

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

14-1: OVERVIEW OF CHAPTER

This chapter describes the responsibilities of an Issuer in servicing mortgage pools and loan packages and the related securities. The chapter describes the servicing standards that govern the discharge of these responsibilities. Summaries are included of certain servicing matters addressed more fully in Chapters 15 through 20, including payments to security holders, custodial accounts, pool, loan package, and loan accounting and reporting, mortgage delinquency and default, reporting remaining principal balances, and maturity or termination of pools. Additional requirements related to the administration of HMBS pools are found in Chapter 35.

14-2: SERVICING STANDARDS

An Issuer must service pooled mortgages and mortgages related to pooled Participations in accordance with (A) any applicable FHA, VA, RD, or PIH regulation or requirement, (B) to the extent not inconsistent with (A), this Guide, as amended or supplemented from time to time, and any applicable statute implemented, or instruction issued, by Ginnie Mae, and (C) to the extent not inconsistent with (A) or (B), practices generally accepted in the mortgage lending and servicing industries. Requirements with respect to pool or loan package administration apply to the Issuer pursuant to the applicable Guaranty Agreement (see Appendices III-15 through III-20 and, III-23 through III-27), which, among other things, requires compliance with this Guide. The Issuer must be thoroughly familiar with the requirements of the applicable Guaranty Agreement.

No Issuer or subcontract servicer may, without the written permission of Ginnie Mae, remove a loan, whether pursuant to a substitution or otherwise, from a pool or loan package or reduce a balance on a pooled loan for any reason not specifically authorized in the applicable Guaranty Agreement or in this Guide.

14-3: RECORD KEEPING

The Issuer must retain records for each pool or loan package of mortgages for the life of the pool or loan package. These records must accurately reflect the application of each monthly installment, the amounts paid directly to security holders of certificated Ginnie Mae I MBS, the amounts made available to the depository, as security holder of all book-entry Ginnie Mae I MBS, and to the CPTA for use in making payments to the security holders of Ginnie Mae II MBS, and any unrecovered advances. The Issuer must maintain for the life of a mortgage records of all disbursements for taxes, insurance premiums, and all other expenses. The Issuer must also retain all canceled checks and bank statements pertaining to the mortgages in accordance with FHA, VA, RD, or PIH requirements and practices generally accepted in the

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mortgage lending and servicing industries. These records may be in the form of microfilm or other acceptable documentation. Failure to maintain all required records will constitute an act of mismanagement and grounds for Ginnie Mae to declare an Issuer in default.

Issuers that acquire pools or loan packages will be responsible for the pool or loan package records, as noted above, for the period from the issue date of the pool or loan package to the pool or loan package transfer date and thereafter.

14-4: PAYMENTS TO SECURITY HOLDERS

(A) Full and Timely Payment

The Issuer is obligated under the Ginnie Mae I MBS Program to make timely monthly payments of principal and interest to the security holders of certificated securities of record as prescribed in the securities, in the applicable Guaranty Agreement, and in this Guide. Under the Ginnie Mae I MBS Program, the Issuer also is obligated to make available good funds adequate to enable the depository, as security holder of all book-entry securities, to pay itself timely monthly payments of principal and interest on such securities, as prescribed in the applicable Contractual Agreement or Guaranty Agreement, as the case may be, and this Guide. Under the Ginnie Mae II MBS Program, the Issuer is obligated to make available funds adequate to enable the CPTA to make timely monthly payments of principal and interest to the security holders of record, as prescribed in the applicable Contractual Agreement or Guaranty Agreement, as the case may be, and in this Guide. The Issuer must make these payments or these funds available without regard to whether the Issuer will be able to recover such amounts from liquidation proceeds, insurance proceeds, or otherwise. Payments to security holders are discussed more fully in Chapters 15 and 35.

(B) Elements of Monthly Payments

The monthly payment to MBS security holders consists of three elements, as applicable: interest, scheduled principal, and unscheduled recovery of principal, each computed as described in Section 15-4 and 35-11.

(C) RPBs and Determination of Principal Payments

Each month the Issuer must pay to security holders of certificated Ginnie Mae I MBS, make available to the depository, as security holder of all book-entry Ginnie Mae I MBS and make available to the CPTA for payment to security holders of Ginnie Mae II MBS, principal equal to the difference between the RPB reported in the prior month and the RPB reported in the month of payment. The reporting of

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(D) Advances of Principal and Interest

RPBs and their use in determining principal payments are discussed in Chapter 19 and Section 17-4(D), respectively.

If necessary to cover shortfalls in collections, the Issuer must advance its own funds in order to ensure that timely payment of all amounts due security holders is made. Advances are discussed more fully in Sections 15-2(E) and 15-3(C).

14-5: CUSTODIAL ACCOUNTS

Issuers must segregate the cash flow from the pooled mortgages and mortgages related to pooled participations by maintaining separate custodial accounts for principal and interest, taxes and insurance, and other escrows.

Each Ginnie Mae I MBS Program Issuer must maintain a central P&I custodial account (which may be the same central P&I custodial account described in the next paragraph) from which (i) the depository, as security holder of all book-entry securities, may transfer funds by ACH transaction for payments on such securities and (ii) the CPTA shall withdraw funds by ACH transaction for the payment of the Ginnie Mae guaranty fee.

Each Ginnie Mae II MBS Program Issuer must maintain a central P&I custodial account from which the CPTA may transfer funds, by ACH transaction, for the payment of security holders and the Ginnie Mae guaranty fee.

The custodial accounts must satisfy all of the requirements of the related Master Agreement for Servicer's Principal and Interest Custodial Account, form HUD 11709 (Appendix III-2) and Master Agreement for Servicer's Escrow Custodial Account form HUD 11720 (Appendix (III-3), and the applicable Guaranty Agreement, including the requirement that the accounts be insured by the FDIC or the NCUA. Custodial account requirements are discussed more fully in Chapter 16.

If necessary to cover shortfalls in collections from mortgagors, the Issuer must advance its own funds to make tax and insurance payments when due. This advance obligation is discussed in Section 5-2(J) and in Section 16-5(A).

14-6: POOL, LOAN PACKAGE, AND LOAN ACCOUNTING

(A) Accounting Requirements

All Issuers must comply with the pool, loan package, and loan accounting requirements, which are discussed more fully in Chapter 17.

(B) Monthly Pool and Loan Package Reporting

Each Issuer must report by the 2nd business day of each month, for each of its pools and loan packages regardless of

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Requirements

type. Instructions for submitting the RFS Issuer Monthly Report of Pool and Loan Data can be found in Appendix VI-19. These reports, the methods for submitting them, and the process for correcting them are discussed more fully in Chapter 17.

(C) Monthly Reporting Requirements

Each Issuer must submit loan level data on a monthly basis, and this data must reconcile with RFS Issuer Monthly Report of Pool and Loan Data (Appendix VI-19), for the applicable reporting month. This is discussed more fully in Chapter 17.

14-7: REPORTING REMAINING PRINCIPAL BALANCES

The Issuer's obligation to report RPBs to Ginnie Mae monthly, the use made of the RPBs, and the methods for reporting and correcting RPBs are discussed in Chapters 19 and 35.

14-8: DELINQUENT AND DEFECTIVE LOANS

(A) Servicing and Repurchase of Delinquent Loans

The Issuer must service delinquent mortgages and manage foreclosure or assignment procedures in accordance with the standards described in Section 14-2 and in Chapter 18. Special requirements that apply to Home Equity Conversion Mortgage Loans can be found in Chapter 35.

The Issuer's right to purchase certain delinquent loans is described in Section 18-3(B).

(B) Acceptable Delinquency Rates

Issuers must maintain delinquency rates on outstanding pools below the threshold levels described in Chapter 18.

(C) Failure to Maintain Acceptable Delinquency Rates

If an Issuer fails to maintain delinquency rates on outstanding pools or loan packages below the applicable threshold levels, Ginnie Mae may impose on the Issuer sanctions that are described in Chapter 18.

(D) Defective Loans

A defective mortgage is a mortgage:

- (1) that cannot be insured or guaranteed by an agency of the Federal Government, named in Section 306(g)(1) of the National Housing Act;
- (2) that has been refused by the insuring or guaranteeing agency;
- (3) for which federal agency insurance or guaranty has been withdrawn;
- (4) for which, in the case of GNMA MBS II Single Family Level Payment MBS and *H4H* mortgage loans, FHA is prohibited from paying insurance benefits, whether or not the mortgage is insured; or
- (5) that does not comply with the terms of the related

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securities.

Delinquency is not considered a defect except as provided in Section 9-2(E) or, in the case of H4H mortgage loans, to the extent that such delinquency prohibits FHA from paying insurance benefits.

If a single family mortgage or manufactured home loan is found to be defective within four months after the issue date of the securities, the Issuer must cure the defect or replace the mortgage or loan in the pool or loan package with a substitute mortgage or loan. After the four-month period, replacement is not allowed, and the Issuer must either cure the defect or repurchase the mortgage or loan out of the pool or loan package in an amount equal to the RPB of the loan less the principal payments advanced by the Issuer on the loan. Home Equity Conversion Mortgage loans are ineligible for loan substitutions in the Ginnie Mae II HMBS Program.

A substitute mortgage or loan must satisfy the following requirements:

(5) Pool eligibility requirements:

Except as set forth below, it must satisfy all of the eligibility requirements that it would have had to meet had it been properly included in the related pool initially.

(6) Maturity date:

Its maturity date may not be later than the maturity date of the related Ginnie Mae MBS.

(7) Remaining principal balance:

At the time of replacement, its remaining principal balance may not be greater than the remaining principal balance of the mortgage to be replaced. If its remaining principal balance is less than the remaining principal balance of the mortgage or loan to be replaced, the Issuer must, as applicable, include the pro rata portion of such difference in the next payment made to the security holders of the related securities.

If a project or construction loan is found to be defective, regardless, of the time of discovery, the Issuer must cure the defect or repurchase the loan.

The Issuer must notify Ginnie Mae's Office of Issuer & Portfolio Management (see Addresses), of any mortgage found to be defective and must receive Ginnie Mae's written approval prior to any substitution for or repurchase of a loan from a pool. A request to repurchase a defective loan must be

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submitted in accordance with the Form Letter for Loan Repurchase (Appendix VI-2).

Such cure, substitution or repurchase must occur either 30 days after discovery or on or before the final certification due date, as set forth in this Guide, whichever is earlier.

14-9: OTHER POOL AND LOAN PACKAGE ADMINISTRATION REQUIREMENTS

In addition to the requirements described above, the Issuer agrees to perform, and is responsible for, the following functions:

(A) Pool and Loan Package Documents

The Issuer must deliver mortgage loan and pool and loan package documents to the document custodian and safeguard pool and loan package documents during their interim release by the document custodian for necessary loan administration actions. (See Chapter 13)

(B) Fire and Extended Insurance Coverage; Mortgage Impairment Insurance

(1) For each pooled mortgage, the Issuer must have in its possession a valid, standard policy of insurance for fire and extended coverage or comparable insurance coverage. Such policy must be in an amount equal to the RPB of the pooled mortgage or the value of the improvements less the value of the land. The policy must include a loss-payable endorsement designating the Issuer as payee. The Issuer must maintain the insurance in full force and effect to the extent that the insurance is available.

For a manufactured home loan, the policy must be in an amount equal to the RPB of the loan or the value of the manufactured home, whichever is less. Each insurance policy must include a standard mortgagee clause insuring the interest of Ginnie Mae as well as that of the Issuer and the homeowner.

For a multifamily loan, the policy must be in an amount equal to the RPB of the mortgage or the amount required by FHA, whichever is less.

The Issuer must maintain evidence of insurance by retaining either the original policies or the information relating to the insurance policies in a medium that is accessible to Ginnie Mae. If the Issuer does not retain the original policies as evidence of insurance it must carry mortgage impairment or mortgage interest insurance.

(2) If required pursuant to paragraph (1), the Issuer must maintain mortgage impairment or mortgage interest insurance that satisfies the following requirements:

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- (a) be underwritten by an insurer currently rated B+ or better in Best's Insurance Reports and licensed or otherwise authorized by law to conduct business in the jurisdictions where the properties are located;
- (b) provide coverage for the Issuer and/or Ginnie Mae;
- (c) provide coverage in scope and amounts at least equal to those required under Chapter 2-7;
- (d) provide for at least 30 days' written notice to the Issuer and, if applicable, to Ginnie Mae before canceling or terminating the coverage; and
- (e) be approved by any regulatory authority to which the Issuer is subject, if such approval is required.

In addition to all other remedies of Ginnie Mae, the Issuer will indemnify Ginnie Mae for any loss Ginnie Mae sustains due to the Issuer's failure to verify that the required insurance is in force on the pooled loans. The Issuer's obligation will not be limited to the amount of coverage in force under a mortgage impairment or mortgagee interest policy.

(C) IRS Reporting

Each Issuer is fully responsible for providing all Internal Revenue Service (IRS) reports to investors and to the IRS. To this end, Issuers must be familiar with and follow IRS fixed investment trust rules and the applicable rules regarding reporting of interest paid to security holders.

14-10: CONFLICT OF INTEREST

Privileged information obtained by Issuers about borrowers and mortgaged properties may not be used by Issuers in any way that could be viewed as a conflict of interest. This information may be used only as permitted under applicable state and federal law, including that regarding disclosure of credit information. For example, it is Ginnie Mae's policy that an Issuer may not trade in securities for which the Issuer also is servicing the underlying mortgage pool or loan package based on delinquency, default, or other inside information obtained by the Issuer, because this could create a conflict of interest with the existing security holders and Ginnie Mae.

14-11: GINNIE MAE AUDIT

The Issuer agrees that at any reasonable time, as requested by Ginnie Mae, Ginnie Mae or its designated agent may examine and audit the mortgages held by the Issuer, and all books, records, or information of the Issuer or relating to an

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Issuer's pools or loan packages or its participation in the Ginnie Mae MBS Program, or bearing on the Issuer's compliance with the requirements of the MBS Program, its management or its financial structure, including but not limited to, all mortgage documents, mortgage servicing records, mortgage records, and banking records for funds directly or indirectly related to the mortgages or the securities. Ginnie Mae also shall have the right to perform such audits on any of the Issuer's mortgage servicers, trustees, agents or other representatives of Issuer.

As a service to Ginnie Mae, various contractors conduct financial and administrative reviews of Ginnie Mae Issuers to ensure compliance with Ginnie Mae requirements. Issuers must afford all contractors and their staffs full cooperation in their conduct of these functions.

14-12: ACCESS TO RECORDS

For the purpose of audit, examination, monitoring, and evaluation of an Issuer's compliance with the Ginnie Mae MBS Program, each Issuer must make available for inspection by Ginnie Mae or its agents, upon request, mortgage files and related documentation and other information pertinent to its operations under the Ginnie Mae MBS program. Each Issuer must ensure that any party holding mortgage files or related documentation, including a subcontract servicer, document custodian, funds custodian, or other person, has executed a written agreement with the Issuer to permit Ginnie Mae access to documents as provided above. "Mortgage files and related documentation" includes without limitation books, documents, files, papers, and other records and data, including any maintained in any database or in any data processing, storage, or retrieval system.

14-13: MATURITY OR TERMINATION OF POOL

A pool matures on either the stated maturity date or an earlier date on which all the pooled loans have been paid to a zero balance, either by payment of monthly installments, or by prepayment in full or by purchase of the loan by the Issuer because of delinquency. The procedures to follow in the case of maturity are discussed in Section 20-2 or 35-14. A pool may be terminated prior to maturity only as provided in Section 20-3 or 35-14.