicing
- Ginnie Mae or its agents can audit or review the Issuer's records

Compliance Reviews – Role of Ginnie Mae Guaranty



Compliance Reviews – Ginnie Mae’s Monitoring “Triangle”



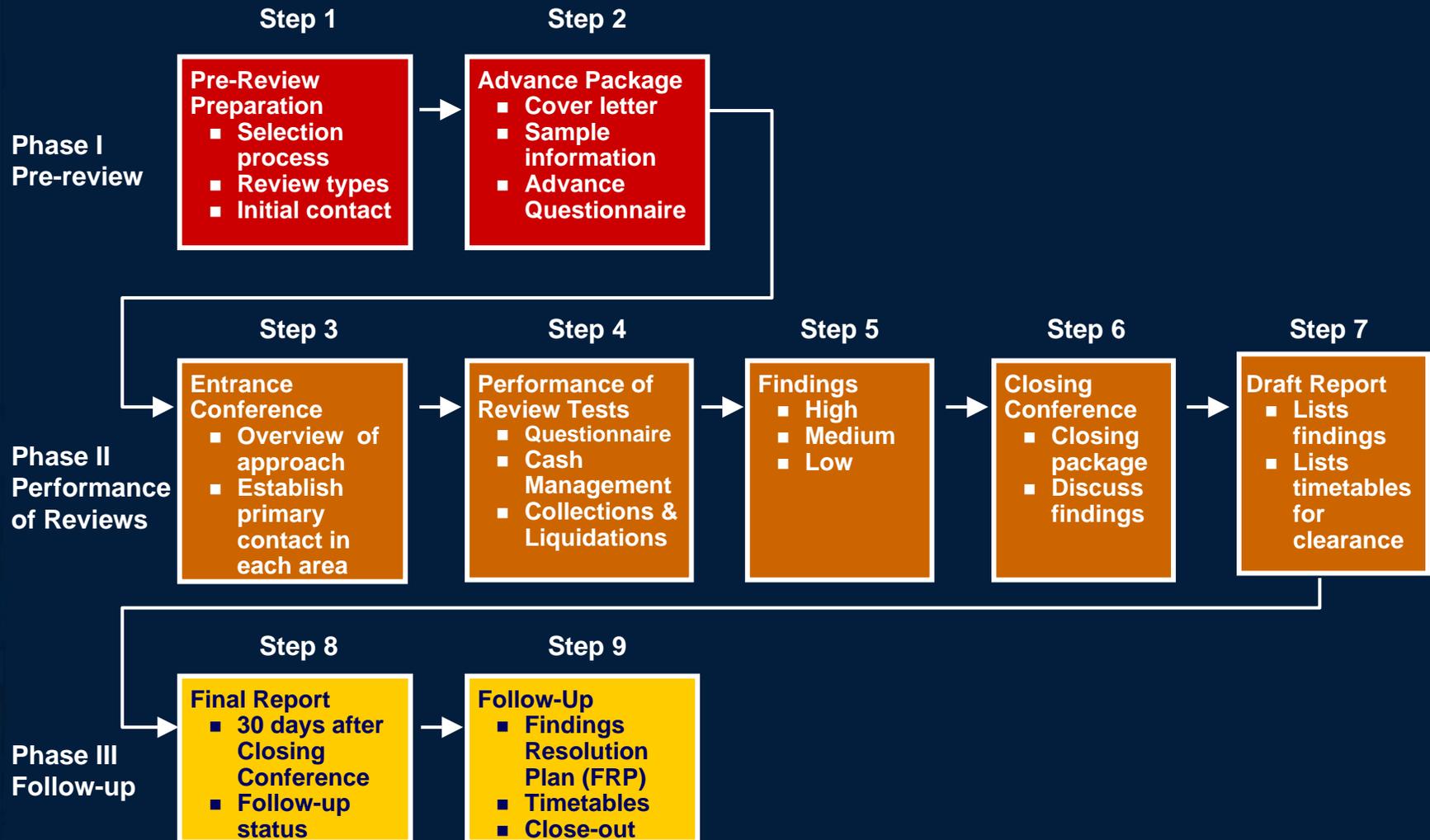
Value Of Compliance Reviews

- Promotes uniformity of mortgage servicing
- Gives Ginnie Mae confidence that participants are meeting their responsibilities and minimizing risk of default and loss
- Reduces overall program risk
- Provides knowledge transfer to Issuer personnel
- Improves long term program compliance
- Maintains market confidence

Objectives Of Compliance Reviews

- Reassure Ginnie Mae that Issuers operate within acceptable program standards
- Determine if:
 - Issuer has ability to advance funds
 - Adequate controls are in place
 - Industry standards and Ginnie Mae guidelines are followed
 - Personnel have sufficient level of understanding
 - Documentation and procedures support reports

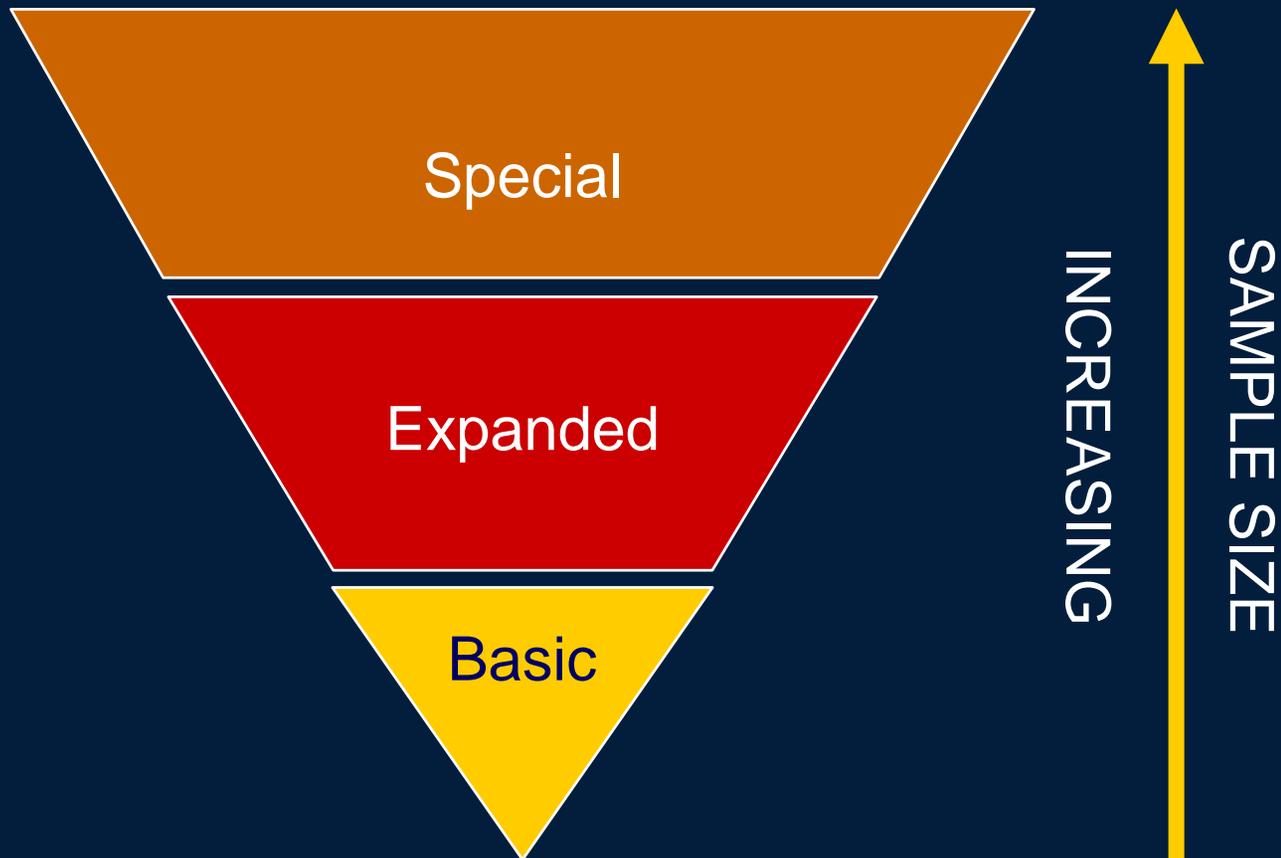
Compliance Review Process Map



Compliance Reviews– Selection Process

- Designed to review in greater detail Issuers that could pose a higher risk
- Issuers are reviewed at least every three years
- Previous review results
- Portfolio performance
 - High delinquencies
 - Rapid Growth
- Management changes
- IPA findings
- Referral by Ginnie Mae Account Executive

Compliance Reviews – Review Types



Compliance Reviews – Review Types

- Number of Multifamily Reviews performed from April 2003 to April 2004:
 - Special — 14
 - Expanded — 19
 - Basic — 8

Compliance Reviews – Initial Contact

- Discuss with Issuer four weeks before review
 - Type of review and information needed
 - Date and length of review
 - Issuer personnel names, addresses and phone numbers
 - Availability of key personnel
 - Access to work space and equipment
- Follow-up call one week before review

Compliance Reviews – Advance Package

- Sent to Issuer three weeks before review
- Advance Package
 - Cover letter
 - List of pre selected pools
 - Advance Questionnaire
 - List of documentation needed
 - Forms HUD 11710A; 11710D; 11710E
 - Trial balance
 - Custodial account reconciliations
 - Collection efforts
 - Any other internal servicing documentation deemed necessary to complete test

Compliance Reviews – Entrance Conference

- First meeting between the field review team and Issuer personnel
- Discuss compliance review
 - Type of review
 - Length of review
 - Key areas that the review team will test
 - Documentation needed by review team
- Issuer provides the completed Advance Questionnaire and requested documentation to the review team.  
- See Exhibit II

Compliance Reviews – Performance Of Review Tests

- Major areas of compliance review
 - Information in the Advance Questionnaire
 - Cash Management
 - Collections and Liquidations
- Keep Issuer informed of potential findings

Compliance Reviews – Findings

- High Risk
 - Immediate risk to Ginnie Mae, Security Holders and Issuers
 - Must be cleared within 48 hours
- Medium Risk
 - Substantial impact to Ginnie Mae, Security Holders and Issuers
 - Must be cleared within 30 days
- Low Risk
 - Minimal impact to Ginnie Mae, Security Holders and Issuers
 - Must be cleared within 90 days
- A reoccurring High Risk or Medium Risk Finding will result in an additional High Risk Finding.

Compliance Reviews – Closing Conference

- Review findings with Issuer management
- Management signs closing conference package
- Overview of the follow-up process
- Discuss Findings Resolution Plan (FRP) requirements

Compliance Reviews – Draft Report

- Dates and level of review
- Contents
 - Findings
 - Timetables for clearance
- Distribution

Compliance Reviews – Final Report

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

Compliance Reviews – Follow-up Process

- Tracks and documents Issuer compliance
- Findings Resolution Plan
 - Describes findings cleared
 - Contains procedures adopted to avoid reoccurrence
 - Contains supporting documentation for High Risk Findings
 - Proposed by Issuer to resolve findings
 - Reviewed for approval by Field Review Follow-up Team
- Review follow-up completed
 - All findings cleared (final report or approval letter)
 - After 120 days (referred to Ginnie Mae for action)

Compliance Reviews – Findings Resolution Plan (FRP)

Timetables for FRP and resolving findings:

- **High Risk findings**
 - Must be cleared within 48 hours (or two business days)
 - FRP must be submitted within seven calendar days
 - Final close-out within 21 days
- **Medium Risk findings**
 - Must be cleared within 30 days
 - FRP submitted within 30 days
 - Final close-out within 45 days
- **Low Risk findings**
 - Must be cleared within 90 days
 - For findings recurring from last review
 - FRP submitted within 90 days
 - Final close-out within 120 days

Compliance Reviews – Cash Management

- Reconciliation of mortgage collateral to securities outstanding
- Test of expected P&I
- Collection clearing accounts
- Custodial accounts
 - P&I custodial accounts
 - P&I disbursement accounts
 - T&I custodial accounts
 - Reserve for replacement accounts and other special escrow accounts
- Corporate advances

Compliance Reviews – Payments To Security Holders

- Timely remittance to Security Holders
- Issuers must maintain
 - Security Holders Register
 - Issuer’s Monthly Remittance Advice, HUD 11714, if applicable
 - Monthly Accounting Report, form HUD 11710D
 - Cancelled checks

Compliance Reviews

TURN TO CASE STUDY I, EXHIBIT I

Compliance Reviews – Collections And Liquidations

- Delinquency reporting and Issuer collections
 - Follow Guaranty Agency regulations, Guaranty Agreement and Industry standards
 - High delinquency means Issuer risk
 - Monitored by Ginnie Mae
 - Review areas include
 - Accurate reporting, forms HUD 11710A, 11710E and 11710D
 - Internal servicing records
 - Collection efforts
 - Policies and Procedures

Compliance Reviews – Collections And Liquidations

- Bankruptcy procedures
- Forbearance Agreements
 - Approval obtained
- Foreclosure/assignments/Deed in lieu of foreclosure
 - Timeliness
- Claims
 - Timely filing
 - Deposit of proceeds
 - Remittance to Security Holders

Compliance Reviews – Collections And Liquidations

- Liquidations
 - Definition
 - Reasons for removal
 - Deposit into P&I custodial account
 - Payoff funds
 - Repurchase funds
 - Claim funds
 - Liquidation schedule (HUD 11710E)
 - P&I Shortfalls
- Financial statements and UCC filings

Compliance Reviews

TURN TO CASE STUDY II, EXHIBIT I

Compliance Reviews – Frequent Findings

- Frequency of High Risk Findings for 41 Multifamily Issuer Compliance Reviews Conducted from April 2003 through April 2004
 - ❑ 14 - Findings cleared from a previous review that were cleared have reoccurred
 - ❑ 9 – Multifamily interest-bearing account is not styled per Ginnie Mae requirements
 - ❑ 7 – No form HUD-11720 exists for Reserve for Replacement account(s)
 - ❑ 6 – Bank statement shows overdraft in P&I custodial account
 - ❑ 6 – Reserve for Replacement account is not styled per Ginnie Mae requirements

Compliance Reviews – Frequent Findings

- Frequency of Medium Risk Findings for 41 Multifamily Issuer Compliance Reviews Conducted from April 2003 through April 2004
 - ❑ 13 – T&I funds reported on form HUD 11710D do not agree with Issuer's internal servicing records nor the ending balance of T&I reconciliation
 - ❑ 13 – Issuer's pool bank reconciliation does not agree to Issuer's internal servicing records (form HUD 11710D) for P&I accounts
 - ❑ 8 – Bank statement shows overdraft in the Collections Clearing account
 - ❑ 8 – Collections Clearing account is not styled as a Trustee or Custodial account
 - ❑ 7 – Loan found where the liquidation code used was not correct on form HUD 11710E

Compliance Reviews – Frequent Findings

- Frequency of Low Risk Findings for 41 Multifamily Issuer Compliance Reviews Conducted from April 2003 through April 2004
 - ❑ 20 – Certain member(s) of senior management has/have not been in the position for at least two years
 - ❑ 16 – Complete reconciliations were not prepared on a timely basis
 - ❑ 13 – Form HUD 11720 is not current, and Issuer does not have evidence that written certification or form renewal was done by January 1st
 - ❑ 6 – The recalculation of the service fee does not agree to the 11710A
 - ❑ 6 – Issuer did not perform analysis of financial statements received

Compliance Reviews– Document Custodians

- Certifies pool 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

Compliance Reviews

Q & A



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