



THE GOVERNMENT NATIONAL
MORTGAGE ASSOCIATION

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-9000

April 16, 1999

99-13

MEMORANDUM FOR: All Participants in Ginnie Mae Programs

FROM: George S. Anderson, Executive Vice President

SUBJECT: Guide Changes to Chapter 29, Project Loan Pools

Attached are changes to the Multifamily Mortgage-Backed Securities Program detailed in Chapter 29 of the Ginnie Mae I Guide, 5500.1 REV 7.

The below noted changes will enhance the multifamily project loan program and streamline the pooling process. All loans that are modified with FHA approval after final endorsement will be required to be pooled under the Mature Loan program. Modified loans are subject to the provisions of the required certification for mature loans, except where specifically excluded. Loans modified by FHA prior to or at the time of final endorsement will still be eligible for PL and PN pool types. The following changes are effective immediately:

- The current requirement for a modified loan to have been securitized in a Ginnie Mae pool prior to issuance of a new pool is no longer applicable.
- The current certification that a multifamily project loan to be pooled as a mature loan must have had sustained occupancy of at least 93 percent for the past 24 months has been amended for nursing homes only to require sustained occupancy of at least 90 percent for the past 24 months, and eliminated for modified loans.
- The current certification that a multifamily project to be pooled as a mature loan must not be subject to a project-based rental subsidy contract is revised to include these projects if the loan has been marked-to-market by HUD.



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- The requirement for a copy of the original assignment of the FHA Firm Commitment in a pool package has been eliminated.
- The requirement for copies of the Form HUD 92264, Project Income Analysis and Appraisal, and Form HUD 92264-A, Supplement to Project Income Analysis, where applicable, in a pool package has been eliminated.
- Included on the list of Required Documents for Certification by Document Custodian, Section 29-10, is the Transfer of Letter of Credit form as required by Appendix VI-5-7, as applicable.

Any questions regarding this memorandum should be directed to Paulette Griffin in the Office of Multifamily Programs at (202) 708-2043.

Attachment



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29-1: OVERVIEW OF CHAPTER

This chapter describes special requirements that apply to a pool consisting of one or more project loans for multifamily housing.

The requirements stated here modify those set forth in previous chapters for applying for and maintaining issuer status, obtaining commitment authority and pool numbers, submitting pool issuance documents, delivering securities, and administering pools.

The pool suffix is “PL,” “PN,” “LM,” or “LS,” depending on the following specific pool requirements:

“PL” identifies a pool consisting of a single, level payment project loan with a first scheduled payment date no more than 24 months before the issue date of the securities.

“PN” identifies a pool consisting of a single, non-level payment project loan with a first scheduled payment date no more than 24 months before the issue date of the securities. (See Section 29-6 for special PN pool requirements)

“LM” identifies a pool consisting of a single project loan with a first scheduled payment date more than 24 months before the issue date of the securities. (See Section 29-7 for special LM pool requirements)

“LS” identifies a pool consisting of one or more project loans, each secured by a lien on a small project as determined by FHA and each with a first scheduled payment date no more than 24 months before the issue date of the securities. (See Section 29-8 for special LS pool requirements)

29-2: ISSUER ELIGIBILITY

To be eligible to issue project loan securities, an applicant must satisfy the eligibility requirements set forth in Chapters 2 and 3, including the net worth requirements applicable to issuers of project loan securities. (See Sections 2-9 and 3-8)

29-3: SERVICING FEES

The spread between the face interest rate on a pooled
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AND GUARANTY FEES

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mortgage and the interest rate on the securities is retained by the issuer as a servicing fee. The issuer uses this fee to pay the costs of servicing the mortgage, other costs of performing its issuer responsibilities, and the Ginnie Mae guaranty fee. No additional fee will be charged to the mortgagor for the servicing of the mortgage.

The Ginnie Mae guaranty fee is 13 basis points. The minimum servicing fee, exclusive of the guaranty fee, is 12 basis points. The minimum spread between the mortgage note and the security interest rate is, therefore, 25 basis points. The spread may not exceed 50 basis points, except in the case of an LS pool, without prior Ginnie Mae approval.

29-4: COMMITMENT AUTHORITY TO GUARANTEE SECURITIES

To participate in the MBS program, issuers must request commitment authority and pool numbers as described in Chapter 8. All multiline commitment authority will expire the last day of the month that is 24 months from the date of approval of the commitment authority. Multiline commitment authority cannot be converted to single-line commitment authority.

(A) Application

The procedure for applying for multiline commitment authority or pool numbers is described in Section 8-3, and the documents that must be submitted to the Office of Multifamily Programs (see Addresses) are described in Section 8-4.

(B) Commitment Fee

The commitment fee is described in Section 6-2(B).

29-5 MORTGAGE ELIGIBILITY AND POOL REQUIREMENTS

A project loan pool, other than an LS pool, consists of one mortgage representing a single loan on a completed project. An LS pool may consist of one or more mortgages, each of which represents a loan on a completed project. Each mortgage must satisfy the following requirements:

(A) FHA Insurance

The mortgage must be insured by FHA under the National Housing Act. Mortgages coinsured under section 244 and insured under Title X of the National Housing Act are not eligible for pooling. However, a coinsured loan that has been modified and endorsed for Full Insurance with FHA approval is eligible for pooling. See Section 29-7.

Section 29-5 (continued)

(B) Minimum Amount

As of the issue date, the remaining principal balance of the



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mortgage must be at least \$250,000.

(C) Finally Endorsed

The mortgage note must have been finally endorsed by FHA prior to inclusion of the mortgage in the Ginnie Mae project loan pool.

(D) Mortgages Sold in Auctions

Mortgages sold in auctions approved by Ginnie Mae may be pooled, provided that the first scheduled payment of principal and interest following the date on which the mortgage bid is accepted by the auctioning agency is no more than 24 months before the issue date of the securities or, in the case of an LM pool, is more than 24 months before the issue date of the securities.

(E) Modified Mortgages

Project mortgages that have been modified with FHA approval prior to or at final endorsement are eligible for pooling as PL or PN pool types. Project mortgages that have been modified with FHA approval after final endorsement may be pooled under the Mature Loan program requirements found in Section 29-7.

(F) Current Mortgage

The mortgage must be current, as of the date of certification by the document custodian, with respect to payments of principal and interest and any necessary deposits. The issuer must not have advanced funds, or induced or solicited any advance of funds, for the payment of any amount required by the note or mortgage within three months preceding the date of certification. Excepted from this prohibition is any advance for interest accruing from the date of the note or the date of disbursement of the loan proceeds, whichever is later, to a day one month before the due date of the first installment of principal and interest.

(G) Servicing

The mortgage and securities may be serviced by the issuer or by a subcontract servicer in accordance with the requirements of Sections 4-2 and 4-3.

Section 29-5 (continued)

(H) Mortgages with Non-Level Payments

Any mortgage, otherwise eligible, that is not a fixed rate, fully amortizing loan with substantially equal payments over the



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life of the loan must be pooled as a PN pool. This includes any mortgage that by its terms is subject to a contingency that may, or to an amortization schedule that will, alter its level of scheduled payments. PN pool requirements are found in Section 29-6.

(I) Commencement of Amortization

It is not necessary in the case of a "PL", "PN", or "LS" loan that the project loan note provide for the commencement of amortization by the issue date. A Project Pool Report, form HUD 1710-C (Appendix VI-12) must be submitted monthly with the Issuer's Monthly Accounting Report, form HUD 11710-A (Appendix VI-9) until amortization begins.

(J) Section 221(g)(4) Assignment Option

Project loans insured pursuant to section 221 of the National Housing Act and securitized through Ginnie Mae pools are not eligible, without Ginnie Mae's written permission, to be assigned to HUD pursuant to section 221(g)(4) after the twentieth anniversary of final endorsement of the mortgage.

Section 306(g) of the National Housing Act empowers Ginnie Mae to contract with issuers and provides that, pursuant to the terms of such contracts, which take the form of Guaranty Agreements, the mortgages become the absolute property of Ginnie Mae, subject only to the unsatisfied rights of holders of the securities. Accordingly, absent written approval, Ginnie Mae reserves the exclusive right to exercise the option under section 221(g)(4) of the National Housing Act to assign, transfer, and deliver the original credit instrument and mortgage to the Secretary (including sale through Secretary-approved auctions) after 20 years in exchange for debentures. If an issuer wants Ginnie Mae to approve the exercise of the option, it must present its request in writing to the Office of Multifamily Programs (see Addresses) and receive written approval. In addition, the issuer must comply with all other requirements for pool termination (see Section 20-2).

29-6: POOLING OF MORTGAGES WITH NON-LEVEL PAYMENTS

Project mortgages with non-level payment provisions are eligible for pooling. The pool suffix is "PN", "LM" or "LS."

(A) Non-level Payment Provisions

Non-level payment mortgages are those on which the scheduled payments may increase or decrease



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times during the mortgage term according to a predetermined schedule or contingent upon a defined event. The term does not include variable rate mortgages.

Non-level payment provisions may apply for various reasons, including but not limited to:

- (1) accelerated repayment schedules imposed by HUD as a result of state or local property tax abatement programs;
- (2) scheduled partial prepayment and recasting of mortgage loans for reasons unrelated to workout arrangements (e.g., reamortization of the loan after passing through to security holders the proceeds of a partial condemnation of the mortgaged property);
- (3) graduated payment mortgage plans;
- (4) balloon payment plans;
- (5) the use of other alternative mortgage instruments; and
- (6) mortgage contingencies that may alter the level of scheduled payments on loans, for example a provision that the failure of the mortgagor to meet a rental achievement standard would require a partial prepayment or recasting of the mortgage.

Except as modified by this section, all requirements applicable to PL pools set forth in this chapter apply to "PN", "LM" or "LS" pools.

Section 29-6 (continued)

(B) Securities

Monthly payments of principal on Ginnie Mae securities backed by a mortgage with non-level payments will correspond to scheduled payments on the underlying mortgage. Principal payments due on the mortgage on the first of each month will be paid by the issuer to security holders no later than the 15th day of the saDate: 04/30/99



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payment is made by electronic transfer and the 15th day of the same month is not a business day, then on the first business day following the 15th day of the same month.

Payments of interest to security holders will be calculated for the life of the securities in accordance with Section 15-2(B).

Securities backed by a mortgage with non-level payments are distinguishable from other Ginnie Mae project loan securities by the suffix "PN", "LM" or "LS" in each certificate number and by the following text in the PN certificate: "The amortization schedule for the pooled mortgage provides for non-level monthly installments as described in the prospectus for this issue."

It is important that "PN", "LM" or "LS" securities be clearly differentiated from securities backed by PL pools in all forward market and other transactions. In all communications relating to such transactions, issuers must clearly disclose that the securities to be delivered are backed by a "PN", "LM" or "LS" pool. Also, before delivery, issuers must obtain for their records from each dealer or investor to which the issuer is selling securities a confirmation statement clearly disclosing the nature of the pool underlying the securities to be delivered. An issuer must retain these confirmation statements as records subject to Ginnie Mae's right of inspection.

(C) Prospectus

The prospectus for the non-level payment project loan securities (Appendix IV-7) must include the material facts relating to the non-level payment feature of the project loan, in the format described below. If the project loan securities will be issued in exchange for construction loan securities, then the prospectus for the construction and project loan securities (Appendix IV-8) must include the material facts relating to the non-level payment feature of the project loan.

Section 29-6 (continued)

The issuer must submit to Ginnie Mae for approval, no later than it would be required to submit pool documents for the issuance of "PN", "LM" or "LS" securities (whether project loan or construction loan securities), a narrative description of the material facts surrounding the non-level nature of anticipated payments on the securities. The description must be typed on the "Annex — Special Disclosure" under "Description of Non-level Payment Provisions" (see form



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HUD 1724 (Appendix IV-7)).

An illustrative example of such a narrative description follows:

ABC Gardens
Anywhere, NY
FHA Project No. 012-34567-PM
Ginnie Mae Pool No. 012345
Loan Amount \$3,160,000

Notice of Non-Level Payment Amortization Schedule:

The FHA Note provides for repayment of the loan at a rate of 12.50 percent by 480 monthly payments as follows:

Payments 1 through 144 at \$34,735.91
Payments 145 through 480 at \$27,495.75

Repayment by level payment over the entire term of the loan would require 480 level payments of \$33,146.91. Thus, under this non-level payment amortization schedule, the Mortgagor will pay \$525,827.05 more in principal over the first twelve years of the loan than it would pay under a level amortization schedule. Accordingly, because the term of the mortgage remains 40 years, the accelerated repayment of principal during the first twelve years of the loan will result in the mortgagor's monthly payment of principal during the remaining 28 years of the loan being lower than it would be under a level amortization schedule. The rate of interest on the underlying loan will remain 12.5% throughout the term of the loan. The net payment to the investor will be calculated in accordance with the terms of the Certificates.

**29-7: POOLING OF
MATURE PROJECT
MORTGAGES**

A project loan for which the first scheduled payment of principal and interest is more than 24 months before the issue date of the securities is eligible for pooling in the multifamily mature loan program. Also, project loan mortgages that have been modified with FHA approval after final endorsement are also eligible for pooling under the mature loan program. The pool suffix is "LM".

Section 29-7 (continued)

**(A) Required Pool
Documents**

In addition to pool documents required in Section 29-11, an issuer of an LM pool must submit as part of the pool package a certification that:

- (1) The pooled loan has been a performing loan for the past 24 months without the need for an owner contribution, unless subject to a current modification approved by FHA.
- (2) Unless currently modified with the approval of FHA, the project has had sustained occupancy. Date: 04/30/99



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93 percent for the past 24 months, except nursing home projects must have had sustained occupancy of at least 90 percent for the past 24 months.

- (3) Unless currently modified with the approval of FHA, the project has a reserve for replacement account funded in an amount equal to at least 24 monthly payments on the pooled loan.
- (4) The contract of mortgage insurance with FHA is in full force.
- (5) The mortgage is fully insured by FHA and not subject to a coinsurance contract.
- (6) Unless currently modified with the approval of FHA, the most recent project physical inspection performed within the past 12 months supports a satisfactory or higher rating, and all repairs have been made and inspected by the mortgagee and determined to be satisfactory.
- (7) If the mortgaged property is subject to a project-based rental subsidy contract, the loan has been marked-to-market by HUD.
- (8) Unless currently modified with the approval of FHA, the project has a minimum debt service coverage of 117 percent.

Section 29-7 (A) (continued)

For the exact wording of the certification, see Appendix III-17. The certification must be reproduced on the issuer's letterhead without revision. Ginnie Mae will not consider requests to revise, or engage in negotiations regarding, the terms of the certification. Ginnie Mae will not accept or approve a certification that has been revised by an issuer. Without the certification, the pool package is incomplete, and no security will be issued.

(B) Prospectus

The issuer must state under "Other" on the "Annex - Special Disclosure," which is attached to the prospectus for the LM securities (see form HUD 1724 (Appendix IV-7)), when the first payment of principal and interest on the mortgage occurred.

(C) Modified Loans: Other

In addition to the pool documents required in Section 29-7 (A) and (B),



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Requirements

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modified pools are also subject to the following requirements:

- (1) The pool documents must include a copy of the modification agreement approved by FHA.
- (2) A new custodial file is required in connection with the issuance of a pool backed by a modified loan. Many of the documents will be transferred from the original custodial file, but if any of the underlying conditions represented by the original pool documents have changed, new or supplemental documents must be executed and placed with the document custodian. For example, if the title insurance company issues a new policy on the modified mortgage or an endorsement to the original policy to include coverage of the mortgage modification, the new title policy or the endorsement and the existing title policy must be provided to the document custodian.
- (3) All other project loan pooling requirements remain the same. This includes the requirement that loans may not be removed from a pool, and the pool terminated, unless a loan is 90 days or more delinquent or the registered security holders unanimously agree to the pool's termination. If a pooled project loan is not 90 days or more delinquent, the issuer must comply with the procedures described in Section 20-2 (B).

Section 29-7 (C) (continued)

All project loan security terminations that will involve a swap of a new security for the existing security, rather than a termination through payment of cash to the existing investor, must be approved by Ginnie Mae in writing prior to execution of the transactions.

29-8: POOLING OF SMALL PROJECT MORTGAGES

In addition to the issuer eligibility requirements set forth in Chapters 2 and 3, the issuer must be approved to originate and service loans under FHA's Small Loan Processing Procedures.

(A) Issuer Eligibility

In addition to the requirements for a PL pool, the following are applicable:

(B) Pool Requirements

- (1) One or more loans may be included in one pool.
- (2) All loans in an LS pool must have the same interest



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rate.

- (3) All loans in an LS pool must be issued and serviced by the same issuer.
- (4) The maximum amount of each loan is \$1 million.
- (5) The maximum term of each loan is 35 years.
- (6) The minimum number of units in a project is five; there is no maximum.
- (7) The security rate must be at least one-half of one percent (50 basis points) less than the mortgage rate. This floor of 50 basis points consists of 13 basis points for the Ginnie Mae guaranty fee and a minimum servicing fee of 37 basis points.
- (8) If an LS pool contains more than one loan, excess funds, as defined in Section 15-2(F), attributable to one loan may be used to cover deficiencies on one or more other loans in the same pool, subject to the limitations set forth in Section 15-2(F).

Section 29-8 (B) (continued)

(C) Prospectus

For each mortgage, the issuer must state under "Other" on the "Annex —Special Disclosure," which is attached to the prospectus for the LS securities (see Appendix IV-7): "The pooled mortgage is a small loan."

**29-9: CONVERTING A
CONSTRUCTION LOAN
POOL TO A PROJECT
LOAN POOL**

Construction loan securities are redeemed by the issuance of project loan securities to the security holders of the construction loan securities. Upon completion of the construction phase, the project is finally endorsed for FHA mortgage insurance. Upon final endorsement, the construction loan securities are terminated, and project loan securities are issued.

The procedures for converting to project loan securities (PL, PN, or LS pool) from construction loan securities (CL or CS pool) are as follows:

- (A) Consecutive pool numbers for the construction loan securities and the project loan secu

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reserved prior to issuance of the construction loan securities in accordance with Section 30-5(C). The higher pool number is to be used for the project loan securities.

- (B) Documents in the document custodian's construction loan file must be withdrawn for inclusion in the document custodian's project loan file. The issuer must accomplish this by providing to the document custodian a Request for Release of Documents, form HUD 11708 (Appendix V-5).
- (C) The issuer must prepare any additional documents required for both the document custodian's certification and pool submission to the PPA. The required documents are identified in Sections 29-10 and 29-11.
- (D) When the construction loan securities mature, they must be redeemed by issuance of the project loan securities immediately after FHA's final endorsement of the project loan mortgage.

Section 29-9 (continued)

- (E) At least one week prior to the issuance of the project loan securities, the issuer must write the security holders, notifying them that the construction loan securities will be converted to project loan securities.

For book-entry securities, issuers are required to notify the depository's nominee, in writing, that the construction loan securities will be converted to project loan securities. This notification must be sent to the nominee's street address (see Addresses), not a box number (since many box numbers are used only for cash collections).

The security holder must surrender the outstanding construction loan securities to the issuer or directly to the CPTA for cancellation (see Addresses) before the project loan securities will be released.

- (F) If the amount of the insured loan at FHA's final endorsement is less than the amount of the outstanding construction loan securities upon completion of the project (due to -



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between the loan amount and the certified costs or through amortization), the issuer must pay the construction loan security holders the difference between the outstanding principal amount of the construction loan securities and the outstanding principal amount of the smaller project loan securities at the time of the conversion.

**29-10: REQUIRED
DOCUMENTS FOR
CERTIFICATION BY
DOCUMENT CUSTODIAN**

Prior to the issuance of securities, the documents listed below must be delivered for each pooled mortgage to the document custodian, who certifies to their receipt on the back of the Schedule of Pooled Mortgages, form HUD 11706 (Appendix III-7). For project loan pools, there are no separate "initial" and "final" certifications, but only a single, final certification made prior to the issuance of the securities.

(A) The original of the note or other evidence of indebtedness endorsed for insurance by FHA and endorsed or assigned in blank by the issuer.

Section 29-10 (continued)

(B) A duly executed and valid assignment of the security instrument to Ginnie Mae that is in recordable form but unrecorded.

(C) An executed original Release of Security Interest, form HUD 11711A (Appendix III-5), relating to the pooled mortgage, if applicable.

(D) An executed original Certification and Agreement, form HUD 11711B (Appendix III-5), signed by an officer of the issuer.

(E) The recorded original of the mortgage or deed of trust securing payment of the indebtedness. A title insurance company-certified copy may be used to certify the pool, but when the issuer receives the recorder-certified copy, the issuer must submit it to the document custodian.

(F) A duplicate original standard title insurance policy containing such provisions as are required by FHA.

(G) Copies of Uniform Commercial Code (UCC) forms or other security documents pertaining to personalty
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evidencing recordation with the appropriate office and an original assignment of such security documents to Ginnie Mae in recordable form but unrecorded. Issuers must keep UCC filings current while a loan is in the pool.

- (H) Copy of FHA Regulatory Agreement. (For coinsured loans, a copy of the Regulatory Agreement for Multifamily Housing Projects coinsured by HUD)
- (I) Original Transfer of Letter of Credit as required by Appendix VI-5-7, if applicable.
- (J) If the loan is coinsured, a special warranty deed conveying to Ginnie Mae ownership of the property underlying the mortgage, including any after-acquired title of the issuer. The deed must be in recordable form but unrecorded.

Section 29-10 (continued)

- (K) Such other documents as Ginnie Mae may require.

The loan documents required for certification by the document custodian are listed in the following table:

DOCUMENT	FORM NUMBER	APPENDIX
Schedule of Pooled Mortgages	HUD 11706	III-7
Release of Security Interest, executed original, if applicable	HUD 11711A	III-5
Certification and Agreement, executed original	HUD 11711B	III-5
Original note (or, in the case of a modified loan, the original note and the allonge, modification agreement, or other evidence of the modification), endorsed for FHA insurance and endorsed in blank, without recourse		
Assignment of mortgage or security instrument to Ginnie Mae, in recordable form but not recorded		
Original recorded mortgage or other security instrument of indebtedness		
Duplicate original title insurance policy		



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Copies of recorded UCC personal property forms		
UCC assignment to Ginnie Mae in recordable form but not recorded		
Original Transfer of Letter of Credit (if applicable) Appendix VI-5-7		
Copy of regulatory agreement		
Special warranty deed (if applicable)		
Any other documents required by Ginnie Mae		

29-11 REQUIRED DOCUMENTS FOR APPROVAL BY PPA AND GINNIE MAE

In addition to the documents described in Section 10-3, the issuer must deliver the following pool documents to the PPA not later than 3 business days prior to the anticipated delivery date of the securities. See Chapter 10 for detailed instructions on the delivery of these documents.

Section 29-11 (continued)

- (A) A copy of the mortgage note or other form of indebtedness, evidencing the final FHA insurance endorsement.
- (B) Schedule of Subscribers and Ginnie Mae Guaranty/Contractual Agreement, form HUD 11705, which must indicate in Pool Type "PL," "PN," "LM," or "LS" securities (Appendix III-6)
- (C) Schedule of Pooled Mortgages, form HUD 11706 (Appendix III-7).
- (D) Prospectus, form HUD 1724 (Appendix IV-7) for project loan securities only or form HUD 1731 for construction securities that will be converted to project loan securities.

The issuer must specify on the "Annex — Special Disclosure," which is attached to the prospectus, the prepayment provisions of the note (which must include any provision detailing prepayment privileges or penalties). If, for example, the loan may not be prepaid in full for a specified period or partial prepayments are restricted, these requirements must be disclosed in the annex to the prospectus. If there are no prohibitions against voluntary prepayment, that must be stated in the annex to the prospectus. (If a prepayment premium or charge is collected, it must



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be passed through to security holders as an additional payment apart from the amortization of principal of the securities and from required interest.)

Section 29-11(F)
(continued)

If amortization of the mortgage and, consequently, amortization of the securities will not commence immediately, this deferred amortization must be described. It must be made clear that while amortization may be deferred because of provisions of the underlying mortgage, interest, as required by the security, will be paid by the 15th of each month or, if payment is made by electronic transfer and the 15th day of the month is not a business day, then on the first business day following the 15th day of the month, commencing 45 days after the issue date of the security.

If the securities are backed by an LM pool or an LS pool, the prospectus annex must contain the provisions described in Sections 29-7(B) or 29-8(C), as applicable.

In cases where the project loan securities are conversions from construction loan securities, the prospectus used to cover the overall issuance is form HUD 1731 (Appendix IV-8). It is issued to security holders prior to issuance of the construction loan securities.

(E) If the FHA assignment fee is to be waived by FHA, a written certification by the issuer to the effect that the assignment fee is not applicable.

(F) For loans sold in a Ginnie Mae-approved auction. a



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copy of a notice of acceptance of the bids duly executed by an authorized official of the agency holding the auction.

- (G) For the issuance of a project loan security that is a conversion from a construction loan security, a copy of a letter to security holders notifying them of the conversion of the construction loan securities to project loan securities and instructing them to deliver outstanding construction loan certificates, if any, either to the issuer or directly to the CPTA for redemption. See Section 29-9 for further details.

Section 29-11 (continued)

- (H) For an LM pool, Certification Requirements for the Pooling of Multifamily Loans Where the First Payment to Principal and Interest is more than 24 Months Before the Issue Date of the Securities (Appendix III-17).
- (I) Application for Insurance of Advances, form HUD 92403, if converting CL or CS securities.



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Section 29-11 (continued)

The following table lists the pool documents to be sent to the PPA for approval of project loan pools:

DOCUMENT NAME	FORM NUMBER		APPENDIX
Copy of mortgage note	--		--
Schedule of Subscribers and Ginnie Mae Guaranty/Contractual Agreement	HUD 11705		III-6
Schedule of Pooled Mortgages	HUD 11706		III-7
Master Servicing Agreement	HUD 11707		III-1
Master Agreement for Servicer's Principal and Interest Custodial Account	HUD 11709		III-2
Agreements for Servicer's Escrow Custodial Account; include additional copy for Sec. 223(f) repair escrows and loan escrows, if applicable	HUD 11720		III-3
Master Custodial Agreement	HUD 11715		III-4
Prospectus, PL, PN, LM, and LS issuance only	HUD 1724		IV-7
Prospectus, CL or CS to PL or PN conversion	HUD 1731		IV-8
Application for insurance of advance if converting construction loan securities	HUD 92403		
Executed copy of notice of acceptance of pooling, for loans sold in auction	--		--
Copy of assignment fee waiver (if applicable)			
Copy of letter to security holders of conversion (if applicable)			
Certification For Pooling A Multifamily Mortgage Where The First Payment To Principal And Interest Is More Than 24 Months Before The Issue Date Of The Security			III-17

29-12 SECURITIES:

Without Ginnie Mae's prior written approval of a different
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INTEREST RATE

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rate, the interest rate on project loan securities is:

- (A) for securities backed by a “PL”, “PN”, or “LM” pool, at least one-quarter of one percent (25 basis points) but not more than one-half of one percent (50 basis points) below the annual interest rate on the pooled project loan; and
- (B) for securities backed by an LS pool, at least one-half of one percent (50 basis points) below the annual interest rate on the pooled project loan or loans.

29-13: POOL AND LOAN SERVICING

(A) Payments to Security Holders

In addition to the requirements set forth in Chapter 15, issuers must pass through to security holders in the month following receipt any prepayment penalty collected in accordance with the terms of the mortgage.

(B) Escrow Deposit Requirements

All FHA-required escrows established for the benefit of a multifamily insured project loan securitized by a Ginnie Mae MBS must comply with the following requirements:

- (1) Savings, checking, and insured money market accounts:

An issuer may deposit tax and insurance escrow funds, as well as other required FHA escrows, in interest-bearing accounts. These accounts must be insured by the FDIC or NCUA and must be established in accordance with all requirements of the Master Agreement for Servicer’s Escrow Custodial Account, form HUD 11720 (Appendix III-3). These accounts must be consistent with the criteria in Section 16-4.

Section 29-13(B)(1) (continued)

If the account balance exceeds \$100,000, the

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institution must meet the criteria for such balances described in Section 16-7. Disposition of all earnings must be in accordance with FHA requirements regarding interest on escrows in HUD-FHA Handbooks 4350.1 and 4350.4.

(2) Certificates of deposit:

Issuers may use certificates of deposit (CD) for escrow accounts, if permitted by FHA. The CD must be issued by an institution insured by the FDIC or NCUA. If the CD exceeds \$100,000, the institution must meet the rating requirements of Section 16-7. The CD must be held in trust for the project, with the trustee being the issuer and Ginnie Mae. The trustee-name styling of the CD must be, "(Name of Issuer) and/or Ginnie Mae, as their interests may appear." Disposition of earnings must be in accordance with FHA requirements regarding interest on escrows in HUD-FHA Handbooks 4350.1 and 4350.4.

(3) U.S. treasury bills, notes, bonds, and other obligations of the U.S. Government:

Issuers may use direct obligations of the federal government backed by the full faith and credit of the United States and obligations of federal government agencies as escrow deposits, as permitted by FHA. These include U.S. treasury bills, notes, and bonds, Ginnie Mae MBS, Ginnie Mae Participation Bonds, and Farm Credit Administration issues. The assets must be held in trust for the project, the trustee being the issuer and Ginnie Mae. The trustee-name styling of the asset must be, "(Name of Issuer) and/or Ginnie Mae, as their interests may appear." Disposition of earnings must be in accordance with FHA requirements regarding interest on escrows in HUD-FHA Handbooks 4350.1 and 4350.4.

Section 29-13(B)
(continued)

(4) Letters of credit:

All multifamily project escrows established 04/30/99



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irrevocable, unconditional letter of credit, as permitted by FHA, must meet the following criteria. The format of the letter of credit must follow that in Appendix VI-5, and the issuer must be named as beneficiary. The issuer must execute, in blank, a Transfer of Letter of Credit using the format included in Appendix VI-5, the original of which must be filed with the document custodian. Any substitute letter of credit or extension that changes the letter of credit number or any terms or conditions of the letter of credit will require a new execution in blank and filing of a Transfer of Letter of Credit form. The issuing bank must meet the rating requirements of Section 16-7.

(5) Other acceptable assets:

Issuers may use as escrow deposits AAA-rated, Ginnie Mae-collateralized, tax-exempt bonds and AAA-rated, prerefunded bonds, as permitted by FHA. Prerefunded bonds are bonds that originally may have been issued as general obligation or revenue bonds but are now secured, until the call date or maturity, by an "escrow fund" consisting entirely of direct U.S. Government obligations that are sufficient for paying the bondholders. These assets must be held in trust for the project, the trustee being the issuer and Ginnie Mae. The trustee-name styling of the asset shall be, "(Name of Issuer) and/or Ginnie Mae, as their interests may appear." Disposition of earnings must be in accordance with FHA requirements regarding interest on escrows in HUD-FHA Handbooks 4350.1 and 4350.4.

(C) Reamortization

A PL pool, may not be reamortized as a result of a partial loan curtailment. Reamortization is permitted only under the "PN", "LM", "LS" program described in Section 29-6.

Section 29-13 (continued)

(D) Mortgage Default

If the mortgagor defaults under the mortgage loan, the issuer must exercise its business judgment in determining whether to forbear on the mortgage (with Ginnie Mae, FHA, and mortgagor written approval), assign the mortgage to FHA, or foreclose or accept a deed in lieu of foreclosure and convey



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the property to FHA.

(1) Notice to Ginnie Mae on issuer's option:

- (a) If the issuer proposes to forbear, it must notify Ginnie Mae in writing and obtain Ginnie Mae's approval prior to the implementation of a forbearance agreement.

The notification must include an analysis of the effect of forbearance on the issuer's financial condition and ability to remain in business. If the issuer forbears, it must make advances to security holders so that they will receive, until the mortgage is liquidated, interest payments at the rate provided in the security and principal as scheduled in the initial amortization schedule.

- (b) Once the issuer determines that it will assign or otherwise liquidate the mortgage, it must notify Ginnie Mae promptly.
- (c) Requests for forbearance and notice of liquidation must be sent to the Office of Multifamily Programs (see Addresses).
- (d) All proceeds from any claim settlement (whether partial or full) from FHA or from the sale or other disposition of the property must be deposited immediately into the pool P&I custodial account pending disbursement to security holders.

Section 29-13(D)
(continued)

- (2) Claim payments to be passed through to security holders:

The issuer must pass through to security holders the initial claim payment from FHA no later than the 15th day of the month following the monthly reporting period in which the issuer receives the claim payment



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If the 15th day is not a business day and the issuer pays by electronic transfer, the issuer must make the payment on the first business day following the 15th day. The issuer must also pass through any coinsurance obligation in accordance with Section 29-14(B).

Following receipt of the initial claim settlement from FHA, the issuer has two options with respect to payments to security holders:

- (a) Option 1: Each monthly payment to security holders must consist of:
 - (i) interest at the rate specified in the securities on the remaining principal balance of the securities at the end of the prior month;
 - (ii) the next principal payment due on the mortgage under the initial amortization schedule, determined without regard to the initial claim payment having occurred; and
 - (iii) any unscheduled recoveries of principal received during the related monthly reporting period.

Section 29-13(D)(2)(a)
(continued)

- (iv) When the final claim payment from FHA is received, the issuer must pay to the security holders by the 15th of the following month the full amount necessary to fully liquidate the remaining principal balance of, and interest due on, the securities, if any. If the FHA claim payment is not enough to cover this amount, 1 04/30/99



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supply its own funds to do so. If the 15th day is not a business day and the issuer pays by electronic transfer, the issuer must make the payment on the first business day following the 15th day.

- (b) Option 2: The issuer may elect to use its own funds to pass through to the security holders, together with the initial claim payment, the full remaining principal balance of the securities.
- (3) Reimbursement of allowable costs:
- (a) Reimbursement for interest paid to security holders after loan default

If a default on a pooled mortgage occurs during the life of the pool, Ginnie Mae will reimburse the issuer for 85% of the excess, if any, of the interest paid by the issuer to the security holders after the date of default on the mortgage, less the net interest paid to the issuer by HUD under the FHA claim settlement procedure. This right to reimbursement is available only for fully-insured loans and not for coinsured loans. (See Request for Reimbursement of Mortgage Insurance Claim Costs (Appendix VI-6) for the claim form)

Section 29-14(D)(3)(a)
(continued)

The issuer must expeditiously process through to final settlement the necessary requests to FHA for insurance benefits, including all filings for supplemental benefits, prior to filing a claim with Ginnie Mae. Ginnie Mae will not reimburse issuers for interest shortfalls in the form of surcharges levied by FHA because required notices to FHA are not filed on time.

- (b) Reimbursement of assignment fee

If a default on a pooled mortgage occurs during



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the life of the pool, Ginnie Mae will reimburse the issuer the assignment fee.

(c) Notice of claim to Ginnie Mae

The issuer must notify Ginnie Mae at the earliest possible date of its intent to request reimbursement of allowable mortgage insurance claim costs and, where appropriate, its intent to request that Ginnie Mae purchase debentures. Ginnie Mae will then forward the forms and guidelines for the completion of these transactions. The reimbursement of allowable costs, however, will be made only after the security holders have been paid in full and the securities have been forwarded to the CPTA for cancellation.

(d) Issuer default

Ginnie Mae will not reimburse under paragraphs (a) or (b) above any issuer that has been declared in default under any Guaranty Agreement.

Section 29-13(D)
(continued)

(4) Debentures:

If the issuer applies for FHA insurance benefits and the settlement of the claim is made in FHA debentures, the issuer must tender the debentures to Ginnie Mae, which will purchase the debentures, as they are received by the issuer, for cash at a price of par. Issuers must elect to receive cash insurance benefits if FHA provides an option to choose either a cash or debenture settlement.

Proceeds from the sale of debentures to Ginnie Mae shall be deposited by the issuer immediately into the pool P&I custodial account and must be disbursed to



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security holders in the month following the reporting month of receipt unless the pool has been previously liquidated by the issuer.

**29-14 SERVICING OF
COINSURED MORTGAGES**

Except as modified by this section, servicing requirements applicable to project loan securities outlined in this Chapter are applicable to securities backed by coinsured mortgages. In addition to this chapter, an issuer should refer to the related FHA regulations (24 CFR Part 251, Part 252, or Part 255, 4-1-90 Edition) to determine the scope of its coinsurance obligations.

***(A) Issuers Eligible to
Service Coinsurance Loans***

To be eligible to service project loan securities backed by coinsured mortgages, an applicant, in addition to being a standard FHA-approved mortgagee, must be approved by FHA as a coinsuring lender.

Section 29-13 (continued)

(B) Risks and Liability

In addition to the standard risks and liabilities of an issuer of project loan securities, an issuer of securities backed by a coinsured project loan is obligated to pass through to security holders from its own funds the amount of its coinsurance obligation, on the 15th of the month or, if payment is made by electronic transfer and the 15th day of the month is not a business day, then on the first business day following the 15th day of the month, following the month in which any initial or final claim settlement is received from FHA or other final disposition of the claim is made by FHA with respect to the pooled project loan. Even if supplemental payments may be made by FHA, the issuer must pass through to security holders its entire coinsurance obligation at the time the first payment is received from FHA.



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obligations under any circumstance.

**(C) Mortgage Default and
Claims Procedure**

- (1) Except for mortgages covering property rehabilitated with assistance under 24 CFR Part 511 or Part 850 (i.e., involving certain Housing Development Grant and Rental Rehabilitation Grant projects), FHA coinsurance claim benefits will be collectible only after the issuer's acquisition of the property securing the mortgage by foreclosure or otherwise and the earlier of (a) the sale of the property, and (b) the expiration of twelve months from the date of acquisition of title.
- (2) FHA coinsurance claim benefits for mortgages covering property rehabilitation under 24 CFR Part 511 or Part 850 are payable upon the acquisition of marketable title.

**(D) Payment of Issuer's
Coinsurance Obligation to
Security Holders**

Payment of the issuer's coinsurance obligation must be made in accordance with Section 29-14(B).

Section 29-14 (continued)

**(E) Issuer Default and
Conversion through
Modification of Coinsured
Loan to Full Insurance
Coverage**

If an issuer defaults under any of its Guaranty Agreements, Ginnie Mae has the right to extinguish the issuer's rights in all mortgages backing MBS, to perfect an assignment to itself of any pooled coinsured mortgage, whether or not the mortgage is in default, and to obtain endorsement of the note for full insurance by FHA as of the date of the assignment.

**(F) Issuer Default
Following Liquidation of
Coinsured Mortgage**

If an issuer is declared in default by Ginnie Mae after acquiring title to a property that secured a coinsured mortgage ("coinsured property"), Ginnie Mae will have the right to obtain all coinsurance benefits with respect to the mortgage pursuant to 24 CFR §251.827 (4-1-90 Edition). In anticipation of the possibility of a declaration of default by Ginnie Mae under these circumstances, the issuer must facilitate Ginnie Mae's collection of coinsurance benefits by depositing with the pool document custodian a special warranty deed conforming to local law,



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coinsured property to Ginnie Mae. The deed will be required for certification of the pool, must be in recordable form but unrecorded, and must convey any after-acquired title of the issuer.

***(G) Pooling of Converted
Coinsured Mortgages***

Coinsured mortgages that are converted to fully-insured mortgages through modifications are eligible for pooling if they otherwise satisfy the applicable program requirements.