

CHAPTER 6. GINNIE MAE ISSUERS OF MORTGAGE-BACKED SECURITIES AUDIT GUIDANCE

6-1 Program Objective. The Government National Mortgage Association, also known as Ginnie Mae, is a wholly-owned Government corporation. Created by Congress in 1968, Ginnie Mae's mission is to support expanded, affordable housing in America by providing an efficient government-guaranteed secondary market vehicle linking the global capital markets with the federal housing market. It does this by facilitating secondary market activities for packaged residential mortgages. Through its well known mortgage-backed securities (MBS) and multiclass programs, Ginnie Mae creates a vehicle for channeling funds from the securities markets into the mortgage market and helps to increase the supply of credit available for housing.

6-2 Program Procedures. The parties involved in the MBS program are Ginnie Mae, the securities issuer, the securities dealer, the investor, a custodian of mortgage documents, a mortgage servicer (often the issuer) and perhaps a transfer agent. Once approved by Ginnie Mae, the issuer of the mortgage-backed securities is responsible for acquiring eligible mortgages, creating a pool of mortgages to be held by a custodian, issuing the securities backed by a pool of mortgages, arranging for the marketing of the securities, servicing the mortgages in the pool, administering the securities outstanding and making the full and timely payment of all amounts due to the investors. The issuer is responsible for using its own resources to cover shortfalls in amounts due to investors that result from mortgage delinquencies or foreclosures..

For each pool or loan package of mortgages and accompanying issue of securities, there can be only one issuer. While the issuer is responsible for servicing the pool or loan package of mortgages, the servicing may be carried out on behalf of the issuer, by another servicer (referred to as a subcontract servicer), which must also be a Ginnie Mae-approved issuer. The issuer is responsible for and fully liable for the satisfactory performance of any work performed by a subcontract servicer. All activities of any subcontract servicer must be covered by a contractual agreement between the issuer and the subcontract servicer, and approved by Ginnie Mae.

The issuer may not delegate or transfer to others its obligations to: (a) make monthly payments to investors; (b) submit required monthly reports to Ginnie Mae; (c) make the payment of the guarantee fee to Ginnie Mae; (d) withdraw mortgage documents from the document custodian; and (e) maintain the Register of Certificate Holders (HUD Handbooks 5500.1 and 5500.2).

6-3 Reference Material. Ginnie Mae program regulations are contained in 24 CFR Part 300 through 395. HUD Handbooks for Ginnie Mae are as follows:

HUD Handbook No.	Title
5500.1 , Rev. 6	Government National Mortgage Association Mortgage-Backed Securities Guide for the Ginnie Mae I Program
5500.2	Government National Mortgage Association Mortgage-Backed Securities Guide for the Ginnie Mae II Program

The issuer should have a copy of the appropriate guide(s). Information on the most recent issuances of the guides may be obtained from Ginnie Mae at (202) 401-8794. Current guides are also available on the Internet at www.ginniemae.gov.

6-4 Reporting Requirements. Ginnie Mae issuers of MBS, including those Ginnie Mae-approved issuers who are inactive, are required to submit the following financial statements, reports and supplemental information on an annual basis:

Type of Report Reference in IG 2000.4 REV-1

Financial Statements
and opinion Chapter 2, Section 2-1

Internal Controls Chapter 2, Section 2-1

Compliance with Specific
Requirements Chapter 2, Section 2-1

Supplemental Information:

Issuer's Adjusted Chapter 6, Section 6-5
Net Worth

Parent's Adjusted Chapter 6, Section 6-4
Net Worth
(if appropriate)

Insurance Requirement Chapter 6, Section 6-5

Corrective Action Plan Chapter 1, Section 1-9
(if appropriate)

A. Audited Financial Statements. Issuers are required to submit audited annual financial statements which include a balance sheet, statement of operations, cash flow statement, notes to the financial statements, and supplemental schedules as stipulated in Chapter 2 of this guide. The financial documents are to be submitted to Ginnie Mae's Review Agent using the Transmittal/Checklist presented in Attachment F.

- B. Other Reports . In addition to the financial statements, all issuers must submit a report on internal controls, and a report on compliance with specific requirements. A sample report on consideration of internal controls and report of compliance with specific requirements are included in Chapter 2.

The computation of the issuer's and issuer's parent adjusted net worth and computation of issuer's insurance requirements are to be reported on supplemental schedules to the basis financial statements. The computation of the issuer's and issuer's parent adjusted net worth is designed to eliminate those assets -considered unacceptable by Ginnie Mae. Note that the adjusted net worth computation for the issuer's parent is only required when the issuer's parent presents a consolidated financial statement along with consolidating schedules that reflect the financial condition of the issuer and the issuer makes up less than 40 percent of the parent's equity. The required format for presenting this analysis is provided in Attachment B for the issuer and Attachment C for the issuer's parent. The required format for presenting the analysis of the issuer's insurance is presented in Attachment D.

Ginnie Mae requires submission of audited financial statements exclusively of the issuer. However, Ginnie Mae will accept alternative financial statements (i.e., not exclusively of the issuer) if certain conditions are met as stated below:

1. For issuers that make up 40 percent or more of the equity of its parent, Ginnie Mae will accept consolidated financial statements of the issuer's parent provided: the consolidating schedules, which distinguish the balance sheet and operating statement of the Ginnie Mae issuer are included with the parent's audit. The consolidating schedules must be subjected to the auditing procedures applied to the consolidated statement of the parent.
2. For an issuer whose equity is less than 40 percent of the equity of its parent, Ginnie Mae will accept consolidated financial statements of the issuer's parent provided the conditions in item (1) above are met and the issuer's parent enters into a Corporate Guarantee Agreement (Agreement) with Ginnie Mae to guarantee the performance of the issuer. The parent must meet the terms and conditions of the Agreement for the issuer to remain in good standing with Ginnie Mae.

Furthermore, the issuer is required to submit with its parent's consolidated audited financial statements, an adjusted net worth calculation on

the parent. The parent's net worth, after adjustments for unacceptable assets, is required to be at least 110 percent (120 percent for issuers approved to issue manufactured housing or multifamily pools) of the required net worth of the Issuer. The parent's audited financial statement and adjusted net worth calculations must be audited by the parent's auditor in accordance with this Audit Guide. The parent must also demonstrate in its adjusted net worth calculation that it meets the above 110 percent (120 percent for issuer approved to issue manufactured housing or multifamily pools) requirement.

The required format for presenting the "Presentation of Adjusted Net Worth Calculation for Issuer's Parent" is provided in Attachment C of this Chapter.

3. For issuers that are federally or state-regulated institutions, such as those under the supervision of Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and office of Thrift Supervision, Ginnie Mae will accept audited financial statements on the issuer's parent, as long as the issuer makes up 90 percent or more of the parent's equity and there is no more than one bank holding company covered in the audit.

In addition to the audited financial statement of the issuer's parent, the issuer must submit its unaudited regulatory report (Call report, OTS Report or 10K).

Although Ginnie Mae may accept alternative audited financial statements, all other required reports (internal controls, compliance with specific requirements, adjusted net worth calculation, insurance requirement) must be prepared by the IA exclusively for the issuer.

A sample auditor's report on the consolidating balance sheet and operating statement is included as Attachment E to this Chapter.

- C. Submission of Reports. Two copies of the audited financial statements and auditor's reports should be submitted by the issuer, independent of whether the issuer had securities or commitment authority outstanding. Reports must be submitted within 90 days of the end of the issuer's fiscal year to Ginnie Mae's Review Agent. The Review Agent's address may be obtained from the address list "Addresses" found in HUD Handbooks 5500.1 and/or 5500.2.

- D. Single Auditor Approach

In many instances it may be to the advantage of the custodian, the issuer, or both to engage an IA to conduct a review of the mortgage documents held by a particular custodian for several issuers rather than to have each issuer require that a different IA review that part of the custodial documents pertaining to each issuer's pools. The single auditor approach also may solve practical problems associated with travel when the issuer, custodian, and IAs are not located near each other, thus reducing the cost of compliance while assuring necessary audit coverage.

To determine if the single auditor approach is practical in a given situation, the IA and issuer should contact the custodians holding the issuer's pool loan documents to determine the extent of the custodian's activities with other issuers. Arrangements then may be reached as to the most effective approach to conducting the review of custodial documents. Under the single auditor approach, the custodian will arrange with an IA to review documents relating to each of the respective issuer's pools. Separate reports then will be prepared by the IA for each issuer's pools.

The single auditor approach or the review of custodial documents by the issuer's IA are both acceptable methods in completing the Custodial Review section of the audit guide.

6-5 Compliance Requirements and Suggested Audit Procedures

A. Federal Financial Reports.

1. Compliance Requirement. Issuers participating in HUD-assisted activities are required to ensure that financial status reports contain reliable financial data and are presented in accordance with the terms of applicable agreements between the entity and HUD. The individual agreements contain the specific reporting requirements that the entity is to follow.
2. Suggested Audit Procedures
 - a. Identify all required financial reports by inquiry of the issuer.
 - b. Obtain an understanding of the auditee's procedures for preparing and reviewing the financial reports.
 - c. Select a sample of financial reports, other than those which are included in the audited financial statements, and determine that the reports selected are prepared in accordance

with HUD instructions.

- d. For the sample, trace significant data to supporting documentation, i.e. worksheets, ledgers, etc. Report all material differences between financial reports and issuer records.
- e. Review significant adjustments made to the general ledger accounts affecting HUD-assisted activity and evaluate for propriety.

B. Eligibility to Issue Mortgage-Backed Securities

1. Compliance Requirement. To be approved and maintain eligibility to issue Ginnie Mae-guaranteed mortgage backed securities and act as administrator of such securities, an applicant must meet and maintain the following requirements:

- a. Be an FHA-approved mortgagee in good standing. A State or local government instrumentality that is an FHA-approved mortgagee is eligible. Mortgagees approved by FHA only as loan correspondents are not eligible to be Ginnie Mae issuers.
- b. For issuers approved by Fannie Mae or Freddie Mac, a loss of either approval may cause the issuer to become ineligible to issue and service Ginnie Mae mortgage-backed securities.
- c. Have as a principal element of its business operation the origination or servicing of mortgage loans.
- d. Conduct its business operations in accordance with accepted sound mortgage lending and servicing practices, ethics, and standards, and have the experience, management capability, and access to adequate facilities necessary to assure Ginnie Mae of its ability to issue and service mortgage-backed securities. Except in instances where the issuer can demonstrate that an alternative arrangement constitutes a sound business practice, the issuer must have at least

three full-time officers and one additional employee, each with sufficient experience in the origination and/or servicing of mortgages of the type to be pooled to assure an ability to manage the pool on a long-term basis; the officer in charge of day-to-day operations must be a fulltime employee solely of the

issuer firm; and the issuer's offices must be self-contained and separate from those of any other entity.

- e. Maintain policies that prohibit any discrimination of a borrower based on race, religion, color, sex, national origin, age, familial status or disability. The issuer shall comply with any applicable rules, regulations, and orders of general applicability issued under Title VI of the Civil Rights Act of 1964; Executive Order 11063, Equal Opportunity in Housing, issued November 20, 1962; Title VII of the Civil Rights Act of 1968, as amended; and with applicable rules and regulations of the Federal Housing Administration. Moreover, this section incorporates by reference section 202 of Executive Order 11246, Equal Employment Opportunity, issued on September 24, 1965, as amended. The issuer is required to comply with the implementing rules and regulations of the Department of Labor (41 CFR Part 60-1) and the Department of Housing and Urban Development (24 CFR Part 130).
- f. Have and maintain fidelity bond coverage and a mortgage servicing errors and omissions policy based on the issuer's total servicing portfolio in accordance with HUD Handbooks 5500.1 , Chapter 2 and 5500.2, Chapter 3, which names Ginnie Mae as loss payee.
- g. Maintain a net worth based on an audited financial statement prepared in accordance with generally accepted accounting principles in assets acceptable to Ginnie Mae, as outlined in Section G. 2. of this Chapter.

2. Suggested Audit Procedures

- a. Determine that the issuer meets requirements covered in Section 6-5, paragraph B. above.
- b. Test whether the issuer has and follows an established policy which prohibits discrimination in housing and lending as provided by HUD Handbooks 5500.1, Chapter 2, 5500.2, Chapter 3 and Section 1-10 of this guide.
- c. Recompute the issuer's required fidelity bond and mortgage servicing errors and omissions coverage policy at the end of the fiscal year in accordance with Handbooks 5500.1, Chapters

2 and 6, and 5500.2, Chapter 3. Verify that Ginnie Mae is named as the loss payee. Also inquire that the required levels of insurance were maintained throughout the year, with testing of the adequacy of insurance at least on a quarterly basis. Also verify that the fidelity bond and errors and omissions policies are written by an insurance carrier which has a Best's rating of B+ or better, and is specifically licensed or authorized by law to transact business with the state or territory where the name insured has its corporate headquarters. Lloyd's of London, although not rated, is an acceptable insurer.

An issuer's minimum insurance coverage must comply with the following, based on the issuer's total servicing portfolio irrespective of ownership:

- (1) For issuers with a total mortgage servicing portfolio of \$100 million or less: \$300,000.
- (2) For issuers with a total mortgage servicing portfolio of more than \$100 million and up to \$500 million: \$300,000, plus 0.15 percent of the amount of total servicing in excess of \$100 million.
- (3) For issuers with a total mortgage servicing portfolio of more than \$500 million and up to \$1 billion: \$900,000, plus 0.125 percent of the amount of total servicing in excess of \$500 million.
- (4) For issuers with a total mortgage servicing portfolio of more than \$1 billion: \$1,525,000, plus 0.1 percent of total servicing in excess of \$1 billion.

The maximum mortgage servicing errors and omission insurance coverage requirement is \$20,000,000. The maximum fidelity bond coverage is not limited.

The required format for presenting the "Presentation of Insurance Requirement" is provided in Attachment D of this Chapter.

- d. Determine whether the issuer is an affiliate (parent, subsidiary, or related party) of any other Ginnie Mae issuer(s). All affiliated Ginnie Mae issuers should be identified in

the auditor's verification of insurance. If an affiliates) is covered by the same insurance policy, then the servicing of each issuer must be added to calculate the combined total servicing portfolio. The amount of this combined servicing portfolio should be used to determine the minimum required insurance coverage.

- e. Compare the issuer's adjusted net worth (net worth reported in the audited financial statements as adjusted for any Ginnie Mae unacceptable assets) to the minimum required net worth as discussed in Section 6-5, paragraph G.2 of this Chapter.

C. Review of Custodial Documents

1. Compliance Requirements. Documents relating to the pooled mortgages are required to be held on Ginnie Mae's behalf for the life of the pool by a custodial institution. It is the issuer's responsibility to arrange for such an institution to hold the documents. The custodial relationship must be evidenced by the execution of a "Master Custodial Agreement" with the custodian certifying on the reverse side of the Schedule of Pooled Mortgages that it has examined and has in its possession the required documents.

A custodial institution is permitted to function as custodian to more than one issuer. An issuer may use more than one custodian. Pools issued on or after February 1, 1979 must have a single custodian, unless Ginnie Mae has given written permission for more than one custodian.

A custodial institution must meet the eligibility requirements as specified in Chapter 3 of the Ginnie Mae Guide, Standards for Documents Custodians, hereinafter referred to as Document Custodial Manual (HUD Handbook 5500.1, Appendix 77 and HUD Handbook 5500.2, Appendix 53).

The review of the document custodian must be performed at the document custodian facility. If the issuer's securities outstanding is less than \$25 million and there has been no increase in the number of pools held by the document custodian within the last fiscal year, Ginnie Mae will permit an off-site review of the document custodian. The Auditor must follow the procedures in Section 6-5, paragraph C.2. below. All document custodians must have an on-site review every three years.

2. Suggested Audit Procedures

- a. Determine if the issuer uses more than one custodial institution. If more than one custodian is used, at least one custodial institution must be reviewed each year and all custodial institutions must be reviewed within a three year cycle. Determine that the custodial institution meets the following eligibility requirements.
 - (1) Is a federally regulated financial institution in good standing with its primary regulator, and not in receivership, conservatorship, liquidation or any other management oversight by its primary regulator, unless operating under an approved management plan.
 - (2) Maintains a secure, 1 and 1/2 hours fire resistant storage facility with adequate access controls.
 - (3) Utilizes knowledgeable employees in its custodial function to handle mortgage documents and perform custodial functions.
 - (4) Maintains for review annual financial statements audited by an independent auditor for itself or its parent.
 - (5) Maintains the minimum insurance requirements of its primary regulator and maintains coverage to indemnify against losses involving Ginnie Mae pools and loan documents custody.
 - (6) Maintains updated written procedures within its operation, in addition to the Document Custodian Manual.
 - (7) Satisfies eligibility requirements and other requirements as directed by Ginnie Mae.
 - (8) Self custodial issuers must maintain a separate trust department which is physically separate from the servicing area and operations. It must also have obtained prior approval to exercise fiduciary powers from its primary regulator. Such fiduciary powers must include ordinary trust services such as personal trust services, personal

representative services (executor), guardianship, custodian services and/or investment advisory services offered to the public and not be limited to maintaining custody of valuable documents for Ginnie Mae issuers. The trust service function must be subject to periodic review or inspections by its primary regulator.

- (9) If custody is by an affiliate, the custodial institutions must either meet all the requirements in paragraph C.2.a.(8) above, or if the custodial documents are not held in the trust department, the custodian must provide evidence that there is a vertical independence between the issuer and the custodial/warehouse institution.
- b. Verify that the custodial institution maintains or performs the following inventory accounting requirements:
- (1) Maintains an Issuer Master File which contains the Issuer Custodial Register, any blanket legal opinions, copy of the issuer's corporate resolution for a name change, and any other applicable issuer level documents.
 - (2) Maintains an Issuer Custodial Register which includes a list of pools currently in custody (must provide pool identification numbers), the actual and/or due dates for final certification and recertification, and a count of the total number of pools in custody.
 - (3) Maintains a Pool Master File for each pool in custody which contains a copy of the Master Custodial Agreement, Schedule of Pooled Mortgages, form HUD 11711B (Certification and Agreement), form HUD 11711A (Release of Security Interest) if applicable, original blanket interim assignments) (a copy of which is included in each individual loan file to which the blanket interim assignment applies), copies of opinion(s) from qualified outside legal counsel (originals maintained in the issuer master file), original pool level waiver letters from Ginnie Mae, and all forms HUD 11708 (Request for Release of Documents) for liquidated release codes.

- (4) Has performed an Annual Physical Inventory of all pools held for the issuer, which will include at a minimum a reconciliation of the pool numbers on the issuer custodial register to a current issuer provided listing of pools, and the pool numbers on the issuer custodial register agree to the pool master files in custody.
- (5) Maintains a Nonliquidation Release Inventory/File of all forms HUD 11708 submitted on or after July 1, 1992 on the basis of the nonliquidation reason code. If a file is maintained, copies of the forms HUD 11708 must be kept in chronological order by document release date. If an inventory is maintained it must contain the pool number, FHA/VA/Rural Housing Service of the Department of Agriculture (RHS) case number or loan number, and the document release date.

If any documents have been released for more than 180 days, the custodian is required to notify the issuer of the overdue documents every 90 days. The notification must be in writing and documented in the inventory or file.

- c. If more than one custodial institution is used, it will be necessary for the issuer to identify which pools are at which custodial institution in order to select a sample of pooled mortgages for that institution. If the issuer uses only one custodial institution, obtain a list of the pools. Select a representative sample of Ginnie Mae pools for review. For pools selected determine if the pools include:

- (1) An original form HUD 11711A (Release of Security Interest) executed by any and all secured institutions) relating to any or all mortgages included in the mortgage pool that are being reviewed and that were closed after March 31, 1979. The form should state:

"The lending or other financing institution named herein agrees to relinquish any and all right, title or interest it may have in mortgages to be

placed in this Ginnie Mae mortgage-backed securities pool no later than the date and time of delivery (release) of the securities by Ginnie Mae and/or its agent."

and/or

(2) An executed original form HUD 11711B (Certification) signed by an officer of the issuer covering the mortgages that are being reviewed and that were closed after March 31, 1979, stating that:

(a) Release(s) of security interest (form HUD 11711A) delivered by the issuer to the custodian comprises) all evidence of any security agreements affecting any and all mortgages in this pool; or

(b) Other than the unrecorded assignment to Ginnie Mae, there are and will be no other security agreements affecting any mortgages in this pool.

Note: If there has been a transfer of issuer responsibility and the pool was issued more than three years ago, the forms HUD 11711A and/or 11711B are not required to be in the custodial file.

d. Obtain a copy of the original Schedule of Pooled Mortgages (form HUD 11706) ¹ from the document custodian for each of the pools selected. The purpose of the Schedule of Pooled Mortgages is

¹ For programs other than the Single Family Mortgage-Backed Securities Program, the form number, prior to January 1, 1996, was:

- Project loans: form HUD 11721.
- Manufactured home loans: form HUD 11725.

to provide a means of identifying and controlling mortgages placed in the pool which secure the obligations issued. Accordingly, select a sample of pooled mortgages from the Schedule of Pooled

Mortgages.

- e. For sampled mortgages, review the custodial files for the following documents and compare the information shown on these documents to the information on the Schedule of Pooled Mortgages. Procedures for the custodian document review are contained in Paragraph 8-4 and Appendix 77 of Ginnie Mae Handbook 5500.1 and Paragraph 7-5 and Appendix 53 of Ginnie Mae Handbook 5500.2. Reconcile and report on any differences.

- (1) The original note or other evidence of indebtedness endorsed in blank and without recourse.
- (2) An assignment to Ginnie Mae of the mortgage or other security instrument in recordable form but not recorded. The assignments to Ginnie Mae can be in blanket form. The blanket assignments must apply to mortgages in the same pool and same recording jurisdiction. If the pool was issued after March 31, 1979, and if the mortgage was originated by a mortgagee other than the issuer, there also must be a recorded assignment, if state law requires recordation in order to make the assignment valid against all lien holders from the originating mortgagee to any intervening interest holder and from such holder to any further holders of mortgage ownership. An assignment to the issuer must immediately precede the unrecorded assignment to Ginnie Mae. These interim assignments must be either originals or certified copies of the originals and, if required by state law to assure validity, be either recorded or certified by the issuer to have been transmitted for recordation.

- f. Determine that within 12 months of the issuance of the securities, transfer of issuer and/or

custodial responsibility that the document files contain the following documents. Report any missing documentation as a finding.

Within 12 months of issuance of the securities the following documents must be in the custodial file.

- (1) Original evidence of insurance or guaranty signed by FHA, VA or RHS. If the loan is a VA vendee loan or contract, there will not be evidence of guaranty. If evidence of insurance or guaranty is not on file, determine from the issuer why the required documents are missing. Loans that cannot be insured or guaranteed must be withdrawn from the pool but only after obtaining Ginnie Mae's approval.
- (2) Original recorded mortgages (or other security instruments) signed by the mortgagor securing repayment of the indebtedness. (NOTE: Compare the mortgagor's name as it appears on the Schedule of Pooled Mortgages with that which appears on the recorded mortgage to assure identity). Copies of the recorded mortgage are acceptable if the copies clearly show the document recording information.
- (3) Evidence that a mortgagee title insurance policy has been obtained or other evidence of the title's acceptability to FHA, VA or RHS (not required in cases involving conveyance of HUD Secretary-owned property, if an exception has been authorized by Ginnie Mae, or VA vendee loans or contracts). Copies of mortgagee title insurance policies are acceptable.
- (4) A complete chain of original recorded interim assignments. These are not required if the mortgage is retained by the original lender. Copies of the recorded interim assignments are acceptable if the

copies clearly show the document recording information.
- (5) Verify that the custodian has completed the final certification on the back of the Schedule of Pooled Mortgages.

Within 12 months of a transfer of issuer responsibility the following documents must be in the custodial file and the custodian is required to have completed recertification of the appropriate

pools:

- (6) An updated endorsement on the promissory notes;
- (7) A recorded assignment of the mortgage to the issuer, and
- (8) All documents required in paragraphs C.2.d and C.2.e above are in the custodial files.

Within 12 months of a transfer of custodial responsibility all documents required in C.2.d and C.2.e above must be in the custodial file. The custodian is required to have completed recertification of the appropriate pools within 12 months.

Report any pool(s) for which the final certification or recertification is past due and has not been completed.

- g. Determine that documents and/or loan files released from custodial files are evidenced by a Request for Release of Documents (form HUD 11708). For the sampled mortgages:
 - (1) Ascertain whether the custodian is in possession of a form HUD 11708 for documents and/or files removed from the custodian's care.
 - (2) Prepare a list of missing documents and/or loan files not supported by a form HUD 11708. This listing should be reviewed with the custodian and subsequently with the issuer. Any items not reconciled should be reported as a finding.

- h. Select paid-in-full and/or foreclosed mortgages listed on form HUD 11708 on a test basis. Verify that these mortgage documents are no longer with the custodian. The custodian should note this removal on its inventory control record (The Schedule of Pooled Mortgages).

Any discrepancies should be noted on an exceptions listing noting the Pool Number, Mortgagor, and the defect, and reported as a finding. This listing should be reviewed with the custodian and errors corrected by the custodian. The custodian should furnish

this listing to the appropriate issuers and the IA should subsequently review with the issuer the reasons for any missing or deficient documents. Missing documents for mortgages which are still current by the issuer's records could be an indication that the issuer has received mortgage pay-offs and not passed through payments to securities holders .

- i. In lieu of an on site audit of the document custodian, the following procedures are acceptable, provided the conditions set forth in section C.1. above have been met.
 - (1) Confirm that the document custodian meets all the eligibility requirements as stated in Section 6-5, paragraph C.2.a. above. A written certification from the document custodian that it meets all eligibility requirements is acceptable.
 - (2) Confirm that the document custodian maintains or performs the required inventory accounting required in Section 65, paragraph C.2.b. above. A certification from the document custodian that it (i) maintains the Issuer Master File for the issuer, (ii) maintains a Pool Master File for each pool in custody for the issuer, (iii) has performed and provided the date of the Annual Physical Inventory for all pools held for the issuer, (iv) maintains a Non-Liquidation Release Inventory/File of all forms HUD 11708 submitted on or after July 1, 1992 on the basis of the nonliquidation reason code, and (v) obtains from the document custodian a copy or list of any documents that have been released for more than 180 days and have not been returned to the document custodian. Item (v) above should be reviewed with the issuer and any items not reconciled should be reported as a finding.
 - (3) Select a representative sample of Ginnie Mae pools for review and request verification from the document custodian of the following:
 - (a) Using the issuer's trial balance, the custodian must certify that the

loans on the trial balance agree to the loans in custody.

- (b) Verify that all pools are properly certified and report any pool past due for certification in accordance with Section 6-5, paragraph C.2.f. above.

D. ISSUER'S ADMINISTRATION OF POOLED MORTGAGES

1. Compliance Requirement. Administration of the pool of mortgages and of payments to securities holders is the responsibility of the issuer. Servicing of pooled mortgages must be carried out in accordance with generally accepted practices in the mortgage lending industry. Contractual requirements with respect to pool administration are contained in the guaranty agreement executed by the issuer and Ginnie Mae for each pool. The servicing system must be capable of producing at any time for any mortgage, an accounting which identifies the Ginnie Mae pool number for each listed mortgage, and for each monthly due date, the amount of each collection, disbursement, advance, or adjustment and indicating the latest outstanding balances of principal, deposits, advance and unapplied payments. In no instance may the issuer or subservicer remove a loan

from a pool, reduce a loan balance or remove funds from a pool custodial account unless in compliance with the Ginnie Mae Guide and authorized by Ginnie Mae.

The issuer may incur losses for pooled loans that are not fully insured such as coinsured multifamily loans, manufactured housing loans and Department of Veterans Affairs (VA) guaranteed loans. For each of these loan types, should a foreclosure take place, the issuer may not be fully reimbursed through the claims process. Any shortfall in collections must be paid to the securities holder out of the issuer's own funds. These shortfalls have been particularly large in the VA program. Special attention should be given to issuers with a concentration of VA loans in declining market areas.

In the VA program, should a default occur, the VA will determine the cost effectiveness of bidding at the foreclosure sale. VA will not bid if its losses will exceed the guarantee amount. Consequently, this no-bid, will be costly to the issuer as it must pay off the security holder for

the outstanding mortgage balance.

2. Suggested Audit Procedures

- a. Test whether the issuer meets Ginnie Mae's requirement for separate custodial bank accounts for principal and interest collections (non-interest bearing) and tax and insurance escrow funds (option of interest bearing) applicable to pooled mortgages with the principal and interest accounts held in institutions meeting Ginnie Mae's rating requirements (All Participants Release, July 10, 1990). Test the custodial account titles for compliance with requirements established by Ginnie Mae Letter Agreements, Forms HUD-11709 and 11720. If a principal and interest disbursement clearing account is used, assure that it is used only for payments to Ginnie Mae securities holders. (NOTE: These accounts may contain funds for more than one pool provided that the issuer maintains separate accounting records for each pool).
- b. Review monthly collections of mortgage principal and interest and collections of claims on defaulted and liquidated mortgages to ascertain that funds have been deposited in the proper custodial accounts on a daily basis.
- c. Test whether the issuer is making payments of interest, principal, and unscheduled principal to securities holders by the 15th of the month. Test whether partial prepayments, prepayments in full, assignments, and foreclosures are passed through to the securities holders in the regular monthly payment following the month of receipt. Test that all such recoveries are recorded on Mortgage-Backed Securities report controls and the pool collateral is removed from the custodian's possession and the transaction is supported by documentation.
- d. Test whether disbursements from principal and interest custodial bank accounts are authorized pursuant to the Guaranty Agreement.
- e. Test whether the issuer is disbursing payments to Ginnie Mae I securities holders on a date that can be expected to result in receipt of the funds by the securities

holders by the 15th of the month.

- f. Review a representative sample of payments to securities holders to determine that such payments were made to those shown in the securities holders register for the pools being tested.
- g. Compare mortgages listed in the issuer's Liquidation Schedule (Form HUD-11710E) to those identified on Form HUD-11708 held by the custodian as having been withdrawn from the pool to ensure proper pass-through of proceeds to securities holders.
- h. Test whether the issuer is using its own resources to:
 - (1) Make advances to the pool accounts to cover shortfalls in collections from mortgagors.

(NOTE: Limited exceptions to this requirement are included in the Ginnie Mae Handbooks.) Special attention should be given to the issuer's calculation and use of excess funds, particularly for internal reserve pools.
 - (2) Cover principal amounts not recovered in claim settlements or which are due in connection with defective loans. (Issuers are required to "buy out" uninsured or otherwise defective loans from the pools in accordance with instruction in the Handbooks Ginnie Mae 5500.1 and 5500.2 using the issuer's own funds and only after receiving Ginnie Mae approval.)
- i. Obtain an understanding of the issuer's controls to project the need for and availability of funds. These controls should allow the issuer to make required advances to securities holders, as required under Section 4.02 of the Guaranty Agreement.
- j. Test whether the issuer incurred losses for pooled loans not fully insured such as coinsured multifamily loans, manufactured housing loans, and Department of Veterans Affairs guaranteed loans. Determine that the issuer has disclosed a contingent liability in the financial statements.
- k. Test that the issuer has a system to follow up on and obtain the required documents to enable

11710E

Issuers reporting: All Ginnie Mae issuers of record
Frequency of reporting: Monthly
Deadline for submission: 10th day of following month

b. Trial Loan Balance Information

Issuers reporting: All Ginnie Mae issuers of record

Frequency of reporting: Quarterly
Deadline for submission: 45 days of end of calendar quarter

c. Mortgage Bankers Quarterly Financial Reporting, Form HUD-11750

Issuers reporting: Mortgage bankers not federally regulated

Frequency of reporting: Quarterly
Deadline for submission: 60 days after end of calendar quarters and 90 days after end of calendar year

d. Issuers must report to Ginnie Mae monthly on each pool. Such reports must be provided on Form HUD-11710A (Issuer's Monthly Accounting Report), Form HUD-11710E (Liquidation Schedule) and Form HUD-11710D (Issuer's Monthly Summary Report). Issuers with more than 100 pools (including Ginnie Mae I pools and Ginnie Mae II pools and loan packages) are required to report in electronic form using the procedures and format specified in Handbook 5500.1, Chapter 11.

Additional or alternative reports are required in connection with pools other than those for single family level payment loans, as explained in the chapters and appendices for the other programs.

The reports, along with supporting documents, must be sent to Ginnie Mae with sufficient lead time and via a method that ensures delivery no later than the tenth calendar day of each month. Instructions for the preparation and submission of the forms or magnetic tape are found in Appendices 11 through 14 of Handbook 5500.1.

e. Issuers must report to Ginnie Mae quarterly on all of the loans in their portfolio. Loan level detail must be reported by all issuers every 3 months. The loan level data should report trial balance information for all non-liquidated

loans as of the cut-off date for the quarter (All Participants Release, September 24, 1990).

- f. Issuers that are not federally regulated must report their financial condition quarterly to Ginnie Mae. Reports must be provided to Ginnie Mae on a pre-formatted disk, HUD-11750, which includes a Statement of Condition, Statement of Income and Additional Information. Federally regulated financial institutions (banks, savings and loans and credit unions) are not required to submit this report (All Participants Release, March 5, 1990).

2. Suggested Audit Procedures

- a. Obtain an understanding of the issuer's procedures for collecting and entering all data relating to mortgage collections and securities payments on Form HUD-11710A. Test whether entries are made in accordance with instructions in the Ginnie Mae Handbooks.
- b. Select a sample of Form HUD-11710A's and trace delinquency information to the issuer's internal mortgage servicing delinquency reports.
- c. Compare the securities balance reported on the Form HUD-11710A to the Remaining Pool Balance (R.P.B.) reported to Ginnie Mae, or its agent, in accordance with Ginnie Mae MBS requirements.
- d. Test whether a Liquidation Schedule (Form HUD-11710E) is submitted to Ginnie Mae for each loan removed from the pool. Also, test that the unpaid loan balances passed through to securities holders and reported in the Liquidation Schedule, agree to the issuer's records.
- e. Compare the amount of checks sent to securities holders for the month to the amount reported to Ginnie Mae.
- f. Compare the custodial account balances reported on Forms HUD-11710A and 11710D to the actual balances (after reconciliation) of the disbursement clearing and custodial bank accounts as shown by the bank statements.
- g. On pools selected for review, reconcile the total unpaid principal balance of the pooled

mortgages to the unpaid principal balance of the securities, as follows:

- (1) Pool Principal Balance (Section 1, Line D, Form HUD-11710A)
- (2) (plus) Prepaid Principal (Section 1, Line F)
- (3) (minus) Delinquent Principal (Section 1, Line G)
- (4) (minus) Concurrent Date (CD) Pools Only: Scheduled Principal (Section 1-A, Block C)
- (5) (plus) CD Pools Only: Last Liquidation Principal Installment (Principal portion of last installment reported on Liquidation Schedule, Form HUD-11710E)
- (6) (minus) CD Pools Only: Additional Principal Adjustment or FIC change for Graduated Payment Mortgage Pools (Section 2, Block D, Other)
- (7) (equals) Security Principal Balance (Section 3, Line D)

Differences may arise in the reconciliation between the pooled loan balance and the outstanding securities balance due to additional principal payments or rounding. Such differences should not exceed \$1.00 for each loan in the pool up to a maximum of \$50.00 per pool. Any greater difference must be funded to the pool in the current report. At least once a year, adjustments to the securities holders payments must be made in Section 2, Block D, of Form HUD-11710A to fully correct for any difference. Reconcile and report on any difference.

- h. For pools selected for review, test the expected Principal and Interest (P&I) Custodial Account balances at cut-off. This test (outlined below)

identifies a minimum dollar amount expected in the P&I account for any particular pool as of a given cut-off date. This test verifies the accuracy of the P&I balance reported in Section 5, Block B2 of the Form HUD-11710A report. The test formula will only yield accurate results when the mortgage and securities balances reconcile in Step 7 above.

The test assumes that all collections are paid out by the pass through of funds to securities holders or taken as issuer servicing fees. The test formula is different between Internal Reserve (IR) and Concurrent Date (CD) pools, but in either case indicates the amount of P&I funds which should be held in the account at the cut-off date, which include:

- (1) (IR only) plus payment to securities holders, to be distributed on the 15th of the following month. (Form HUD-11710A, Section 2, Item G).
- (2) (IR and CD) plus servicing fee, if taken after the cut-off date. If the issuer withdraws its servicing fee prior to the cutoff, this entry will be zero (Section 1, Item H).
- (3) (IR and CD) plus prepaid P&I, funds which have been collected but are not required to be distributed to holders at the next payment date (Section 1, Item F, Total).
- (4) (IR and CD) minus prepaid servicing fee, as calculated based on prepaid interest amounts (Section 1, Item F, Interest). Servicing fees collected on prepaid interest are already included in item (2) above.
- (5) (IR and CD) minus delinquent P&I, funds not yet collected but which have already been distributed to holders through calculation of scheduled payment (Section 1, Item G, Total).
- (6) (IR and CD) plus delinquent servicing fee as calculated based on total delinquent interest (Section 1, Item G, Interest). Servicing fees are not distributed to holders, so this amount is not a shortage in the account.
- (7) (CD only) plus additional principal payments. These are funds collected but not due holders until the 15th of the following month (Section 1, Line B-2).
- (8) (CD only) plus additional principal adjustment, the issuer-funded adjustment which has been deposited to the custodial account but is not distributed until the

following month (Section 1, Line C, Pool Interest).

(9) (CD only) plus liquidation principal. Similarly, funds collected but not due to be distributed until the following month (Section 1, Item C).

(10) (CD only) plus fixed installment on liquidations, because it is necessary to amortize a liquidating loan through one payment beyond the month during which pay-off or foreclosure funds are received on CD pools. This "extra" month payment, normally not due until the following month, is included in the scheduled P&I amount.

(11) (CD only) minus servicing fee from liquidations, as calculated on the interest portion of the last payment installment (based on last interest installment on the Form HUD-11710E).

This calculated expected P&I balance should agree with the reported P&I balance (Form HUD-11710A, Section 5, B, 2). Differences should be reconciled and exceptions reported.

i. Obtain an understanding of the issuer's procedures and test whether the issuer meets the

delivery requirement by the tenth calendar day of each month.

j. Test that loan level information is being reported quarterly to Ginnie Mae.

k. For all issuers that are not federally regulated financial institutions, test that quarterly financial information is being submitted on the HUD-11750, a formatted disk.

F. Securities Marketing and Trading Practices

1. Compliance Requirement. Ginnie Mae has established securities marketing and trading requirements which are intended to assure that issuers carry out their securities marketing and trading activities in a manner consistent with prudent business practices and their own and others financial capacity. There are three components to these requirements: (a) a suitability rule, (b) prudent business practice rules, and @ minimum forward delivery contract

requirements relating to so-called mark to market deposit requirements. There also are recordkeeping and reporting requirements. These procedures must be implemented by all approved issuers, whether or not securities and/or commitments are outstanding. The applicable requirements are found in HUD Handbook 5500.1.

2. Suggested Audit Procedures

- a. Obtain an understanding of the written procedures established by the issuer to determine the financial integrity of dealers, brokers, and investors, including an explanation of standards for, and steps taken in determining the financial capacity of dealers, brokers, or investors to complete transactions.
- b. Test whether the issuer is following established procedures to determine the financial capacity of dealers, brokers, and investors to complete a transaction and to determine the business reputation of the dealers, brokers, and investors.
- c. Obtain copies of the resolution executed by the issuer's Board of Directors designating key persons responsible for overall supervision of issuer activities relating to the marketing and trading of securities.
- d. Obtain an understanding of the procedures established by the issuer to maintain a record of all commitments entered into to deliver or acquire securities.
- e. Test whether the issuer's records of such commitments include the following:
 - (1) Date of the transaction (trade date).
 - (2) Type of securities.
 - (3) Nature of the transaction: purchase, sale, optional or mandatory delivery, repurchase or other credit arrangement.
 - (4) Settlement date.
 - (5) Dollar amount of securities.
 - (6) Interest rate on the securities.
 - (7) "Price" of the securities.

- (8) Name of the firm and individual with whom the transaction was executed.
- (9) Current market price (value) of the contract.
- f. For "regulated transactions" (see Note 1 at step h.) test whether the issuer's records include the following:
 - (1) A copy of the delayed delivery contract required by the Ginnie Mae Handbook.
 - (2) The name of the financial institution with which collateral is, or will be, deposited.
 - (3) Records of mark to market computations, including: market value, amounts of deposits by issuer and by contra-party, type of collateral deposited.
 - (4) If the collateral used is a letter of credit, a copy of the letter of credit.
- g. Review the issuer's statement showing the computation of the issuer's "net position" and compare information to the issuer's accounting records. Prove the mathematical accuracy of the net position. The statement should identify amounts of loans and securities closed and held for sale, plus those expected to be acquired, less commitments the issuer has available for disposing of loans and securities. It also should include any positions involving repurchase, reverse-repurchase, or other credit transactions.
- h. Determine the potential impact on an issuer's net worth of any identified forward or future commitment contract entered into by the issuer to purchase or sell securities, if there are material potential effects on the issuer's net worth, determine whether they are disclosed in the appropriate footnotes to the financial statements.

NOTE 1: "Regulated transaction" means the purchase or sale of securities by an issuer pursuant to a delay delivery contract except that the term does not include:

- (1) A sale of securities where: (1) the issuer holds a valid, outstanding commitment to guaranty mortgage-backed

securities (which is not applied in connection with another transaction) issued by Ginnie Mae in an amount at least equal to the face amount of the securities sold; and (2) the settlement date under the contract is no later than the last day of the calendar month in which the 150th day after the contract's trade date falls.

(2) A sale of securities guaranteed by Ginnie Mae and based on construction loans (construction loan securities) or project loans (project loan securities).

(3) A sale or purchase of securities pursuant to a contract which does not obligate the issuer to actually sell/purchase securities, that is, a put or call transaction in which the issuer has the option to perform.

(4) A purchase (or sale) of mortgage participation certificates directly from (or to) the Federal Home Loan Mortgage Corporation.

G. Adjusted Net Worth

1. Computation. A "Presentation of Adjusted Net Worth Calculation" is required for all issuers, even if there were no securities or commitments outstanding at fiscal year end. The required format for the "Presentation of Adjusted Net Worth Calculation" is provided on Attachment B of this Chapter.

Unacceptable assets are defined in Attachment A to this Chapter and should be itemized by asset classification. Do not aggregate the unacceptable assets into one line titled "Unacceptable Assets."

If evidence exists indicating the existence of related party receivables which have not been deducted by the IA, Ginnie Mae will deduct the amount from the issuer's adjusted net worth.

An issuer's adjusted net worth will be calculated by subtracting the total amount of unacceptable assets from the net worth as stated on the IA audited balance sheet. Excess/(deficit) net worth is computed as the difference between adjusted net worth and required net worth.

Failure of the issuer to respond timely and satisfactorily to requests made by Ginnie Mae, or its agent, for additional information could result

in disallowance of questionable assets and result in suspension or in termination of issuer status.

Where the Ginnie Mae issuer is a subsidiary, the adjusted net worth computation must focus exclusively on the assets and liabilities of the Ginnie Mae issuer.

2. Required Net Worth. Required Net Worth will be calculated as of the end of the issuer's fiscal year as follows:
 - a. For issuers approved to securitize mortgage-backed securities pools backed by single family level payment, graduated payment, growing equity or adjustable rate mortgages, the net worth is: \$250,000 base net worth plus one percent of the amount of securities outstanding in excess of \$5 million, but less than \$20 million; plus 0.2 percent of any additional securities, commitment authority and total pools funded ² in excess of \$20 million.
 - b. For issuers approved to securitize mortgage-backed securities pools backed by manufactured home loans, the net worth is: \$500,000 base net worth plus 0.2 percent of any additional securities, commitment authority and total pools funded in excess of \$35 million.
 - c. For issuers approved to securitize mortgage-backed securities pools backed by multifamily construction or permanent loans, the net worth is: \$500,000 base net worth plus 0.2 percent of any additional securities, commitment authority, total pools funded and dollar amount of unexpended construction loan draws ³ in excess of \$35 million.

² Pools that have been logged and are in the review process and the commitment line balance has been reduced.

³ The net amount between Construction Loan commitment authority reserved and total Construction Loan draws made.

- d. The base net worth requirement for all issuer types will be indexed to inflation and adjusted every five years with a one year advance notice to issuers. The change in price index will be measured by the Consumer Price Index (CPI). The base net worth requirement may float downward subject to a \$250,000 or \$500,000 minimum depending upon an issuer's pool type eligibility. The adjusted base net worth will be rounded to the nearest thousand. The reference period from which inflation will be calculated is December 1995. The first adjustment of the base net worth requirement will be on January 1, 2002 which will reflect the change in price level during 1996 through 2000. Future adjustments will follow in this manner. The Ginnie Mae President shall have discretion to waive or lessen any increase or decrease given by the indexing formula.

ATTACHMENT A

UNACCEPTABLE ASSETS FOR COMPUTATION OF ADJUSTED NET WORTH

1. Any asset or portion thereof pledged to secure obligations of another entity or any person. Supervised institutions that provide financial services to incorporated communities are sometimes required by State law to pledge their assets for the benefit of the community. These pledged assets are acceptable for supervised institutions only.
2. An asset due from an officer or stockholder of the mortgagee or from a related entity, except for:
 - o A construction loan receivable, secured by a first mortgage, from a related entity.
 - o A mortgage loan receivable established in the normal course of business in an arm's length transaction and secured by a first mortgage on the related property.
 - o A receivable from a related party where the affected parties have executed a cross-default agreement 4/ or corporate guarantee agreement 5/ with Ginnie Mae.
3. An investment in a related entity in which any officer or stockholder of the mortgagees has a personal interest 6/

unrelated to that person's position as an officer or stockholder of the mortgagee.

4/ A cross default agreement is an agreement between related affiliated Ginnie Mae issuers which provides for the default of all affiliated issuers in the event of a default by any one of them.

5/ A corporate guarantee agreement is an agreement where the issuer's parent guarantees the performance of the issuer.

6/ "Personal interest" as used here indicated a relationship between the mortgagee and a person or entity in which that specified person (e.g. spouse, parent, grandparent, child, brother, sister, aunt, uncle, or in-law) has a financial interest in or is employed in a management position by the mortgagee.

4. That portion of an investment in a joint venture, subsidiary, affiliate, and/or other related entity, which is greater than equity, as adjusted. "Equity as adjusted" means the book value on the books of the related entity reduced by the amount of unacceptable assets carried by the related entity.
5. Any intangible asset, such as goodwill, covenants not to compete, franchise fees, organization costs, value placed on insurance renewals, and value placed on property management contract renewals.
6. The value of any servicing contract not determined in accordance with SFAS No. 65, Accounting for Certain Mortgage Banking Activities and SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities or subsequent revisions thereto.
7. Any asset not readily marketable and for which appraised values are very subjective. Examples include, but are not limited to, antiques, art work, and gemstones.
8. That portion of any marketable security (listed or unlisted) in excess of the lower of cost or market, except for shares of Fannie Mae stock required to be held under a servicing agreement, which should be carried at cost.
9. Any amount in excess of the lower of cost or market value of mortgages in foreclosure, construction loans, or property acquired through foreclosure.
10. Any asset which is principally used 7/ for the personal enjoyment or benefit of an officer, director, or stockholder and not for normal business purposes. This

includes automobiles and personal residences.

11. "Other Assets" unless the financial statements are accompanied by a schedule prepared by the independent auditor or a schedule prepared by the issuer/mortgagee and signed by an officer of the issuer/mortgagee.

7/ "Principally used" means that any other use of the property must be solely incidental.

12. That portion of contributed property, not otherwise excluded, in excess of the value as of the date of contribution determined by an independent appraisal.

ATTACHMENT B

REQUIRED FORMAT FOR PRESENTATION OF ADJUSTED NET WORTH CALCULATION FOR ISSUER

A. Adjusted Net Worth Calculation:

Stockholders Equity per Statement
of Financial Condition at end of
reporting period \$ _____

Less:

Itemized Unacceptable Assets 1/
1. \$
2. \$
3. \$
Total Unacceptable Assets \$ _____

Adjusted Net Worth \$ _____

B. Required Net Worth Calculation:

Unpaid Principal Balance of
Securities Outstanding
(Note: Number of Pools _____) \$ _____

Plus:

Outstanding Balance of
Commitments Authority Issued
and Requested \$ _____

Total Outstanding Portfolio
and Authority \$ _____

Required Net Worth \$ _____

C. Excess (Deficit) Net Worth \$ _____ 2/
 (Adjusted Net Worth - Required Net Worth)

1/ Unacceptable assets are defined in Attachment A.

2/ In the event adjusted net worth does not meet the Ginnie Mae requirement, the IA may include any comments from representatives of the issuer of corrective measures contemplated.

ATTACHMENT C

REQUIRED FORMAT FOR PRESENTATION OF ADJUSTED NET WORTH CALCULATION FOR ISSUER'S PARENT

A. Adjusted Net Worth Calculation

Stockholders Equity per Statement
 of Financial Condition at end of
 reporting period \$ _____

Less:

Itemized Unacceptable Assets 1/
 1. \$ _____
 2. \$ _____
 3. \$ _____
 Total Unacceptable Assets \$ _____

Adjusted Net Worth \$ _____

B. Comparison of Net Worth Calculations

Issuer's Required Net Worth
 (taken from Issuer's Adjusted
 Net Worth Calculation) \$ _____

(Multiply issuer's required net
 worth by 110% for issuers with
 single family status only, otherwise
 multiply by 120%)

Parent's Required Net Worth \$ _____

C. Excess/(Deficit): \$ _____

1/ Unacceptable assets are defined in Attachment A.

ATTACHMENT D

REQUIRED FORMAT FOR PRESENTATION OF INSURANCE REQUIREMENT

A. Identification of Affiliated 1/ Ginnie Mae Issuers:

Affiliated Ginnie Mae Issuers:
(Issuer Name and Ginnie Mae Issuer Identification Number)

Affiliated Issuers on Same Insurance Policies:
(Issuer Name and Ginnie Mae Issuer Identification Number)

B. Required Insurance Calculation

Servicing Portfolio:

Ginnie Mae	\$ _____
Fannie Mae	\$ _____
Freddie Mac	\$ _____
Conventional (Other)	\$ _____
Total Servicing Portfolio	\$ _____

Required Fidelity Bond Coverage \$ _____

Required Mortgage Servicing Errors and Omissions Coverage \$ _____

C. Verification of Insurance Coverage:

Fidelity Bond Coverage at End of Reporting Period \$ _____

Mortgage Servicing Errors and Omissions Coverage at End of Reporting Period \$ _____

D. Excess (Deficit) Insurance Coverage:

Fidelity Bond Coverage \$ _____

Required Mortgage Servicing Errors and Omissions Coverage \$ _____

E. Ginnie Mae Loss Payable Endorsement

Fidelity Bond Coverage \$ Yes/No

Mortgage Servicing Errors and Omissions Coverage \$ Yes/No

1/ Definition of an Affiliate: An affiliate is a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an issuer.

ATTACHMENT E

REPORT OF INDEPENDENT AUDITORS ON CONSOLIDATING
BALANCE SHEET AND STATEMENT OF INCOME

Board of Directors
ABC Financial Corporation

We have audited, in accordance with generally accepted auditing standards and Government Auditing Standards, the consolidated financial statements of ABC Financial Corporation and subsidiaries as of December 31, 1991 and have issued our unqualified opinion thereon dated January 24, 1992 included on page "XX" of [identify report]. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating balance sheet and statement of income on pages "XX" and "XX", respectively, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements of ABC Financial Corporation and subsidiaries. Such information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

This report is intended for the information of the audit committee, management, and the Government National Mortgage Association (Ginnie Mae). However, this report is a matter of public record and its distribution is not limited.

[Firm Signature]
[Date]

6-43

8/97

ATTACHMENT F

REQUIRED TRANSMITTAL/CHECKLIST FOR
ANNUAL SUBMISSION OF FINANCIAL DOCUMENTS

Address to: Ginnie Mae's Review Agent

To whom it may concern:

The following information is being sent to maintain eligibility in the Mortgage-Backed Securities Program. If you have any questions regarding the items being sent, you may contact Mr./Ms. _____ of the organization or me at telephone number _____ . Our facsimile number is _____ .

Complete Items 1 through 7

1. Issuer Name: _____
2. Issuer Address: _____
3. Issuer's Tax Identification No. _____
4. Ginnie Mae I.D. No. _____
5. FHA Mortgagee No. _____
6. IA's Tax Identification No. _____
7. IA's Contact Person _____
and Telephone Number: _____

Place a Checkmark by Item(s) Submitted

1. ___ Annual Audited Financial Statement for period ended
___/___/___
2. ___ IA's Report on Consolidating Balance Sheet and Statement
of
Income (if appropriate)
3. ___ IA's Report on Internal Controls
4. ___ IA's Report on Compliance with specific Requirements
5. ___ IA's Presentation of Insurance Requirement
6. ___ IA's Presentation of Adjusted Net Worth for Issuer
7. ___ IA's Presentation of Adjusted Net Worth for Parent, (if
appropriate)
8. ___ Corrective Action Plan (if appropriate)
9. ___ Schedule of "Other Assets"
10. ___ Name, address and Ginnie Mae Issuer Number (if applicable)
of all affiliates. An "affiliate" is defined for these
purposes as an organization that is related to the
issuer through some type of control or ownership (as
defined by GAAP). Use additional page if necessary:

Signature: _____ Date: _____

Type of Print Signature

Name: _____

Title: _____