



Avoiding the Most Common Compliance Findings Transcript



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1. Introduction

1.1 Avoiding the Most Common Compliance Findings



1.2 Module Purpose

Welcome to Avoiding the Most Common Compliance Findings!

The purpose of this training is to present the common issues in cash management testing, delinquency testing, liquidation testing, and on-site reviews and best practices to avoid issues.

Learning Objectives

- Describe the common issues found in:
 - Cash management testing
 - Delinquency testing
 - Liquidations testing
- Identify the top five most common findings in on-site reviews

1.3 Navigation Tutorial

[The navigational tutorial is applicable to the on-line training only.]

2. Cash Management Testing Issues

2.1 Common Issues in Cash Management Testing

The following issues commonly arise during the cash management testing to include the timely funding of escrows following pool issuance as well as bank overdrafts.

Cash management testing also illuminates issues with reconciling items that are aged greater than three months and over- or under-collateralized pools.

Issues related to account styling, annual recertifications, and taxpayer identification number are also discovered.

2.2 Best Practice Things to Know

There are several important things to know about bank accounts.

First, know the account structure through which funds for Ginnie Mae flow, and be familiar with claims, payoffs, escrow disbursements, and any additional accounts beyond the standard collections clearing and custodial accounts.

Second, know how funds move through the accounts. Funds tracing must be clear with respect to movement from clearing accounts through the remittance or disbursement. A walkthrough may be needed for clarity.

Third, know the acceptable styling for bank accounts. Signature cards often will have full account titles that cannot be displayed on bank statements. Be aware of the abbreviations that have been approved by Ginnie Mae.

Fourth, know the requirements for recertification of Master Agreements. Evidence of annual recertification from either the Pool Processing Agency (PPA) or a screen print from the Ginnie Mae MAMS system is acceptable.

Lastly, know how initial escrow funds are applied to a loan after the pool has been issued.

There are also important things to know about other cash testing. You should know the requirements for the advance, recovery, and excess funds tracking logs. If these are separate logs, each should be provided. You should also know how service fees are calculated. Be prepared to provide a loan-level breakdown of service fees for a given month. Finally, know the reporting cutoff date and if there have been any reconciliation issues between your internal records and data reported to Ginnie Mae.

2.3 Knowledge Check 1

To avoid the common issue in cash management testing of over/under-collateralized pools, what is a best practice thing to know?

- A. Know the requirements for recertification of Master Agreements
- B. Know how funds move through the accounts and ensure clear fund tracing from clearing accounts through remittance or disbursement
- C. Know the acceptable styling for bank accounts and be aware of Ginnie Mae approved abbreviations
- D. Know how initial escrow funds are applied to a loan after the pool has been issued.

Feedback:

A best practice is to know how funds move through the accounts and ensure clear fund tracing from clearing accounts through remittance or disbursement.

3. Delinquency Testing Issues

3.1 Common Issues in Delinquency Testing

There are four issues that are common in delinquency testing.

First is the default management timeline. Specifically, this refers to the timely referral to foreclosure and timely foreclosure.

Next is the timely receipt and movement of claim payments, followed by insufficient documentation maintained or provided regarding selected loans.

Finally, active hazard insurance during the test period is a common issue in delinquency testing.

3.2 Things to Know about Delinquency Testing

Some important things to know about delinquency testing are:

How your default management activities are documented, such as collection notes or logs and codes used, and how events are timestamped.

Multiple areas for the same loan will be reviewed.

For example, if a loan is delinquent, the borrower files for bankruptcy, and the loan is ultimately foreclosed, all of that activity will be reviewed.

Support for that activity in the form of loss mitigation and workout notes, contact logs, and inspection reports should be provided.

How your system works if default management activity is documented online.

A walkthrough of the system may be requested by the review team.

3.3 Knowledge Check 2

To avoid the common issue in delinquency testing of default management timelines, what is a best practice thing to know?

- A. Know how the funds are moved through accounts
- B. Know how to avoid non-timely movement of funds into custodial account
- C. Know why disbursement clearing account(s) were not timely reconciled
- D. Know how the related activities are documented (i.e., collection notes/logs, codes used) and how events are timestamped

Feedback:

A best practice is to know how the related activities are documented (i.e., collection notes/logs, codes used) and how events are timestamped.

4. Liquidations Testing Issues

4.1 Common Issues in Liquidations Testing

Common issues in liquidations testing include missing or non-timely [Form HUD-11708](#). Issuers may request from a Document Custodian the release of a loan file or document by submitting a Request for Release of Documents, Form HUD-11708 in Appendix V-5 of the Guide. For each request, the Issuer must identify the reason associated with its request by selecting the most applicable reason code from the six reason codes listed in the form.

Another issue is the non-timely movement of funds into a custodial account.

Incorrect liquidation codes, specifically for short sales claims and loss mitigation is also a common issue.

Finally, liquidations testing also discovers when there is no written approval for Reason Code 5 or Reason Code 6 liquidation. Changes under Reason Code 6 are contingent on the specific reason underlying the request. For additional information see Appendix V-01 for Reason Code 6 requirements.

Reason Codes 5 and 6

Reason Code 5, Substitution, applies either when the Issuer needs to remove a defective loan from a pool to be substituted with an eligible loan or when the issuer is correcting for an over-collateralization by means of loan substitution.

Reason Code 6, Other, applies (1) when a loan is liquidated from a pool for any reason that does not meet the requirements of Reason Codes 1 through 5; or (2) when the

Issuer needs a loan document or file for a non-liquidation reason. The required procedures for submission of a form HUD-11708 on the basis of Code 6 are contingent on the specific reason underlying the request and are described in [Appendix V-01, Part A, Section 1, Paragraph f.](#)

4.2 Things to Know about Liquidations Testing

Let's examine some important things to know about liquidations testing.

You should consult the [Mortgage-Backed Securities Investor Reporting Manual](#). Be sure to examine the "Four Examples of Loan Liquidations" found in Chapter One, Section IV of the manual.

Importantly, the Issuer should contact the Ginnie Mae Issuer Support Hotline if reporting assistance is required.

4.3 Knowledge Check 3

Missing liquidation codes and lack of written approval for Reason Code 5 or 6 are rarely found during the compliance review process.

- A. True
- B. False

Feedback:

The statement is False. Missing liquidation codes and lack of written approval for Reason Code 5 or 6 are often found during the compliance review process.

5. On-Site Review Issues

5.1 Common Issues in On-Site Reviews

Common issues in On-Site Reviews can be identified by Finding Codes, which are assigned risk levels.

Finding code 400229 is associated with a high risk level and occurs when the account title of P&I Custodial Accounts per bank signature card and/or Form HUD-11709 is incorrect.

Finding code 400301 is also associated with a high risk level and occurs when the account title of T&I Custodial Accounts per bank signature card and/or Form HUD-11720 is incorrect.

Finding code 250025 is the third common issue associated with a high risk level and occurs when loans are found where funds to liquidate the loan were not deposited in the

P&I custodial accounts within two business days of receipt.

Finding code 510117 is associated with a medium risk level and occurs when Disbursement clearing accounts were not timely reconciled.

Finding code 250001 is also associated with a medium risk level and occurs when the liquidation code was not reported correctly to Ginnie Mae or represented on Form HUD 11710-E.

5.2 On-Site Review Steps

Some important steps to take in on-site reviews include to ensure the legal account title on the signature card matches Form HUD 11709/11720 verbatim. Because there may be limited space on the bank signature card, Ginnie Mae has a list of acceptable acronyms found in the MBS Guide, Chapter 16, Part 13.

Another step in on-site reviews includes verifying that all funds liquidating a loan move in a timely manner into the relevant custodial accounts.

Additionally, the review requires ensuring the date of the reconciliation prepared is less than or equal to 30 days of the Issuer's reporting period cutoff date.

The last step comes into play if there are any questions related to the liquidation code that is required when removing a loan from the pool. Consult the MBS Guide and the Investor Reporting Manual for questions related to the required liquidation code.

5.3 Knowledge Check 4

What is the number 1 common issue found in the on-site review?

- A. Account title of P&I Custodial Account(s) per bank signature card and/or Form HUD-11709 is incorrect.
- B. Disbursement clearing account(s) were not timely reconciled.
- C. Differences in excess of \$1.00 have been identified between the Adjusted Bank Balance and the Total Funds Other Than Escrow per the Exception Feedback Summary Screen.
- D. Loan(s) found where the liquidation code used was not correct on the Form HUD-11710E.

Feedback:

The number 1 common issue found in the on-site review is Account title of P&I Custodial Account(s) per bank signature card and/or Form HUD-11709 is incorrect.

Now check your understanding.

6. Conclusion

6.1 Summary

The goal of this training module was to provide you with an understanding of common issues during compliance reviews found in cash management, delinquency, and liquidations testing, as well as common findings in on-site reviews. It also presented best practices for Issuers to avoid these issues.

You learned that common issues in cash management testing revolve around timely funding of escrows, bank overdrafts, reconciliation, over/under collateralized pools, and recertification among other issues. You found that avoiding these issues requires knowledge of the account structure, flow of funds, requirements for recertification of Master Agreements to name a few best practices.

You explored the delinquency issues centering on default management, movement of claim payments, insufficient documentation, and hazard insurance. Importantly, best practices call for collection notes/log, code used, and timestamps.

Next, you examined liquidations testing issues and discovered that timeliness, incorrect codes, and lack of written approval for reason codes are issues that you should avoid.

Finally, you learned about common findings in on-site reviews such as incorrect account titles, loans where liquidation funds were not deposited within two days, non-timely reconciliation of disbursement clearing accounts, and incorrect liquidation codes.