

## CHAPTER 27. GRADUATED PAYMENT 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 graduated payment 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, securities marketing disclosures, and administering pools and loan packages. The pool suffix is “GP” or “GT”. The two pool types may be referred to collectively as “GPM” pools or loan packages.

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

Graduated payment loans are loans on which monthly payments increase annually for a period of years. The two GPM pool designations have the following meanings:

- (1) “GP” identifies pools or loan packages of mortgages on which monthly payments increase annually for the first five years; and
- (2) “GT” identifies pools or loan packages of mortgages on which monthly payments increase annually for the first ten years.

### 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 GPM 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 GP and GT pools and loan packages.

- (1) Amortization:

The amortization schedule of each pooled GPM provides for the deferred payment of a portion of the interest due monthly on the loan during its early years. This deferred monthly mortgage interest is recouped through the process of "negative amortization," that is, it is added monthly to the remaining principal balance of the mortgage.

Deferred monthly mortgage interest is defined as the difference between the interest calculated on the outstanding security balance at the mortgage rate minus the scheduled payment due on the mortgage. If this amount is positive, it is added to the remaining principal balance of the mortgage; if it is negative, it is subtracted from the remaining principal balance of the mortgage.

A GPM must not require either repayment in equal monthly installments during the early years (the first 5 years for GP or 10 years for GT) or the commencement of amortization by the month following the issue date of the security.

(2) Buydowns:

GPM loans are not eligible for buydown consideration.

(3) Refinance requirements:

If a VA GPM loan is refinanced into another GPM loan, a new appraisal is required in order for the new loan to be eligible for pooling. If a VA GPM loan is refinanced into a fixed rate loan at a lower interest rate and no cash is taken out as a result of the transaction, no new appraisal is required in order for the new loan to be eligible for pooling.

**Section B. Pool and Loan Package Requirements**

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(1) Minimum pool and loan package balances:

As of the date of issue, each GPM 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 GPM loan package must have an original principal amount of at least \$25,000.

(2) Pool and loan package composition:

Subject to MBS Guide, Ch. 27, Part 2, § A(2), a GPM pool or loan package must contain only GP mortgages or only GT 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 GPM 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 policy)		
Evidence of mortgage insurance or guaranty provided by FHA, VA, RD, or PIH (not required for manufactured housing). 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.		

**Section B. For Approval by PPA and Ginnie Mae**

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The GPM 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 "GP" or "GT".
- (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 11747 (Appendix IV-5) or form HUD 11747-II (Appendix IV-22), 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. 27, Part 2 and Ch. 24, Part 2, § B(2).

The following table lists the pool and loan package documents required by the PPA for approval of GPM pools and loan packages.

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 pool and Ginnie Mae II custom pools submitted in paper format)	HUD 11747 or 11747-II	IV-5 or IV-22
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

Preparation and delivery of the securities through the depository are described in MBS Guide, Ch. 12. The text of GPM 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 information about, and requirements for, securities backed by GPM pools.

### Section A. Negative Amortization

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To the extent that "negative" principal payments (or "deferred interest" payments) are made to security holders, the outstanding principal balances of the securities are increased.

### Section B. Marketing Disclosure

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GPM 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 GP pool or a GT 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 GPM securities are distinguishable from other Ginnie Mae MBS by the suffix "GP" or "GT" in each pool number.

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

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 and the administration of GPM pools and loan packages.

Because of the annual changes in the monthly payment "constants" for each mortgage, and because of the negative amortization feature of the pooled mortgages, accounting for GPM securities will be comparatively complex. Issuers must take particular care to avoid errors and to maintain complete and accurate accounting controls.

### **Section A. Computation of Payment**

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Each monthly installment payable to a security holder will equal the sum of interest due, plus scheduled recovery of principal and any unscheduled recoveries of principal on the mortgages.

- (1) Scheduled interest due on each mortgage is the amount determined as described in MBS Guide Ch. 27, Part 2, § A(1), less the applicable servicing fee.
- (2) Scheduled recovery of principal is the difference between the sum of the FIC for each mortgage less the interest due on the mortgage as provided in the related amortization schedule. This amount may be negative in the early years of a GPM, which will cause the remaining principal balance to increase. Any negative amounts are considered deferred interest and are added to the security balance.
- (3) Unscheduled recoveries of principal as defined in MBS Guide Ch. 15, Part 4, § C may offset the effect of deferred interest or negative amortization. If so, the pool or loan package balance may decrease in the early years.

### **Section B. Monthly Reporting Requirements**

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Monthly reporting on GPM pools and loan packages differs from reporting related to other pool types, as follows:

RFS Issuer Monthly Report of Pool and Loan Data (Appendix VI-19): Any Fixed Installment Control (FIC) adjustments are required to be reported in Field 3 of the RFS Pool Record. The new FIC is to be reported in Field 4. Of special note is Field 8 (Deferred GPM Interest) on the RFS Pool Record in which the Issuer is to report deferred interest paid as principal. This information is necessary in reporting interest paid to security holders as required by the Internal Revenue Service. The Issuer must follow the monthly data submission instructions provided in the RFS Issuer Monthly Report of Pool and Loan Data (Appendix VI-19). Information reported to RFS for FIC changes must be consistent with the Form HUD11748A (Appendix VI-6).