
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 Securities 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 a transfer agent. Once approved by Ginnie Mae, the issuer of the 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 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 the 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 (a subservicer), which must also be a Ginnie Mae-approved issuer. The issuer is responsible and fully liable for the satisfactory performance of any work performed by a subservicer. All activities of any subservicer must be covered by a contractual agreement between the issuer and the subservicer and approved by Ginnie Mae. The issuer may not delegate or transfer to others its obligations to (1) withdraw funds from a principal and interest (P&I) custodial account for any purpose, (2) sign any accounting reports and certifications to Ginnie Mae, and (3) withdraw mortgage documents from the document custodian. In addition to obligations described above, Ginnie Mae MBS program issuers may not delegate or transfer to others the following obligations: (1) signing checks to Ginnie Mae, (2) signing remittance advice to security holders, (3) funding guaranty fees due Ginnie Mae, and (4) maintaining the register for security holders.

- 6-3. Reference Material.** Throughout this chapter, reference is made to various reference materials using the base reference material number without the revision number (for example, REV-1, REV-6, etc.). This will enable periodic updates to section 6-3 rather than revising the references in the entire guide or chapter. Also, the auditor should ensure that the updated reference is used for performing the audit. If reference to the guide is needed in the audit report, the auditor should ensure that the entire updated reference, including the revision number, is used.

Ginnie Mae program regulations are contained in 24 CFR (Code of Federal Regulations) Parts 300 through 395. The U.S. Department of Housing and Urban Development's (HUD) guidance for Ginnie Mae is 5500.3, REV-1, Government National Mortgage Association MBS Guide. The issuer should have a copy of or access to the guide. The MBS Guide is available on the Internet at www.ginniemae.gov.

- 6-4. Reporting Requirements.** Ginnie Mae issuers of mortgage-backed securities are required to submit the following financial statements, reports, and supplemental information annually:

Description	Reference in Handbook 2000.4
Reports	
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	
Adjusted net worth calculation for issuer	Chapter 6, attachment B
Capital requirement calculation for issuer	Chapter 6, attachment C
Liquid asset requirement calculation for issuer	Chapter 6, attachment D
Adjusted net worth calculation for issuer's parent (if appropriate)	Chapter 6, attachment E
Capital requirement calculation for issuer's parent (if appropriate)	Chapter 6, attachment F
Liquid asset requirement calculation for issuer's parent (if appropriate)	Chapter 6, attachment G
Insurance requirement	Chapter 6, attachment H
Report of independent auditors on consolidating balance sheet and statement of income	Chapter 6, attachment I
Required transmittal or checklist	Chapter 6, attachment J
Corrective action plan (if appropriate)	Chapter 1, section 1-9

Nonprofit organizations that elect to submit audited financial statements in accordance with Office of Management and Budget Circular A-133 must also independently submit evidence of meeting Ginnie Mae's fidelity bond and errors and omissions insurance requirements and adjusted net worth requirements. The issuer's chief financial officer or executive officer must certify to the accuracy of the unaudited insurance and net worth schedules.

Issuers that did not have outstanding Ginnie Mae securities or commitment authority to issue new securities at any time during the fiscal year under audit do not have to submit an internal controls report, a report on compliance with specific requirements, and supplemental information. However, they must still submit evidence of meeting Ginnie Mae's fidelity bond and errors and omissions insurance requirements, adjusted net worth

requirements, and capital and liquidity requirements. The issuer's chief financial officer, president, or chief executive officer must certify to the accuracy of the unaudited insurance and net worth schedules.

- A. Audited Financial Statements.** Issuers are required to submit audited annual financial statements, which include a balance sheet, statement of operations, cash flow statements, notes to 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 checklist presented in attachment J (Annual Submission of Financial Documents) to this chapter. If for any reason an issuer needs to restate or revise a prior year's financial statements, the amended audited financial statements must be submitted to Ginnie Mae's review agent using the checklist presented in attachment J to this chapter.
- B. Other Reports.** In addition to the financial statements, all issuers not specifically exempted in section 6-4 must submit a report on internal controls and a report on compliance with specific requirements. A sample report on consideration of internal controls and a report of compliance with specific requirements are included in chapter 2.

The computation of the issuer's and issuer parent's adjusted net worth and computations of issuers' insurance requirements are to be reported on supplemental schedules to the basic financial statements. The computation of the issuer's and issuer parent's adjusted net worth is designed to eliminate those assets considered unacceptable by Ginnie Mae. **Note that the adjusted net worth computation and calculations for capital and liquidity requirements for the issuer's parent are required only 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.** Similarly, the required reporting formats for presenting these analyses are provided in attachments B, C, and D for the issuer and attachments E, F, and G for the issuer's parent. The required reporting format for presenting the analysis of the issuer's insurance is presented in attachment H.

Ginnie Mae requires submission of audited financial statements exclusively of the issuer. However, Ginnie Mae will accept alternative financial statements (that is, 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 their parent (the 40 percent threshold may be collectively met by related-party issuers that have entered into a cross-default agreement with Ginnie Mae), Ginnie Mae will accept consolidated financial statements of the issuer's parent, provided that 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.

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2. For an issuer with equity that is less than 40 percent of the equity of its parent, Ginnie Mae will accept consolidated financial statements of the issuer's parent, provided that the conditions in item 1 above are met and the issuer's parent enters into a corporate guarantee 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.

Further, 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. That organization's auditor, in accordance with this audit guide, must audit the parent's audited financial statement and adjusted net worth calculations. The parent must also demonstrate in its adjusted net worth calculation that it meets the 110 percent (120 percent for issuers approved to issue manufactured housing or multifamily pools) requirement noted above.

The required format for presenting the "presentation of adjusted net worth calculation for issuer's parent" is provided in attachment E of this chapter.

3. For issuers that are Federal- or State-regulated depository institutions, such as those under the supervision of the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Ginnie Mae will accept audited financial statements of the issuer's parent, so long as the issuer makes up 40 percent or more of the parent's equity and there is no more than one bank holding company covered in the audit. In such instances and in addition to the audited financial statement of the issuer's parent, the issuer must submit its unaudited regulatory report (call report).

Although Ginnie Mae may accept alternative audited financial statements, all other required reports (internal controls, compliance with specific requirements, adjusted net worth calculation, capital, liquidity, and insurance requirements) must be prepared by a certified public accounting firm that is an independent auditor exclusively for the issuer.

A sample auditor's report on the consolidating balance sheet and operating statement is included as attachment I to this chapter.

- C. **Submission of Reports.** The issuer must submit the audited financial statements in accordance with section 6-4, regardless of whether the issuer had securities or commitment authority outstanding. Reports must be submitted within 90 calendar days of the end of the issuer's fiscal year to Ginnie Mae's review agent. If an issuer needs to restate or revise a *prior* year's financial statements, the amended audited financial statements must be submitted to Ginnie Mae's review agent within 15 business days of

their issuance by an auditor. Instructions for submitting electronically can be found in appendix VI-20 of the Ginnie Mae MBS Guide.

D. Single Auditor Approach. In many instances, it may be to the advantage of the custodian, the issuer, or both to hire a certified public accounting firm (auditor) to conduct a review of the mortgage documents that are held by a particular custodian, which has responsibility for several issuers' documents, rather than having each issuer require that a different auditor review that part of the custodial documents pertaining to each issuer's pools. The single auditor approach may also resolve practical problems associated with travel when the issuer, custodian, and auditor are not located near each other, thus reducing the cost of compliance while ensuring necessary audit coverage.

To determine whether the single auditor approach is practical in a given situation, the auditor and the issuer should contact the custodian(s) holding the issuer's pool and loan documents to determine the extent of the custodian's activities with other issuers. Arrangements may then be made regarding the most effective approach to conducting the review of custodial documents. Under the single auditor approach, the custodian will arrange with an auditor to review documents relating to each of the respective issuer's pools. The auditor for each issuer's pools will then prepare separate reports.

The single auditor approach and the reviews of custodial documents by the issuer's auditor are both acceptable methods under 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 included in the audited financial statements, and determine that the reports selected are prepared in accordance with HUD instructions.

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- d. For the sample, trace significant data to supporting documentation (for example, 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 a Federal Housing Administration (FHA)-approved lender in good standing. A State or local government instrumentality that is an FHA-approved lender is eligible. Lenders previously approved by FHA solely as loan correspondents (known as third-party originators) are not eligible to be Ginnie Mae issuers.
 - b. Maintain its Federal National Mortgage Association (Fannie Mae), or Federal Home Loan Mortgage Corporation (Freddie Mac) approval, whichever it has, or both if it has both. Loss of either approval may cause the issuer to become ineligible to issue and service Ginnie Mae mortgage-backed securities.
 - c. Conduct, 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 in which 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 servicing of mortgages of the type to be pooled to ensure effective pool management on a long-term basis. The officer in charge of day-to-day operations must be a full-time employee of the issuer firm only, and the issuer's offices must be self-contained and separate from those of any other entity.
 - e. Maintain policies that prohibit any discrimination against a borrower based on race, religion, color, sex, national origin, age, familial status, or disability. The issuer must 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; Section 504 of the Rehabilitation Act of 1973; other applicable civil rights laws and regulations

and applicable FHA rules and regulations. In addition, this section incorporates by reference section 202 of Executive Order 11246, Equal Employment Opportunity, issued September 24, 1965, as amended. The issuer is required to comply with the implementing rules and regulations of the U.S. Department of Labor (41 CFR 60-1) and HUD (24 CFR Part 130).

- f. Have and maintain fidelity bond coverage and a mortgage servicing errors and omissions policy that contains the required elements according to section 2-7(B) of the MBS Guide and is in an amount that is based on the issuer's remaining principal balance of its total loan servicing portfolio¹ in accordance with the MBS Guide, chapters 2 and 3, both of which name Ginnie Mae as loss payee.
- g. Maintain net worth, capital, and liquidity values based on an audited financial statement prepared in accordance with generally accepted accounting principles in assets acceptable to Ginnie Mae, as outlined in section 6-5, paragraph G.2; section 6-5, paragraph H.1; and section 6-5, paragraph I.2, of this chapter, respectively.

2. **Suggested Audit Procedures.**

- a. Determine that the issuer meets stated eligibility requirements covered in section 6-5, paragraph B, above.
- b. Test whether the issuer has in place and follows an established policy that prohibits discrimination in housing and lending as communicated in chapters 2 and 3 of the MBS Guide as well as section 1-9 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 chapters 2 and 6 of the MBS Guide. Verify that (1) the policy contains the required elements according to section 2-7(B) of the MBS Guide, (2) the required levels of insurance were maintained throughout the year with testing of the adequacy of insurance at least once per quarter, and (3) the fidelity bond and errors and omissions policies are written by an insurance carrier that maintains an A.M. Best rating of B+ or better in the Best Insurance Reports and is specifically licensed or authorized by law to transact business within the State or territory where the named insured has its corporate headquarters. Lloyd's of London, although not rated, is an accepted insurer.

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

¹ The total loan servicing portfolio should include all single-family housing, multifamily housing, and manufactured housing loans. It does not need to include servicing on car loans, credit card loans, or any loan type that Ginnie Mae does not allow in the program.

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- (1) For issuers with a total loan servicing portfolio of \$100 million or less, \$300,000.
 - (2) For issuers with a total loan 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 loan 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 loan servicing portfolio of more than \$1 billion, \$1,525,000 plus 0.1 percent of total servicing in excess of \$1 billion.

The maximum required loan servicing errors and omission insurance coverage requirement is \$20 million. The maximum fidelity bond coverage is not limited. The required reporting format for the “presentation of insurance requirement” is provided in attachment H 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 affiliate(s) is covered by the same insurance policy, the loan servicing portfolio of each issuer must be added together to calculate the combined total loan 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 unacceptable Ginnie Mae 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 all required documents. A custodial institution is permitted to function as a 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.

A custodial institution must meet the eligibility requirements specified in chapter 13 of the Ginnie Mae MBS Guide. The eligibility requirements for custodians are also stated in chapter 2 of the MBS Guide, appendix V-1, Document Custody Manual.

The auditor must follow the procedures in section 6-5, paragraph C.2, below. All document custodians with Ginnie Mae portfolios must have an onsite review at least once every 3 years.

2. Suggested Audit Procedures.

- a. Determine whether an 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 3-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. If the document custodian is a government-sponsored enterprise (GSE)-approved document custodian, it must be in good standing with the GSE(s). The auditor must determine whether the issuer has ever been the subject of an adverse action by a GSE.
 - (2) Maintains a secure, 2-hour fire-resistant storage facility standard with adequate access controls.
 - (3) Uses 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 certified public accountant 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) Is part of a trust department that is physically separate from the service area and operations of the issuer if the custodian maintains issuer records on its own behalf or on behalf of its parent (self-custodian). The affiliated and

self-custodian 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, 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 inspection by its primary regulator.

- (9) If it is an affiliated custodian that does not meet all of the requirements in section 6-5, paragraph C.2.a.(8), above or if the custodial documents are not held in the trust department, provides evidence that there is a vertical independence between the issuer and the custodial or warehouse institution.
 - (10) Maintains a written disaster recovery plan that covers restoration of the facilities, physical recovery of the files, and backup and recovery of information from electronic tracking systems.
 - (11) Tests whether the document custodian has in place a quality control plan for document review standards.
- 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, a 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 in custody (must provide pool identification numbers), the actual 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 assignment(s) (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 pool listing and verification that the pool numbers on the issuer custodial register agree with the pool master files in custody.

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- (5) Maintains a nonliquidation release inventory or file of all forms HUD-11708 submitted on or after July 1, 1992, on the basis of the nonliquidation release code 6. 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-U.S. Department of Veterans Affairs (VA)-U.S. Department of Agriculture Rural Development (RD)-Office of Public and Indian Housing (PIH) case number or loan number, and the document release date.

If any documents have been released for more than 90 days (nonliquidation reason code 6), the custodian is required to notify the issuer of the overdue documents every 90 days. If the document is outstanding after 180 days, Ginnie Mae must be notified by the document custodian. The notification must be in writing and documented in the inventory or file.

- c. If more than one custodial institution is used, identify which pools are at which custodial institution 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 whether the pools include
- (1) An executed original form HUD-11711B (Certification) signed by an officer of the issuer, whose signature appears on the issuer's form HUD-11702, 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 comprise(s) all evidence of any security agreements affecting all mortgages in this pool. Upon the delivery of securities, only Ginnie Mae will have an ownership interest in and access to the pooled mortgages, or
- (b) Other than the unrecorded assignment to Ginnie Mae, there are and will be no security agreements affecting any mortgages in this pool.
- (2) If noted on the form HUD-11711B that a form HUD-11711A is required, an original form HUD-11711A (Release of Security Interest) must be executed by all secured institution(s), relating to any 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 below 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 or loan package (pooled mortgages) no later than the date and time of delivery of the securities by Ginnie Mae or its agent. In the case of

home equity conversion mortgage loans, “pooled mortgages” must include the mortgages, participations related to such mortgages, and any amounts related to such mortgages that do not constitute participation interests.

- d.** Obtain a copy of the original schedule of pooled mortgages (form HUD-11706)² from the document custodian for each of the pools selected. The purpose of the schedule of pooled mortgages is to provide a means to identify and control mortgages placed into the pool, which secures the obligations issued. Accordingly, select a sample of pooled mortgages from the schedule of pooled mortgages.
- e.** Review the custodial files of the sampled mortgages for the following documents and compare the information shown on these documents to the information on the schedule of pooled mortgages. Reconcile and report on any differences. Procedures for the custodian document review are contained in paragraph 13-4 and appendix V-1 of Ginnie Mae’s MBS Guide.
- (1)** The original note or other evidence of indebtedness endorsed in blank and without recourse.
- (2)** For multifamily and manufactured housing pools only, 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 lender other than the issuer, there also must be a recorded assignment if State law requires recordation to make the assignment valid against all lien holders from the originating lender to any intervening interest holder and from such holder to any further holders of mortgage ownership. 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.** Within 12 months of the issuance of the securities, transfer of issuer responsibility, or change of custodial responsibility, the files must contain the following documents. Report any missing documentation as a finding.
- (1)** Original evidence of guaranty for PIH loans or evidence of the custodian’s verification of insurance or guaranty for the FHA, VA, and RD loans if the loans were originated before January 1, 2003. If the loan is a VA vendee

² For programs other than the single-family MBS program, the form numbers before January 1, 1996, was
- Project loans: form HUD-11721, and
- Manufactured home loans: form HUD-11725.

loan or contract, there will be a portfolio loan statement of settlement form from VA rather than a loan guarantee certificate.

- (2) Original recorded mortgages (or other security instruments) signed by the borrower securing repayment of the indebtedness. (Note: Compare the borrower's name as it appears on the schedule of pooled mortgages with that which appears on the recorded mortgage to ensure identity). Copies of the recorded mortgage are acceptable if the copies clearly show the document recording information.
 - (3) Evidence that a mortgage title insurance policy has been obtained or other evidence of title acceptability to FHA, VA, RD, or PIH (not required in cases involving the conveyance of HUD Secretary-owned property if an exception has been authorized by Ginnie Mae or on VA vendee loans or contracts). Copies of lender 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) Verification that the custodian has completed the final certification on the back of the schedule of pooled mortgages.
- g.** 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 approved pools.
- (1) An updated endorsement on the promissory notes.
 - (2) A recorded assignment of the mortgage to the current issuer.
 - (3) All documents required in section 6-5, paragraphs C.2.d and C.2.e, above.
- h.** Within 12 months of a transfer of custodial responsibility, all documents required in section 6-5, paragraphs C.2.d and C.2.e, above must be in the custodial file. The custodian is required to have a 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.

If an issuer has entered into a representations and warranties agreement with Ginnie Mae, the documents referenced above that must be in the custodian file are subject to chapter 13 and appendix V-1 of the Ginnie Mae MBS Guide 5500.3, REV-1.

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- i. Determine that documents and loan files released from custodial files are evidenced by a request for release of documents (form HUD-11708). For the sampled mortgages,
 - (1) Determine whether the custodian is in possession of a form HUD-11708 for documents and files removed from the custodian's care.
 - (2) Prepare a list of missing documents and loan files not supported by a form HUD-11708. This listing should be reviewed with the custodian and also with the issuer. Any items not reconciled should be reported as a finding.
 - j. Select paid-in-full or foreclosed-upon 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, the borrower, and the defect, and reported as a finding. This listing should be reviewed with the custodian, and errors should be corrected by the custodian. The custodian should furnish this listing to the appropriate issuers, and the auditor should then review with the issuer the reasons for any missing or deficient documents.

Missing documents for mortgages that are still current according to the issuer's records could be an indication that the issuer has received mortgage payoffs and not passed payments through to securities holders.

D. Issuer's Administration of Pooled Mortgage.

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. It should also indicate the latest outstanding balances of principal, deposits, advances, 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 any pool custodial account without prior written approval 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 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, VA will determine the cost effectiveness of bidding at the foreclosure sale. VA will not bid if it believes its losses will exceed the guarantee amount. As a result, this "no bid" scenario may 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 P&I collections (non-interest-bearing) and tax and insurance escrow funds (option of interest bearing) applicable to pooled mortgages with the P&I accounts held in institutions meeting Ginnie Mae's rating requirements in section 16-8 of the MBS Guide. Test the custodial account titles for compliance with requirements established by Ginnie Mae letter agreements, forms HUD-11709 and 11720. If a P&I disbursement clearing account is used, verify 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 P&I, as well as collections of claims on defaulted and liquidated mortgages, to determine that funds have been deposited into the appropriate custodial account(s) in accordance with section 16-9(A) of the MBS Guide as appropriate.
- c. Test whether the issuer is making proper payments of interest, principal, and unscheduled principal to certificated securities holders so that those payments are received no later than 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 MBS report controls, the pool collateral is removed from the custodian's possession, and the transaction is supported by documentation.
- d. Test whether disbursements from P&I custodial bank accounts are authorized under the guaranty agreement.
- e. 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.

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- f. Compare mortgages listed in the issuer's monthly reconciliation of liquidation(s) 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.
 - g. Test whether the issuer is using its own resources to
 - (1) Make advances to the pool accounts to cover shortfalls in collections from borrowers. (Note: Limited exceptions to this requirement are included in the Ginnie Mae MBS Guide.) 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 instructions in the MBS Guide, using the issuer's own funds. Such buyouts may only occur once the issuer has received prior approval by Ginnie Mae).
 - h. 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 6.02(a) of the guaranty agreement.
 - i. Test whether the issuer incurred losses for pooled loans not fully insured, such as coinsured multifamily loans, manufactured housing loans, and VA guaranteed loans. Determine that the issuer has disclosed a contingent liability in its financial statements.
 - j. Test whether the issuer has a system to follow up on and obtain the required documents to enable the custodian to make its final certification in a timely manner. Ginnie Mae must receive the final certification, covering documents listed on the reverse side of the schedule of pooled mortgages, within the timeframes identified in the MBS Guide.
 - k. If the issuer has acquired pools from another issuer or if the issuer has transferred pools from one document custodian to another, test whether these pools have received new final certifications (recertification) within the timeframes outlined in the Ginnie Mae MBS Guide.
 - l. Test whether the issuer has established a complete securities holders' register in accordance with Ginnie Mae instructions and has updated the register before paying holders each month. The register should include a record of all certificate transfers for the life of the pool.

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- m. Test whether the issuer is servicing delinquent mortgages and managing foreclosures and assignments in accordance with the applicable requirements of VA, FHA, RD, PIH, and the Ginnie Mae Guide.
 - n. Test whether undelivered payments are deposited into the P&I custodial account and whether checks that remain outstanding in excess of 6 months of the payment date are made payable to Ginnie Mae and sent to Ginnie Mae's central paying and transfer agent pending a claim from the security owner. Undelivered payments should not be used as excess funds or used by the issuer to fund pool shortfalls.
 - o. Test whether any transfer of the P&I or taxes and insurance custodial accounts, change of document custodian, change of mortgage servicer, or transfer of issuer responsibility was accomplished after written approval from Ginnie Mae was obtained.

E. Review of Monthly Accounting Reports and Quarterly Submissions.

1. **Compliance Requirement.** Ginnie Mae issuers of mortgage-backed securities are required to submit the following reports periodically throughout the year:

- a. Form: HUD-11710D, Issuer's Monthly Summary Report.

Issuers reporting: all Ginnie Mae issuers of record.

Frequency of reporting: monthly.

Deadline for submission: on or before the fourth business day of the month following the month covered in the report.

- b. Trial balance (pool and loan level) information.

Issuers reporting: all Ginnie Mae issuers of record.

Frequency of reporting: monthly.

Deadline for submission: on or before the second business day, with all critical pool and loan-level exceptions to Ginnie Mae's Reporting and Feedback System (RFS) designated as errors (E) or critical (C) corrected no later than the fourth business day. RFS exceptions that are designated high (H), medium (M), and low (L) should be corrected by the 10th business day. All other corrections to the monthly report of pool and loan data must be submitted no later than the 10th business day.

This information must also be retained by the issuer in hardcopy or electronic format with the ability to reproduce hardcopy reports for data included in the RFS pool and loan records upon request by Ginnie Mae or its agents.

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 appendixes for the other programs.

These 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 second business day of each month. Instructions for the preparation and submission of the forms are found in appendix VI-19 of the MBS Guide.

Monthly reports submitted to Ginnie Mae on each pool and remaining principal balance (RPB) data must be submitted electronically via the *GinnieNET* system or computer-to-computer option. RPB corrections must be submitted via *GinnieNET* only. Data submitted are equivalent to the RPB data required on the physical form HUD-11710D (Issuer's Monthly Summary Report). Effective October 1, 2015, the requirement for monthly RPB reporting through *GinnieNET* was eliminated through All Participant Memorandum (APM) 15-15.

- c. Monthly reports must be submitted to Ginnie Mae on all of the loans in their portfolio. All issuers must report loan-level detail every month. The loan-level data should report trial balance information for all nonliquidated loans as part of the cutoff date for the month.
- d. Quarterly unaudited reports on their financial condition must be submitted to Ginnie Mae by issuers that are not federally regulated. Reports must be submitted electronically, using form HUD-11750, Mortgage Bankers' Financial Reporting Form, no later than 30 days after the end of the calendar quarter or 60 days after the end of the calendar year. Issuers may access this shared form at www.mbfrf.org. Federally regulated financial institutions (banks, savings and loans, and credit unions) are not required to submit this report.

2. Suggested Audit Procedures.

- a. To obtain an understanding of the issuer's procedures for collecting and entering all data relating to mortgage collections and securities payments on the RFS pool record, use reconciliations and tests located within the Ginnie Mae MBS Investor Reporting Manual, formerly known as the Accounting Manual, to identify whether entries are made in accordance with Ginnie Mae requirements.
- b. Trace and reconcile the issuer's internal servicing records to the issuer's monthly reconciliation report of liquidations.
- c. Compare the securities balance reported electronically via RFS to the remaining pool balance reported to Ginnie Mae or its agent in accordance with Ginnie Mae MBS requirements. Effective October 1, 2015, this reconciliation is no longer required, as the requirement to report RPB in *GinnieNET* was eliminated in APM 15-15.

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- d. Test whether each loan removed from the pool was reported on the RFS monthly liquidation reconciliation report. This report is equivalent to the liquidation schedule (form HUD-11710E). Also, test that the unpaid loan balances passed through to securities holders and reported in the liquidation schedule agree with the issuer's records.
 - e. Compare the amount of checks sent to certified securities holders for the month to the amount reported to Ginnie Mae.
 - f. Compare the custodial account balances as reported to Ginnie Mae 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 (mortgage collateral) to the unpaid principal balance of the securities outstanding, as follows:
 - (1) Month end pool principal balance
 - (2) (Plus) prepaid installment principal
 - (3) (Minus) delinquent installment principal
 - (4) (Minus) concurrent date (CD) pools only: scheduled principal
 - (5) (Plus) CD pools only: last liquidation principal installment
 - (6) (Minus) CD pools only: additional principal adjustment or fixed installment control change for graduated payment mortgage pools
 - (7) (Equals) security principal balance difference (over-short).

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 for each loan in the pool up to a maximum of \$50 per pool for over-under collateralizations. Any greater difference must be funded to the pool in the current report. At least once a year, adjustments to the securities holder payments must be made to fully correct for any difference. Reconcile and report on any difference.

- h. For pools randomly selected for review, test the expected P&I custodial account balances at cutoff. This test (outlined in section 1.D of the Ginnie Mae Investor Reporting Manual) identifies a minimum dollar amount expected in the P&I account for any particular pool as of a given cutoff date. This test verifies the accuracy of the P&I balance reported to Ginnie Mae and 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 and CD pools. However, in either case, indicate the amount of P&I funds that should be held in the account at the cutoff date.

- i. Obtain an understanding of the issuer's procedures and test whether the issuer meets the delivery requirement by the second business day of each month for pool and loan-level reporting.
- j. Test that loan-level information is being reported monthly to Ginnie Mae.
- k. For all issuers that are not federally regulated financial institutions, test that quarterly financial information (form HUD-11750) is being submitted electronically through the Mortgage Bankers' Financial Reporting Form Web-based system.

F. Securities Marketing and Trading Practices.

1. **Compliance Requirement.** Ginnie Mae has established securities marketing and trading requirements, which are intended to ensure that issuers fulfill their securities marketing and trade activities in a manner consistent with prudent business practices and their own and others' financial capacity. There are three components to these requirements: (1) a suitability rule, (2) prudent business practice rules, and (3) minimum forward delivery contract requirements related to so-called mark-to-market deposit requirements. There are also record-keeping and reporting requirements. All approved issuers must implement these procedures, whether or not securities or commitments are outstanding. The applicable requirements are found in the MBS Guide, specifically in appendix IV-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.

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- 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 MBS Guide.
 - (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 counterparty, and the 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" as referenced in appendix IV-1 of the Ginnie Mae MBS Guide. Compare this information to the issuer's accounting records and 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 under a delayed delivery contract, except that the term does not include
- (1) A sale of securities when (1) the issuer holds a valid, outstanding commitment to guarantee 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 calendar 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 under a contract, which does not obligate the issuer to sell or purchase securities; that is, a standby commitment on which the issuer has the option to perform.
 - (4) A purchase (or sale) of mortgage participation certificates directly from (or to) Freddie Mac.

G. Adjusted Net Worth.

- 1. Computation.** The reporting of the "adjusted net worth calculation" is required for all Ginnie Mae issuers, even if there are no securities or commitments outstanding at fiscal yearend. The required format for the adjusted net worth calculation is provided in attachments B and E of this chapter.

Unacceptable assets are defined in attachment A of this chapter and should be itemized by asset type in the required format for presentation of adjusted net worth calculation for the issuer (attachment B). Do not combine the unacceptable assets into one line entitled "Unacceptable Assets." In certain circumstances and at its sole discretion, Ginnie Mae may accept a corporate guaranty as consideration for reclassifying certain assets that are treated as unacceptable under the HUD Consolidated Audit Guide. In addition, if evidence exists indicating the existence of related-party receivables or any unacceptable asset, which have not been deducted by the auditor, 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 auditor's audited balance sheet. Excess (deficit) net worth is computed as the difference between adjusted net worth and required net worth.

When the Ginnie Mae issuer is a subsidiary, the adjusted net worth computation must use the assets and liabilities of the Ginnie Mae issuer exclusively. Failure of the issuer to respond satisfactorily and in a timely manner to requests made by Ginnie Mae or its agent for additional information could result in disallowance of questionable assets and suspension or termination of issuer status.

- 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 MBS pools backed by single-family-level payment, graduated payment, growing equity, buydown, serial note, or adjustable rate mortgages, the minimum base net worth requirement is \$2.5 million plus 0.35 percent of the total single-family effective outstanding obligations. The total single-family effective outstanding obligation is the sum of (1) all single-family securities outstanding, (2) available commitment authority to issue new single-family pools, and (3) total single-family pools funded.³
 - b. For issuers approved to securitize MBS pools backed by manufactured home loans, the minimum base net worth is \$10 million plus 10 percent of the issuer's total effective manufactured home outstanding obligations. The total effective MH outstanding obligation is the sum of (1) all manufactured home securities outstanding, (2) available commitment authority to issue new manufactured home pools, and (3) total manufactured home pools funded.
 - c. For issuers approved to securitize MBS pools backed by multifamily construction or permanent loans, the minimum base net worth is \$1 million plus 1 percent of the issuer's total effective multifamily outstanding obligations in excess of \$25 million up to \$175 million plus 0.2 percent of the total effective multifamily outstanding obligations in excess of \$175 million. The total effective multifamily outstanding obligation is the sum of (1) all multifamily securities outstanding, (2) available commitment authority to issue new multifamily pools, and (3) unexpended multifamily construction draws.⁴

³ Total single-family pools funded are the pools that have been logged and are in the review process and in which the commitment line balance has been reduced.

⁴ The unexpended multifamily construction draws are the net amount between construction loan commitment authority reserved and total construction loan draws made.

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- d. For issuers approved to participate in the home equity conversion mortgage MBS (HMBS) program, the minimum base net worth is \$5 million plus 1 percent of the total effective HMBS outstanding obligations. The total effective HMBS outstanding obligation is the sum of (1) all HMBS securities outstanding, (2) available commitment authority to issue new HMBS pools, and (3) total HMBS pools funded.
 - e. Issuers approved to participate in more than one program type (single family, multifamily, manufactured home, or HMBS) are required to meet and maintain a minimum adjusted net worth equal to or greater than the sum of the minimum net worth program types in which the issuer is approved to participate.

H. Institutionwide Capital Requirements.

1. **Computation.** All Ginnie Mae issuers (except for issuers that are approved exclusively to issue MBS pools backed by manufactured home loans) must meet the following net capital requirements, without regard to securitization type and even if there are no securities or commitments outstanding at fiscal yearend. When the Ginnie Mae issuer is a subsidiary, the capital computation must use the assets and liabilities of the Ginnie Mae issuer exclusively. This requirement provides assurance that issuers will have sufficient capital to offset financial risk on an institutionwide basis.

a. Banks, thrifts, bank holding companies, and savings and loan holding companies must meet the following requirements:

- (1) Tier 1 capital-total assets ratio of 5 percent or greater.
- (2) Tier 1 capital-risk-based assets of 6 percent or greater.
- (3) Total capital-risk-based assets ratio of 10 percent or greater.

The above requirements are not applicable to credit unions.

b. Entities that are not covered by the above requirements in subparagraph “a” must maintain a total adjusted net worth as defined by Ginnie Mae and presented by issuers as part of their annual financial reporting obligations-total assets ratio of 6 percent or greater.

I. Liquid Asset Requirement.

1. **Computation.** All Ginnie Mae issuers are required to meet the liquid asset requirements below without regard to securitization type and even if there are no securities or commitments outstanding at fiscal yearend. When the Ginnie Mae issuer is a subsidiary, the liquid asset computation must use the assets and required net worth of the Ginnie Mae issuer exclusively. The liquid asset requirement

ensures that funds are available should there be the need for cash to fund loan buyouts or pay for potential indemnification requests from insuring agencies.

a. Multifamily and HMBS Issuers

Issuers approved to securitize multifamily or HMBS pools are required to have liquid assets of at least 20 percent of their net worth requirement as defined in section 6-5, paragraph G.2, of this guide.

b. Single-Family Issuers

Issuers approved to securitize single-family MBS pools are required to have and maintain liquid assets equal to the greater of \$1 million or .10 percent of the issuer's outstanding single-family mortgage-backed securities.

c. Manufactured Housing Issuers

Issuers approved to securitize pools backed by manufactured home loans are not required to meet a separate liquidity requirement.

Issuers approved to participate in more than one program type (single family, multifamily, manufactured home, or HMBS) are required to meet and maintain minimum liquid assets equal to or greater than the sum of the minimum liquid assets requirements for all program types in which the issuer is approved to participate.

- 2. Acceptable Liquid Assets.** Liquid assets are cash and cash equivalents as defined under Financial Accounting Standards Board Statement No. 95.

- 6-6. Audit Finding Reporting.** All material instances of noncompliance with any HUD requirement or regulation, deficiencies in internal control, fraud or illegal acts, or contract violations that were disclosed during the audit process must be reported as findings in the audit report. All nonmaterial instances of noncompliance, deficiencies in internal control, fraud or illegal acts, or contract violations disclosed during the audit process may be reported separately to management. Such reporting must be in writing in a management letter or other type of written auditor communication and must be mentioned in the independent auditor's report, including the date of the management letter or other written communication. Noncompliance, deficiencies, or instances of violations that were corrected during the audit process or after the fiscal year under audit or disclosed as a part of the audit process before the end of the fiscal year under audit and before the issuance of the audit report must be included in the report as resolved findings or in a management letter, depending on their materiality.

- A. Content of Finding.** Findings are to be presented in accordance with the standards and requirements of generally accepted government auditing standards. A finding should be supported by sufficient, competent, and relevant evidence; be presented in a manner to promote adequate understanding of the matters reported; and provide convincing but fair presentations in proper perspective. Please refer to chapter 2 for the information that is to be included in a finding.

- B. Corrective Action in Process.** Many times when auditees are presented with draft findings, they will start to take action to correct the deficient condition. When this action is underway and the auditor has completed his or her fieldwork, the auditee can include the action completed and the action remaining to be taken in the auditee's comments and in the corrective action plan. Regardless of whether the auditee is in the process of correcting the finding, the auditor is to include the finding in the report with all required elements.
- C. Corrective Action Completed.** Many times when auditees are presented with draft findings, they will start to take action and complete that action, correcting the deficient condition before the completion of the fieldwork. When this occurs, the finding is still to be included in the audit report with all required elements. The action taken or completed should be included in the auditee's comment section and should be validated by the auditor. The recommendation section should follow the auditee's comment section, and the auditor should state whether he or she validated the action. In addition, the auditor could include any additional recommendations he or she believes to be necessary based on the validation of that action.
- 6-7. Technical Assistance Needed.** Ginnie Mae contractors will receive, review, and act on audit reports conducted using this chapter. It is important that the report meet Ginnie Mae's requirements and expectations. For this reason, questions on audits performed using this chapter should be referred to Ginnie Mae's Office of Mortgage-Backed Securities at (202) 708-1535.

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 lender or from a related entity, except for
 - a. A construction loan receivable secured by a first mortgage from a related entity.
 - b. 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.
 - c. A receivable from a related party when the affected parties have executed a cross-default agreement⁵ or corporate guarantee agreement⁶ with Ginnie Mae.
3. An investment in a related entity in which any officer or stockholder of the lender has a personal interest⁷ unrelated to that person's position as an officer or stockholder of the lender.
4. That portion of an investment in a joint venture, subsidiary, affiliate, or other related entity, which is greater than equity as adjusted. "Equity as adjusted" means the book value of the related entity reduced by the amount of unacceptable assets carried by the related entity.
5. Any intangible asset, including but not limited to goodwill, covenants not to compete, franchise fees, organization costs, software, 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 Statement of Financial Accounting Standards (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 their revisions.

⁵ 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.

⁶ A corporate guaranty agreement is an agreement in which the issuer's parent guarantees the performance of the issuer.

⁷ "Personal interest," as used here, indicates a relationship between the lender and a person or entity in which that specified person (for example, spouse, parent, grandparent, child, brother, sister, aunt, uncle, or in-law) has a financial interest or is employed in a management position by the lender.

7. Any asset not readily marketable and for which appraised values are very subjective. Examples include but are not limited to antiques, artwork, and gemstones.
8. That portion of any marketable security (listed or unlisted) in excess of the lower of cost or market.
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 that is principally used⁸ for the personal enjoyment or benefit of an officer, director, or stockholder and not for normal business purposes. This includes motor vehicles and personal residences.
11. "Other assets" unless the financial statements are accompanied by a schedule prepared by the auditor or a schedule prepared by the issuer-lender and signed by an officer of the issuer-lender.
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.

Unacceptable Assets for Computation of Liquid Asset Requirement

Cash and cash equivalents, the use of which in whole or in part is restricted for specific purposes under contractual agreements. Such assets are not deemed to be immediately available to the issuer.

⁸ "Principally used" means that any other use of the property must be solely incidental.

Attachment B**Required Format for Presentation of
Adjusted Net Worth
Calculation for Issuer****A. Adjusted net worth calculation:**

Stockholder's equity per statement of financial condition at end of reporting period		\$ _____
Less:		
Itemized unacceptable assets ⁹		
1.	\$ _____	
2.	\$ _____	
3.	\$ _____	
Total unacceptable assets		\$ _____
Adjusted net worth		\$ _____

B. Required net worth calculation:

Unpaid principal balance (UPB) of securities outstanding

	UPB in \$	#of pools	
Single family	\$ _____	_____	
Multifamily	\$ _____	_____	
HMBS	\$ _____	_____	
MH	\$ _____	_____	
			Total UPB
			\$ _____
Plus:			
Outstanding balance of available commitment authority and pools funded			
Single family	\$ _____		
Multifamily ¹⁰	\$ _____		
HMBS	\$ _____		
MH	\$ _____		
			Total
			\$ _____
Total outstanding portfolio, commitment authority, and pools funded			\$ _____

⁹ Unacceptable assets are listed in attachment A.¹⁰ Unexpended multifamily construction draws must be included here.

Required net worth \$ _____

C. Excess (deficit) net worth:
(Adjusted net worth – required net worth)¹¹ \$ _____

¹¹ In the event that adjusted net worth does not meet the Ginnie Mae requirement, the auditor may include comments from representatives of the issuer of corrective measures contemplated.

Attachment C

**Required Format for Presentation of
Capital Requirement
Calculation for Issuer**

A. Capital requirement for depository institutions:¹²

Tier 1 capital	\$ _____
Total capital	\$ _____
Risk-based assets	\$ _____
Total assets	\$ _____

Tier 1 capital-total assets	_____ %
Tier 1 capital-risk-based assets	_____ %
Total capital-risk-based assets	_____ %

Meets requirement?
(yes-no)

5% of tier 1 capital-total assets	\$ _____	_____
6% of tier 1 capital-risk-based assets	\$ _____	_____
10% of total capital-risk-based assets	\$ _____	_____

B. Capital requirement for nondepository institutions:¹³

Total adjusted net worth	\$ _____
Total assets	\$ _____

Meets requirement?
(yes-no)

Total adjusted net worth-total assets	_____ %	_____
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¹² Depository institutions include banks, thrifts, bank holding companies, and savings and loan holding companies. This does not include credit unions.

¹³ Nondepository institutions include entities that are not covered by footnote 10 above.

Attachment E

**Required Format for Presentation of
Adjusted Net Worth
Calculation for Issuer's Parent**

A. Adjusted net worth calculation:

Stockholder's equity per statement of financial condition at end of reporting period					\$ _____
Less:					
Itemized unacceptable assets ¹⁷					
1.		\$			
2.		\$			
3.		\$			
Total unacceptable assets					\$ _____
Adjusted net worth					\$ _____

B. Comparison of net worth calculation:

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. <u>Excess (deficit):</u>					\$ _____

¹⁷ Unacceptable assets are defined in attachment A.

Attachment F

**Required Format for Presentation of
Capital Requirement
Calculation for Issuer's Parent**

A. Capital requirement for depository institutions:¹⁸

Tier 1 capital	\$ _____	
Total capital	\$ _____	
Risk-based assets	\$ _____	
Total assets	\$ _____	
Tier 1 capital-total assets		_____ %
Tier 1 capital-risk-based assets		_____ %
Total capital-risk-based assets		_____ %

Meets requirement?
(yes-no)

5% of tier 1 capital-total assets	\$ _____	_____
6% of tier 1 capital-risk-based assets	\$ _____	_____
10% of total capital-risk-based assets	\$ _____	_____

B. Capital requirement for nondepository institutions:¹⁹

Total adjusted net worth	\$ _____
Total assets	\$ _____

Meets requirement?
(yes-no)

Total adjusted net worth-total assets	_____ %	_____
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¹⁸ Depository institutions include banks, thrifts, bank holding companies, and savings and loan holding companies. This does not include credit unions.

¹⁹ Nondepository institutions include entities that are not covered by footnote 15 above.

Attachment H

**Required Format
for Presentation of
Insurance Requirement**

A. Identification of affiliated²² 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)	\$ _____
Remaining principal balance of 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. Policies contain the required elements²³

Fidelity bond coverage	Yes-No
Mortgage servicing errors and omissions coverage	Yes-No

²² 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.

²³ The required elements are found in section 2-7(B) of the MBS Guide.

Attachment I**Report of Independent Auditors on
Consolidating Balance Sheet and
Statement of Income**

Board of Directors
[ABC Financial Corporation]

We have audited, in accordance with the auditing standards generally accepted in the United States of America; Government Auditing Standards, issued by the Comptroller General of the United States; and the Consolidated Audit Guide of HUD Programs, issued **[insert date of guide or applicable updated chapters]** by the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General, the consolidated financial statements of **[Insert name of auditee; for example, ABC Financial Corporation and subsidiaries]** as of **[insert ending date; for example, December 31, 1991]** and have issued our unqualified opinion thereon, dated **[insert date; for example, January 24, 1992]** included on page **[insert page number]** 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 and cash flows on pages **[insert page numbers]**, 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. However, this report is a matter of public record, and its distribution is not limited.

[Firm signature]

[Date]

Attachment J

Annual Submission of Financial Documents

The following information is being sent to maintain eligibility in the HUD Mortgage-Backed Securities (MBS) program.

- A. Issuer name: _____
- B. Ginnie Mae issuer number: _____
- C. Auditor's contact person & telephone number: _____
- D. All Ginnie Mae waivers: Yes _____ No _____ Effective date or N/A _____
(if available please provide a copy)
- E. Please list all affiliates' names, addresses, and Ginnie Mae issuer numbers²⁴

Place a checkmark by item(s) submitted²⁵

- 1. ___ Annual audited financial statement for period ended
Date ___/___/___
Auditor's report on
- 2. ___ Consolidating balance sheet-statement of income
(expense & income reported separately)
- 3. ___ Internal controls
- 4. ___ Compliance with specific requirements
Auditor's presentation on
- 5. ___ Insurance coverage schedule
- 6. ___ Adjusted net worth schedule for issuer
- 7. ___ Adjusted net worth schedule for parent (if applicable)
- 8. ___ Capital requirement schedule²⁵
- 9. ___ Parent's capital requirement schedule (if applicable)
- 10. ___ Liquid asset requirement schedule²⁵
- 11. ___ Parent's liquid asset requirement schedule (if applicable)
- 12. ___ Other reports submitted (please list)

Issuer's point(s) of contact regarding the items being sent: Name: _____ Telephone: _____ Email: _____ Item(s) #: _____ Name: _____ Telephone: _____ Email: _____ Item(s) #: _____

- 13. ___ Current insurance certificate and endorsement of Ginnie Mae as loss payee
 _____ Fidelity bond _____ Lender's errors & omissions
 _____ Attestation of insurance compliance
- 14. ___ Corrective action plan
- 15. ___ Schedule of "other assets"²⁶
- 16. ___ Schedule of "breakdown of depreciation and amortization expenses by asset class"

²⁴ 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 generally accepted accounting principles.

²⁵ Only submit the items that apply. Manufactured housing issuers do not submit items 8 to 11. Inactive issuers do not submit items 3 and 4. Please contact your Ginnie Mae account executive if you have any questions.

²⁶ Optional schedules beneficial in properly recording the net of unacceptable assets during the financial review process

For requirements, report, and supplementary schedule templates, reference HUD Audit Guide chapters 2 and 6: <http://www.hudoig.gov/reports-publications/audit-guides/consolidated-audit-guides>

Signature: _____ Date: _____

Type or print name: _____

Title: _____