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## CHAPTER 28. GROWING EQUITY MORTGAGE POOLS AND LOAN PACKAGES — SPECIAL REQUIREMENTS

### PART 1. OVERVIEW OF CHAPTER

*Effective Date: 2010-07-01*

This chapter describes special requirements that apply for a pool or loan package of growing equity mortgages. The requirements described in this chapter may modify, supplement or, in some cases, repeat for the purpose of emphasis those set forth in previous chapters with respect to mortgage eligibility, pool and loan package requirements, required pool and loan package submission documents, payments of principal, securities marketing disclosures, and administering pools and loan packages. The pool suffix is “GA” or “GD”. The two pool types may be referred to collectively as “GEM” pools or loan packages.

GEM pools can be formed under both the Ginnie Mae I MBS Program and the Ginnie Mae II MBS Program.

Growing equity loans are loans on which monthly payments increase annually at a predetermined rate over the life of the loans or for a period of years. The two GEM pool designations have the following meanings:

- (1) “GA” identifies pools or loan packages of mortgages on which monthly payments increase 4 percent annually over the life of the loans; and
- (2) “GD” identifies pools or loan packages of mortgages on which monthly payments increase annually at a rate acceptable to FHA or VA, for a number of years acceptable to FHA or VA.

### PART 2. MORTGAGE ELIGIBILITY, POOL, AND LOAN PACKAGE REQUIREMENTS

The mortgage eligibility, pool and loan package requirements that apply, with limited exceptions, to all pool types are found in MBS Guide, Ch. 9. The requirements for SF pools and loan packages found in MBS Guide, Ch. 24 also apply for GEM pools and loan packages, except as modified by this section.

#### Section A. Mortgage Eligibility Requirements

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All of the following mortgage eligibility requirements apply to both GA and GD pools and loan packages.

- (1) Amortization: A GEM must not require repayment in equal monthly installments.

The amortization schedule of each pooled GEM provides for principal to be repaid faster than under a single family, level payment mortgage. The first year's payments are equal to those of a level payment loan; subsequent monthly payments, however, increase annually. These periodic increases are at a predetermined rate and continue for a predetermined number of years, both established at the time of closing of the loan.

No loan may be extended or re-amortized during the life of the pool.

- (2) Buydowns: GEM loans are not eligible for buydown consideration

**Section B. Mortgage Eligibility Requirements**

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- (1) Minimum pool and loan package balances: As of the date of issue, each GEM custom pool, other than a pool formed pursuant to a BFP, must have an original principal amount of at least \$500,000. As of the date of issue, each GEM loan package must have an original principal amount of at least \$25,000.
- (2) Pool and loan package composition: Subject to MBS Guide, Ch. 28, Part 2, § A(2), a GEM pool or loan package must contain only GA mortgages or only GD mortgages.

**PART 3. REQUIRED DOCUMENTS**

The procedures and basic document requirements for submission of all pools and loan packages are found in MBS Guide, Ch. 10, 11, and 13.

**Section A. For Certification by Document Custodian**

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The loan documents required for initial and final certification of a GEM pool or loan package by the document custodian are the same as those discussed in MBS Guide, Ch. 13, Part 7. They are summarized in the following table:

Document	Form Number	Appendix
<b>For Initial Certification</b>		
Schedule of Pooled Mortgages	HUD 11706	III-7
Release of Security Interest, executed original, if applicable	HUD 11711A	III-5
Certification and Agreement, executed original	HUD 11711B	III-5
Original notes (or, in the case of modified loans, the original notes executed for the modifications) or other evidences of indebtedness, endorsed in blank, without recourse		
For nonprofit agency section 203(k) loans, FHA affordable housing program letters		
<b>For Final Certification</b>		
Original recorded mortgages (or, in the case of modified loans, the recorded original mortgages, the related original notes, the modification agreements, and any required subordination agreements and/or title endorsements)		
All recorded interim assignments		
Evidence of good title (e.g., mortgage title insurance policies)		

Evidence of mortgage insurance or guaranty provided by FHA, VA, RD, or PIH. In lieu of an original MIC signed by FHA or LGC signed by VA, electronic confirmation from FHA Connection or VA's TAS is acceptable.		
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**Section B. For Approval by PPA and Ginnie Mae**

*Effective Date: 2010-07-01*

The GEM pool and loan package documents required for approval by Ginnie Mae are the same as those discussed in MBS Guide, Ch. 10, Part 3, except as modified below.

- (1) Schedule of Subscribers and Ginnie Mae Guaranty Agreement, form HUD 11705 (Appendix III-6), which must indicate in the block "Type of Issue" that the pool is to be "X," "C," or "M" and in the block "Pool Type" that the securities are to be either "GA" or "GD" securities.
- (2) Schedule of Pooled Mortgages, form HUD 11706 (Appendix III-7), which must list in the column for Monthly Constant (P&I) just the fixed installment constant (FIC) applicable to the payment for the first month the loan is in the pool or loan package.
- (3) If a Ginnie Mae I pool or a Ginnie Mae II custom pool is submitted in paper submission format, a prospectus, form HUD 11712 (Appendix IV-6) or form HUD 11712-II (Appendix IV-23), which must be modified, if appropriate, in accordance with MBS Guide, Ch. 24, Part 2, § B(3)(b)(iii).
- (4) A BFP certification (Appendix III-12) if required pursuant to MBS Guide, Ch. 28, Part 2 and Ch. 24, Part 2, § B(2).

The following table lists the specific pool or loan package documents required by the PPA for approval of GEM pools.

Document Name	Form Number	Appendix
Schedule of Subscribers and Ginnie Mae Guaranty Agreement	HUD 11705	III-6
Schedule of Pooled Mortgages	HUD 11706	III-7
Master Servicing Agreement	HUD 11707	III-1
Master Agreement for Servicer's Principal and Interest Custodial Account	HUD 11709	III-2
Master Agreement for Servicer's Escrow Custodial Account	HUD 11720	III-3
Master Custodial Agreement	HUD 11715	III-4
Prospectus (for Ginnie Mae I pools and Ginnie Mae II custom pools submitted in paper format)	HUD 11712 or 11712-II	IV-6 or IV-23
BFP certification, if required		III-12

### **Section C. To Be Maintained By Issuer**

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Graduated Payment Mortgage or Growing Equity Mortgage Pool or Loan Package Composition, form HUD 11748-A (Appendix VI-6). This pool or loan package composition listing provides the Issuer the information needed to determine the monthly fixed installment control for the pool or loan package at any future date.

### **PART 4. THE SECURITIES AND MARKETING DISCLOSURE**

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Preparation and delivery of the securities through the depository are described in MBS Guide, Ch. 12. The text of GEM securities held in certificated form is set forth in Appendix IV-11 for the Ginnie Mae I MBS Program and Appendix IV-25 for the Ginnie Mae II MBS Program. A partial statement of the terms of GPM securities held in uncertificated form is set forth in Appendix IV-17 for the Ginnie Mae I MBS Program and Appendix IV-27 for the Ginnie Mae II MBS Program. This section describes additional requirements for securities backed by GEM pools.

GEM securities must be clearly differentiated from other types of Ginnie Mae MBS in all forward market and other transactions. Therefore: In all communications relating to such transactions, an Issuer of a custom pool or loan package must clearly disclose that the securities to be delivered are backed by a GA pool or a GD pool. Also, before delivery, Issuers must obtain for their records from each dealer or investor to which the Issuer is selling securities a confirmation statement clearly disclosing the nature of the pool underlying the securities to be delivered.

An Issuer must retain these confirmation statements as records subject to Ginnie Mae's right of inspection.

The GEM securities are distinguishable from other Ginnie Mae MBS by the suffix "GA" or "GD" in each pool number.

### **PART 5. POOL AND LOAN PACKAGE ADMINISTRATION**

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Generally applicable administration requirements for all pool and loan package types are described in MBS Guide, Ch. 14 through 20. This section describes additional requirements for the computation of payments on GEM pools and loan packages.

Scheduled recovery of principal is determined as follows: On each annual anniversary date of the loan the FIC will increase by a predetermined percentage rate, pursuant to the terms of the mortgage. The difference between the applicable year's FIC and the interest due is the scheduled principal due.