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Document Custody Redesign



**Government National Mortgage Association
MBA National Mortgage Servicing Conference
San Antonio, TX
February 21, 2001**

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Opportunity for Change

- **Emergence of competition**
- **Request from MBA and issuers to review processes and related costs in relation to risk**
- **Transition of custody oversight to Office of Customer Service**

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Approach

- **Two Phases**
- **Phase One Completed and Presented Today**
- **Phase Two- Its Up to You!**

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Approach-Phase I

- **Limited in scope, except for retrieval of cost data, minimal input from business partners**
- **Internally generated improvements**
- **Reviewed zero risk tolerance of existing policies and procedures and the resulting costs to the industry**
- **Acceptable level of risk assumed by Ginnie Mae with a resulting dramatic saving to industry**
- **Resulted in significant and immediate improvements**

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Approach- Phase Two

- **Will be more comprehensive and broad-based**
- **Will require significant interaction and support from business partners**
- **Will require a more comprehensive risk management model**
- **Will rely on increased automation**

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Phase One Improvements

- **Acceptance of VA Electronic LGCs**
- **Elimination of Endorsements Subsequent to Transfers**
- **Acceptance of Allonges if Permitted by State Law**
- **Limited Liability Lost Note Bonds**
- **Streamlined Recertification Process**

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Phase One Improvement 1

Acceptance of VA Electronic Loan Guaranty Certificates (ELGC's)

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Acceptance of VA ELGCs

- **VA has announced the availability of Electronic Data Interchange (EDI) to electronically submit loans for guaranty and to receive an electronically generated Loan Guaranty Certificate**
- **Ginnie Mae has agreed to accept the ELGC for purposes of pool certification, with certain conditions**

Acceptance of VA ELGCs

- Custodians must receive direct electronic notification from VA that the respective loan has received an ELGC
- VA has agreed to provide each issuer's document custodian with a weekly download of loans that have been issued ELGC's

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Phase One Improvement 2

Note Endorsements

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Note Endorsements

- **Eliminates requirement that note endorsements be completed subsequent to every transfer**
- **Single blank endorsement at pooling remains on note**

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Note Endorsements

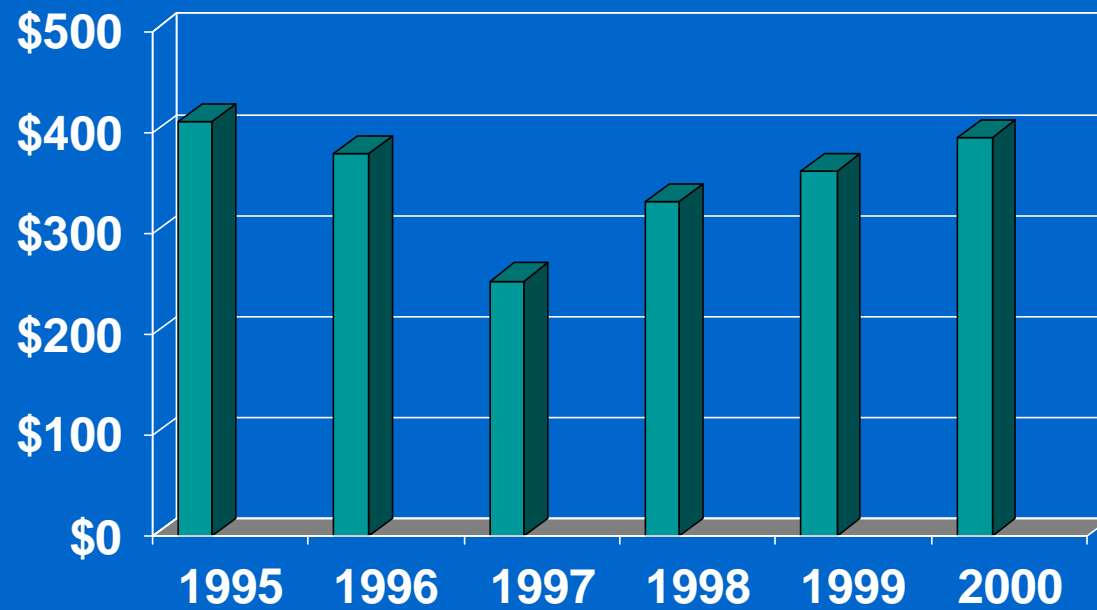
Industry costs of preparing endorsements:

<u>Process</u>	<u>Cost/ Minute</u>	<u>Minutes</u>	<u>Total Cost</u>
Preparation & filing of note endorsement	\$.44	1	\$.44

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Note Endorsements

Industry Costs of Preparing Endorsements



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Note Endorsements

Endorsement preparation cost to industry
for period 1995-2000:

Total number of
loans transferred

4,829,424

Industry cost of
preparing blank
endorsement

\$2,124,946

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Phase One Improvement 3

Acceptance of Allonges for Third Party Originations

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Allonges

- **At the present time, allonges allowed only if no room remains on back of note**
- **For all third party originated loans, Ginnie Mae will permit the use of allonges even if space remains on back of note**

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Allonges

- **Issuer is responsible for ensuring that allonges are allowed in the respective jurisdiction through receipt of a Legal Opinion from qualified outside counsel**
- **We are working with the MBA to reduce the costs associated with this process**

Allonges

- Issuer must ensure that the allonge clearly references note and that measures are adopted to ensure that no additional endorsements can be placed on the back of the note once the allonge has been used for endorsement
- Issuer responsible for creating standards to ensure allonge is firmly affixed to the note

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Allonges

Cost savings to industry from use of allonges:

<u>Ginnie Mae loans Pooled- 1999</u>	<u>Loans where allonges would be of benefit</u>	<u>Loans where allonge allows pooling one month earlier</u>	<u>\$ amount of loans closed one month earlier due to allonge</u>	<u>Cost benefit from allonge</u>
1,454,774	363,693	51,956	\$5,307,980,828	\$4,976,232

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Allonges

Reminder: Issuer is responsible for assuring that the use of allonges is permitted in the respective jurisdiction. If allonges are used in jurisdictions where such use is not allowed, Ginnie Mae reserves the right to revoke the issuer's right to use allonges

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Phase One Improvement 4

Lost Instrument Bonds

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Lost Instrument Bonds

- **Issuers may now purchase lost note bonds with limited liability**
- **Obligees may now include the issuer or successors, along with Ginnie Mae**

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Lost Instrument Bonds

Cost Savings to Industry for the purchase of lost instrument bonds with limited liability:

<u>Number of bonds purchased Fiscal Year 2000</u>	<u>Price of unlimited liability bond</u>	<u>Price of limited liability bond</u>	<u>Estimated annual savings to industry, assuming \$100,000 average loan size</u>
500	\$40/\$1000	\$20/\$1000	\$1,000,000

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Phase One Improvement 5

Streamlined Recertification Process

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Streamlined Recertification Process

- **A significant amount of the work involved in recertifying a pool involves performing a second final certification**
- **Quality of certifications and compliance has improved markedly over past 8 years**
- **Minimal benefit seen in many of the current required processes, some harm from repeated handling of documents**

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Streamlined Recertification Process

- Upon receipt of final certified pools, either through transfer of issuer responsibility or between custodians, the custodians must confirm that the following documents are contained in each loan file :

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Streamlined Recertification Process

- **Recorded Mortgage- including complete chain of assignments and proper assignment to Ginnie Mae**
- **Original Note- including proper endorsements and endorsement in blank and without recourse**
- **Evidence of Proper Insurance or Guaranty, dated and signed**
- **Title Policy**

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Streamlined Recertification Process

- **In addition, custodian remains responsible for ensuring that the pool and loan documents relate to the pool and loans listed on the related form 11706 (see page 3-20 in Document Custodian Manual)**

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Streamlined Recertification Process

**Industry Costs- Based upon the best data
Ginnie Mae has been able to assemble,
existing recertification and streamlined
certification costs are listed below:**

**Certification Costs
under Current
Procedures**

\$12.07/loan

**Certification Costs
under Streamlined
Procedures**

\$6.35/loan

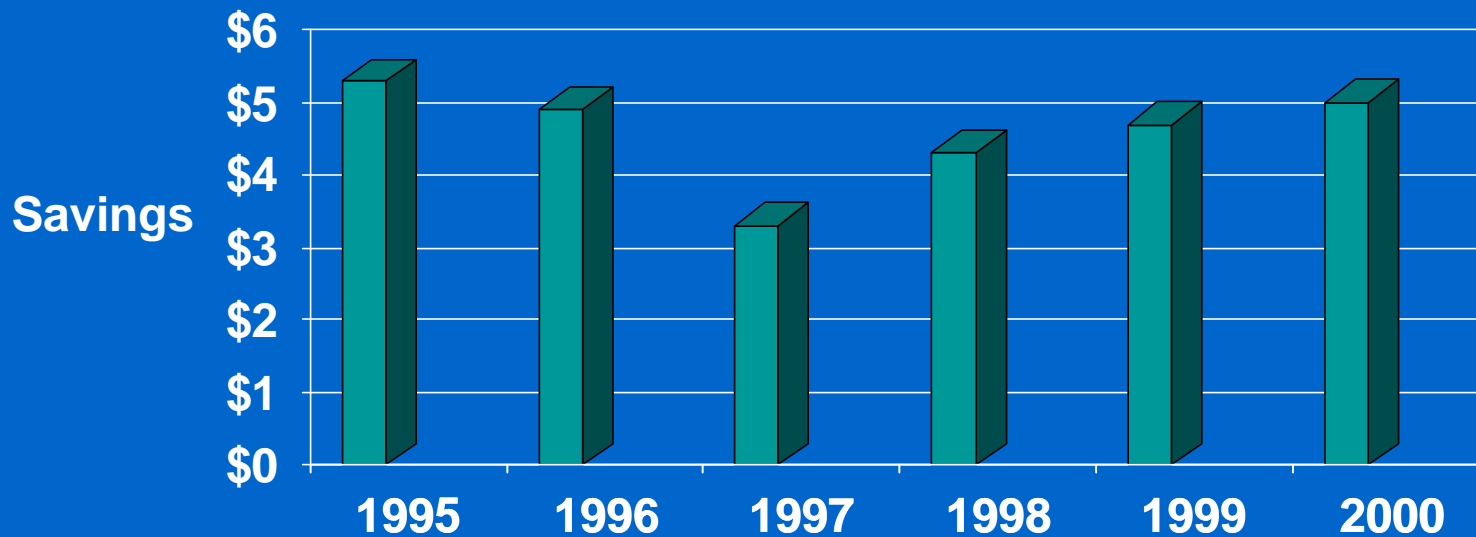
**Cost Savings under
Streamlined
Procedures**

\$5.72/loan

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Streamlined Recertification Process

Annual savings had streamlined process
been in effect (\$millions)



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Streamlined Recertification Process

Cost Savings to Industry had Streamlined Recertification process been in effect since 1995:

<u>Calendar Year</u>	<u>Number of Transferred Loans</u>	<u>Actual Cost to Perform Recertifications</u>	<u>Cost had new Streamlined processes been in effect</u>
1995-2000	4,829,424	\$58,291,147	\$30,666,842

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Streamlined Recertification Process

- As can be seen, savings to the industry since 1995 would have exceeded \$27.5 million, or about \$4.6 million annually
- This does not include costs savings resulting from non-issuer related transfers of pools from one custodian to another

Streamlined Recertification Process

- **Ginnie Mae's field review procedures will be expanded to ensure quality of loan documents. If non-compliance exceeds established thresholds, a complete recertification may be required**
- **Ginnie Mae reserves the right, in its sole discretion, to require a complete recertification in accordance with existing certification requirements**

Conclusion

- Changes will result in estimated annual savings to the industry of \$11,500,000!
- Ginnie Mae's risk remains within acceptable limits
- End result is more active level of participation and lower costs of homeownership!
- These changes represent the “low hanging fruit”. More can be done!

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Next Steps

- **Guide Changes and Changes to Field Review Procedures are Underway**
- **Establishment of Working Group to Begin Phase II Opportunities**
- **Presentation at Document Custodian Conference**
- **Thank You for Coming!**