Ginnie Mae
Our Guaranty Matters

Cash and Reconciliations

Transcript

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1. Introduction

1.1 Cash and Reconciliations

1.2 Module Purpose

Welcome to the Cash and Reconciliations.

The purpose of this training is to examine Ginnie Mae cash management and reconciliations requirements.

Learning Objectives

Learning Objectives:

- Differentiate P&I and T&I custodial bank account requirements
- Identify methods of funding P&I shortfalls
- Explain Pool to Security reconciliations
- Explain Test of Cash reconciliations
- Explain the reconciliation requirements for P&I and T&I accounts

1.3 Navigation Tutorial

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

2. Cash and Reconciliations

2.1 The Reconciliation Triangle

Reconciliation of cash in P&I and T&I accounts consists of bank account statements, internal service records, and reports to Ginnie Mae for your monthly activity.

Totals are found by navigating to RFS > Exception Feedback > Summary tab.

2.2 Keys to Quality Ginnie Mae Monthly Reporting

As noted in the MBS Guide, Chapter 16, "All Issuers must segregate the cash flow from pooled mortgages by identifying principal and interest, taxes, insurance premiums and other escrows, late charges, assumption fees, and any other fees or miscellaneous collections. All sums representing principal and interest, recoveries of principal, or any other funds due to the security holder; as well as any tax insurance premium or other funds collected for the benefit of the mortgage are Custodial Funds."

Chapter 16 provides important information on central P&I Custodial Accounts, permissible withdrawals, Automated Clearing House (ACH) Test Audit, Account Change Requirements, and Escrow Custodial Accounts, among other topics. Part 9, Clearing or Disbursement Accounts, provides guidance on Collection Clearing Accounts and P&I Disbursement Accounts. Part 11, Reconciliations of Custodial Accounts and Part 12, Transfer of Custodial Accounts provide valuable information that you should understand for your monthly reporting.

Importantly, quality monthly reporting is dependent on your Ginnie Mae program knowledge, reconciliations, tests, and internal service controls.

2.3 What Does Cash Management Include?

Cash Management includes the following:

Ginnie Mae's access to draft funds from your account; following Chapter 16 custodial account requirements; funding P&I shortfalls; completing monthly Test of Expected P&I; reconciling Mortgage Collateral to Securities Outstanding, also known as Pool to Security; completing monthly bank account reconciliations.

Miscellaneous items would include but are not limited to: Payment Clearing and Disbursement Clearing and internal reconciliations.

2.4 Ginnie Mae Access to Custodial Accounts

It is very important that all Ginnie Mae Issuers ensure they do not have any restrictions in place that would impact Ginnie Mae's in the following ways. Ginnie Mae's ability to draft funds from their Central P&I Custodial or Disbursement Accounts on the date of the draft each month.

You must ensure that the financial institution has not placed any ACH debit blocks.

Issuers should have a procedure in place for communicating with Ginnie Mae and its Central Payment and Transfer Agent (CPTA) if any issues arise or are identified. This includes available funds for the Guaranty Fee draft.

One business day prior to the draft, as a best practice, confirm that the account is fully funded and there are not any holds or system limitations.

On the day of the scheduled collection, confirm funds have been swept from the designated account. If the draft has not occurred, take the following actions. First, contact your custodial bank directly for inquiries. Second, provide your Ginnie Mae Account Executive the plan to remedy the draft failure.

2.5 Collection Clearing Account

As stated in Chapter 16, “Collection “clearing” accounts are permitted provided that all Ginnie Mae funds deposited in the clearing accounts are credited to the applicable custodial account by the 1st business day after they are received by the Issuer, or by a lockbox agent or subservicer on the Issuer’s behalf. Further, the funds must be deposited into the applicable custodial account no later than the 2nd business day following receipt.”

Let’s examine this in further detail. The Collection Clearing Account is an optional account that can be used for Ginnie Mae and non-Ginnie Mae funds.

This account needs to transfer to the P&I and T&I accounts Ginnie Mae funds within one business day.

You may recover corporate advances, provided excess funds are restored to the custodial account from this collection clearing account.

The Collection Clearing Account should be a zero balance account. This means you should be able to show detail of every cent that is outstanding in this bank account each day.

For liquidations, the clock starts with the post date of deposit on the bank statement.

Since Issuers do not post payments received after hours until the next business day, they have one business day from the date of the post or deposit.

Ultimately, the funds need to be deposited into the Ginnie Mae P&I account within two business days of receiving the funds.

2.6 P&I Custodial Bank Account Requirements

Turn your attention to the requirements for the P&I Custodial Bank Account. It must:

Be only Ginnie Mae funds.

Be a single non-interest-bearing custodial account.

Have a form HUD-11709 form for each account.

Be maintained at a financial institution capable of ACH.

Bank reconciliations must be completed within 30 days of the Issuer's cutoff date.

Meet the bank rating requirements for Custodial Account Verification (CAV).

Note: The P&I Custodial Bank Account may contain funds for more than one pool.

2.7 P&I Disbursement Account Requirements

All proceeds or recoveries relating to Ginnie Mae pool loans must be deposited into the appropriate custodial account. These include proceeds received for loan payoffs, claim payments, sale proceeds, repurchases, additional principal payments, installment collections, insurance proceeds, etc.

P&I disbursement accounts are permitted provided that the account is used exclusively for funds relating to Ginnie Mae securities. Before a disbursement account is used, a Master Agreement for Servicer's P&I Custodial Account, form HUD-11709, must be executed and submitted to the PPA. While Issuers may use separate disbursement accounts, there are essential requirements for P&I Disbursement Accounts.

They must:

Be only Ginnie Mae funds;

Be a non-interest-bearing account;

Be a zero balance account;

Be maintained at a financial institution capable of ACH;

Have only one Ginnie Mae Issuer ID# per account; and

Have a form HUD-11709 for each account.

2.8 T&I Custodial Bank Account Requirements

The requirements for T&I Custodial Bank Accounts are slightly different as follows:

Contain only Ginnie Mae funds.

May be an interest-bearing account.

Must have a form HUD-11720 for each account.

Bank reconciliations must be completed within 30 days of the Issuers cut-off date.

Meet bank rating requirements for Custodial Account Verification (CAV) for Multifamily accounts.

Must have a separate escrow custodial account for 203k FHA funds and any other funds per FHA and RD or USDA requirements.

2.9 Custodial Account Verification (CAV)

An Issuer must maintain P&I Custodial Accounts at insured depository institutions (Funds Custodians) that meet the rating requirements adopted by Ginnie Mae.

Aggregate P&I payments due from borrowers is greater than or equal to $100,000 in any one month as measured by the fixed installment control.

Project loan escrow accounts, whether required by the Federal Housing Administration (FHA), the US Department of Agriculture (USDA) Rural Development (RD) Agency, or Ginnie Mae, for any project greater than or equal to $100,000 are also subject to these requirements.

CAVs are due between the 6th and 15th business day of March, June, September, and December that the funds custodian maintaining the P&I custodial account. In the case of a multifamily pool only, the escrow custodial accounts for each pool or loan package reported meets the requirements.

2.10 Agency Rating Requirement

The institution must have a rating that meets at least one of the following criteria.

Institutions with assets of $30 billion or more must have the following.

A short-term Issuer rating by S&P of “A-3” (or better). If not available, then the long-term Issuer rating must be “BBB-” (or better).

A short-term bank deposit rating by Moody’s of “P-3” (or better). If not available, then the long-term bank deposit rating must be “Baa3” (or better).

Institutions with assets less than $30 billion must have the following.

125 (or better) by Institutional Deposits Corporation (IDC).

Or C+ (or better) by Kroll.

2.11 Depository Institutions

Depository institutions must satisfy the following three requirements to be acceptable as a Funds Custodian, even if it is rated by another organization below the minimum level specified.

They must be insured by either the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF).

They must be rated as “well capitalized” by its federal or state regulator.

And they must have a rating that meets or exceeds at least one of the agency rating requirements specified.

2.12 Knowledge Check 1

For each Account Requirement, select the appropriate account(s); then, select SUBMIT.

Account Requirement	P&I Custodial Bank Account	P&I Disbursement Bank Account	T&I Custodial Bank Account
Be a non-interest-bearing account	✓	✓	
Must be Ginnie Mae funds only	✓	✓	✓
Have a HUD Form 11709 for each account	✓	✓	
Have a HUD Form 11720 for each account			✓
Must have completed bank reconciliations within a timely manner	✓	✓	✓

3. P&I Collection Shortfalls & Funding

3.1 Overview of Shortfalls

Shortfalls can be temporary or permanent. There are different methods for funding P&I shortfalls.

P&I temporary shortfalls can be caused by the following: late payments for mortgages, NSF checks for mortgages, and incorrect advanced calculations.

Non-Recoverable Corporate Advances permanent shortfalls are caused by the following: Curtailment adjustments, loan payoff shortage, foreclosure liquidations, and T&I shortfalls.

3.2 Funding P&I Shortfalls – Corporate Advances

Companies use different methods to fund P&I shortfalls. The first is Corporate Advances. They are Issuer funds. If you use corporate advances to fund your P&I shortfalls, ensure you advance the funds to the P&I account prior to the scheduled Ginnie Mae ACH draft. Also ensure you recover the corporate advance properly. Then document all advances to calculate corporate advances.

To calculate corporate advances on Ginnie Mae I MBS, subtract the following from the P&I Bank Balance. Additional principal payments not passed through until the following month. Liquidations not passed through until the following month. Prepaid installments. Guaranty fee owed to Ginnie Mae. This results in the adjusted bank balance. Subtract the amount due to the security holders. If the resulting number is positive, you have an overage. If it is negative, you have a shortage.

3.3 Funding P&I Shortfalls – Excess Funds

Excess funds are unscheduled recoveries of principal on the pooled mortgages received during the current month that are to be passed through with the following month's payments (see MBS Guide Chapter 15-5).

They are early receipts of scheduled payments.

They minimize use of Issuer funds.

Corporate advances using excess funds are unapplied funds and service fees as well as pools sharing the same custodial account.

To calculate corporate advances using excess funds, subtract the Guaranty Fees owed to Ginnie Mae (ACH on the 10th CD) from the P&I Bank Balance. The result is the adjusted bank balance. Subtract the amount due security holders. If the resulting number is positive, you have an overage. If it is negative, you have a shortage.

3.4 Funding P&I Shortfalls – Pool Advance Agreement

The Pool Advance Agreement uses bank funds.

This method requires completion of Appendix VI-1 to cover shortfalls in P&I funds necessary to pay securities holders.

It sets forth the obligation of the bank to advance any amount necessary to cover such shortfall up to a specified maximum.

If the issuer uses a disbursement account separate from the pools P&I custodial account, Ginnie Mae must have on record a Master Agreement for Servicer's Principal and Interest Custodial Account, form HUD-11709. This form covers the disbursement account for all applicable pools and loan packages.

3.5 Test of Expected P&I

Turn your attention now to the Test of Expected P&I. It is required on every pool and performed by the Issuer. It provides the minimum dollar amount in the P&I account. It represents the total of all pool cash shortages funded by the Issuer.

Note: You may NOT net pools that have cash overages with pools that have cash shortages.

A best practice would be to fund your P&I account for any positive differences in one transaction and retain the pool level documentation for audit purposes.

Then, withdraw funds from your P&I account for any negative differences in one transaction and retain the pool level documentation for audit purposes.

3.6 Test of Expected P&I – at Cutoff

Note that the test of expected P&I calculation is only accurate when the Pool to Security reconciliation is zero.

Most servicing systems will complete a similar test of expected P&I reconciliation like the one displayed when you select Reconciliation Worksheet to examine the reconciliation of mortgage collateral to securities outstanding.

Reconciliation Worksheet

Test of Expected P&I Custodial Account Balance at Cutoff

POOL NUMBER: ___________________ REPORTING MONTH: _________________

+ Prepaid Principal and Interest (Sum of L-Record Fields 16 and 17 for each prepaid loan in the pool)	$
+ Additional Principal Payments (Sum of L-Record Field 20 for each loan in the pool)	$
+ Additional Principal Adjustment (Sum of L-Record Field 21 curtailment adjustments for each current loan in the pool)	$
+ Liquidation Principal (Sum of L-Record Field 28 for each liquidated loan in the pool prior to its liquidation)	$
+ Delinquent Service Fee (Sum of L-Record Field 14 for each delinquent loan in the pool multiplied by the service fee rate divided by the mortgage interest rate)	$
+ Service Fee (P-Record Field 5: Enter only if taken after cutoff date)	$
+ Fixed Installment on Liquidation (Sum of L-Record Field 11 for each liquidated loan in the pool)	
- Delinquent Principal and Interest (Sum of L-Record Fields 14 and 15 for each delinquent loan in the pool	
- Prepaid Service Fee (Sum of L-Record Field 16 for each prepaid loan in the pool multiplied by the service fee rate divided by the mortgage interest rate)	$
- Service Fee from Liquidations (Sum of L-Record Field 26 for each liquidated loan in the pool multiplied by the service fee rate divided by the mortgage interest rate, based on the last interest installment on the Monthly Liquidation Worksheet)	$
= Subtotal (Expected P&I Balance	$
- Reported P&I Balance	$

(Field 12 of P-Record for pool)	
= Difference: Over / Short	$

3.7 Over-Collateralized vs. Under-Collateralized Pools

Pool to Security reconciliation is required on every pool and is performed by the Issuer or your servicing system.

Recall that a pool of loans is collateralized by securities. Let's examine what happens when a pool is over-collateralized or under-collateralized.

If the pool is over-collateralized, the adjusted pool principal balance is greater than (>) the security balance. Recover unscheduled principal from liquidations or curtailments up to the amount of the over-collateralization. If the total amount of the over-collateralized pool exceeds $100.00, Issuers may only recover from any unscheduled recoveries of principal as they occur in the pool.

If the pool is under-collateralized, the adjusted pool principal balance is less than (<) the security balance. You will need to remit principal, most likely by a corporate advance. There is a $1.00 loan/pool tolerance with a maximum of $50.00 per pool.

Note: With Multifamily pools, each project is different. Therefore, if you have passed through too much money and now have a Pool to Security difference, please contact your Ginnie Mae Multifamily Account Executive for guidance.

3.8 Pool to Securities Reconciliation

Use the scroll table to review a worksheet for the reconciliation of mortgage collateral to securities outstanding.

Reconciliation of Mortgage Collateral to Securities Outstanding

POOL NUMBER: ____________________ REPORTING MONTH: __________________

+ Month end pool principal balance (Sum of Fields 23 on L-Records in the pool (except liquidate loans))	$
+ Prepaid installment principal (Sum of Fields 17 on all L-Records in the pool)	$
- Delinquent installment principal (Sum of Fields 15 on all L-Records in the pool)	$
- CD Pools Only: Scheduled Principal (Enter amount from Section 2.A. of Issuer's Monthly Reconciliation of Pool and Loan Data Worksheet)	$
+ CD Pools Only: Liquidation Principal Installment (Enter principal portion of last installment reported on Issuer's Monthly Reconciliation of Pool and Loan Data Worksheet)	$
- CD Pools Only: Additional Principal Adjustments of FIC change on GPM (Enter amount from Section 2.D. of Issuer's Monthly Reconciliation of Pool and Loan Data Worksheet)	$

= Adjusted Pool Principal Balance	$
- Securities Principal Balance (Amount in Field 10 on the P-Record as entered by Issuer)	$
= Difference: Over / Short	$

3.9 Knowledge Check 2

For each Statement, select the appropriate funding method for a P&I shortfall;

then, select SUBMIT.

Statement	**Corporate Advances**	**Excess Funds**	**Pool Advance Agreement**
This method uses unscheduled recoveries of principle on the pooled mortgages received during the current month that are to be passed through with the following month's payments.		✓	
This method uses Issuer funds that must be advanced to the P&I account prior to the ACH draft on the 15th calendar day.	✓		
This method uses bank funds and requires completion of Appendix VI-1 to cover shortfalls in P&I funds necessary to pay securities holders.			✓

3.10 Knowledge Check 3

Which of the following are nondelegable responsibilities of the Issuer under both the Ginnie Mae I and Ginnie Mae II Programs?

A. Recover unscheduled principle from liquidations or curtailments
B. Remit principal (most likely by a corporate advance)
C. Recover from Interest
D. Remit interest

Feedback:

You must recover unscheduled principle from liquidations or curtailments if a pool is over-collateralized.

4. P&I and T&I Reconciliation

4.1 Ginnie Mae P&I Account Reconciliation

Use the scroll table to review a sample format of the P&I account reconciliation. Most Issuers build this form in Excel.

Bank account reconciliations must be completed within 30 days of the Issuer's monthly reporting cut-off date for all accounts.

Details must be available listing the P&I cash book balance for each pool and loan package that uses the custodial bank account as of the Issuer’s monthly cut-off. The cash flow method is the balance at the end of the previous reporting month plus the daily deposits minus disbursements. This equals the ending P&I cash book balance. This balance is reported in Field 12 of the pool record and is displayed at the bottom of the pool screen.

Importantly, all adjusting items on the reconciliation must be completely resolved within one of the next two reporting cycles. If you have outstanding unreconciled items, it may result in an audit finding.

4.2 Ginnie Mae T&I Account Reconciliation

Use the scroll table to review a sample format of the T&I account reconciliation. Most Issuers build this form in Excel.

Just like the P&I reconciliation, the T&I bank account reconciliations must be completed within 30 days of the Issuer's monthly reporting cut-off date for all accounts.

T&I funds are required to be deposited in the Ginnie Mae escrow account within two business days, which is 48 hours of the pool settlement date (APM 15-06). The escrow balance for individual loans is reported in Field 29 of the loan record. The escrow balance for all loans within the pool is reported in Field 11 of the pool record.

Importantly, all adjusting items on the reconciliation must be completely resolved within one of the next two reporting cycles.

Note: A T&I balance on loan level for Multifamily loans is actually not required.

4.3 Pool Activity Screen

The large red box on the pool activity screen shows where all of the bank account balances are reported on the pool level.

These balances can be reported on the RFS file or entered manually online.

Select the Save and Summarize Pool button at the bottom of the screen when any information on this screen is updated. It is very important to select Save and Summarize Pool if any loan level fields are updated because certain loan level information is moved to the pool screen behind the scenes.

If you select the small plus (+) sign in the bottom left hand corner, the Custodial Bank Information displays. This is where you would update any bank account numbers or ABA routing numbers.

Be sure to select the Save and Summarize Pool button if you make any updates on this screen!

4.4 Knowledge Check 4

Bank account reconciliations must be completed within ________ of the Issuer's monthly reporting cut-off date for all accounts?

A. 10 days
B. 30 days
C. 45 days
D. The next two reporting periods

Feedback:

Bank account reconciliations must be completed within 30 days of the Issuer's monthly reporting cut-off date for all accounts.

5. Conclusion

5.1 Summary

The goal of this training module was to provide a fundamental understanding of the cash management and reconciliation requirements.

You learned that cash management includes Ginnie Mae's access to draft funds from your account. It also includes funding P&I shortfalls and completing monthly tests of expected P&I refunds and monthly bank account reconciliations.

Next, you explored what causes P&I temporary and permanent shortfalls and methods for funding the shortfalls. You examined the Test of Expected P&I that provides the minimum dollar amount in the P&I account and represents the total of all pool cash shortages funded by the Issuer. You also learned about over- and under-collateralized pools.

In addition, you examined P&I and T&I reconciliation and learned that they must be completed within 30 days of the Issuer's monthly reporting cut-off date for all accounts. You also explored a Pool Activity Screen to learn where the bank account balances are reported.

Learning Objectives

Learning Objectives:

- Differentiate P&I and T&I custodial bank account requirements
- Identify methods of funding P&I shortfalls
- Explain Pool to Security reconciliations
- Explain Test of Cash reconciliations
- Explain the reconciliation requirements for P&I and T&I accounts