

## CHAPTER 2: ELIGIBILITY REQUIREMENTS — APPROVAL AS A GINNIE MAE ISSUER

### 2-1: OVERVIEW OF CHAPTER

An applicant must meet certain eligibility requirements in order to be approved as a Ginnie Mae issuer. This chapter describes these eligibility requirements. Once approved, a Ginnie Mae issuer must meet the requirements described in Chapter 3 in order to maintain Ginnie Mae issuer status.

An issuer may arrange for another Ginnie Mae issuer (a subcontract servicer) to perform certain servicing functions, described in Chapter 4, with respect to the securities and the pooled mortgages. This chapter also describes the eligibility requirements for a subcontract servicer.

### 2-2: ELIGIBILITY REQUIREMENTS: APPLICANT FOR APPROVAL AS A GINNIE MAE ISSUER

The eligibility requirements for approval as a Ginnie Mae issuer are the same under both the Ginnie Mae I MBS Program and the Ginnie Mae II MBS Program. Thus, an applicant must file only one application in order to qualify to issue securities under both Programs.

Before issuing its first Ginnie Mae I MBS or Ginnie Mae II MBS, an issuer must submit the following Master Agreements to Ginnie Mae Pool Processing Agent (“PPA”) - (see [Addresses](#))(see Section 7-4A(12):

Master Servicing Agreement for mortgage servicing form HUD 11707 (Appendix [III-1](#));

Master Agreement for Servicer’s Principal and Interest Account, form HUD 11709 (Appendix [III-2](#));

Master Agreement for Servicer’s Escrow Custodial Account, form HUD 11720 (Appendix [III-3](#));

Master Custodial Agreement for Document Custodian, form HUD 11715 (Appendix [III-4](#)); and

ACH Debit Authorization, form HUD 11709-A (Appendix [I-6](#)).

An applicant for Ginnie Mae issuer status must satisfy the eligibility requirements described in this chapter regardless of the type of loans the applicant intends to pool in issuing securities. Additional eligibility requirements, if any, for qualifying as an issuer of a particular pool type can be found in Chapters [24](#) through [32](#).

Each applicant must notify Ginnie Mae immediately of any material change in its compliance with these eligibility requirements that occurs after it files its application and before Ginnie Mae acts on it.

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If an applicant fails to satisfy an eligibility requirement, Ginnie Mae may deny its application. Ginnie Mae reserves the right to decide, in its sole discretion, who may participate in the Ginnie Mae MBS Program.

### **2-3: FHA APPROVAL**

- (A) An applicant must be an approved FHA mortgagee in good standing. A mortgagee approved only as an FHA loan correspondent is not eligible to be a Ginnie Mae issuer. An applicant may apply for FHA mortgagee approval at the same time that it applies for Ginnie Mae issuer status, or it must certify at the time of application that it is an FHA-approved mortgagee in good standing. An applicant must certify whether it is the subject of a pending FHA Mortgagee Review Board action.
- (B) The applicant must certify whether it or one or more of its principals or officers is the subject of any government debarment or HUD program exclusion or has been subject to any such sanction within the ten years preceding the submittal of the application.

### **2-4: FANNIE MAE OR FREDDIE MAC APPROVAL**

If the applicant is a Fannie Mae-approved or Freddie Mac-approved mortgage servicer, it must be in good standing with the agency or agencies, certify to that effect, and certify whether it is or has been the subject of any adverse action by either agency.

### **2-5: PRINCIPAL ELEMENT OF BUSINESS**

The underwriting, origination, and servicing of mortgage loans must be a principal element of the applicant's business.

### **2-6: MANAGEMENT CAPABILITY**

- (A) An applicant must conduct its business in accordance with accepted mortgage lending and servicing practices, ethics, and standards. At the time the applicant files its application, it must possess demonstrated experience and management capability, and it must have facilities that are, together with the facilities of its subcontract servicers, if any, appropriate to service the mortgage collateral and to issue and service Ginnie Mae MBS. It must have in place sound financial, business, and management plans that incorporate a budget, operating procedures, and objectives with management oversight and control.

Ginnie Mae requires that at the time of application for approval as a Ginnie Mae issuer (see Chapter 7):

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- (1) The applicant must have at least three full-time officers and one other full-time employee who are responsible for supervising and servicing the MBS and pooled mortgages.
  - (2) The officers and employees described in paragraph (1) above must have sufficient experience in originating and servicing mortgages of the type that the applicant plans to pool, and in servicing the related securities, to ensure proper long-term management of the pools and securities that it will be responsible for if it becomes an issuer.
  - (3) The officer in charge of day-to-day operations must be employed full time solely by the issuer.
  - (4) The issuer's offices must be self-contained and separate from those of any other entity within an organization of which the issuer is a part.
  - (5) The issuer must be a separate legal entity and maintain separate accounting records on issuer activities.
- (B) An applicant must submit proof satisfactory to Ginnie Mae that the applicant is responsible and fit to function as an issuer in the MBS Program.

### **2-7: FIDELITY BOND AND ERRORS AND OMISSIONS INSURANCE**

Each applicant must have a fidelity bond and a mortgagee errors and omissions policy, each as described below and acceptable to Ginnie Mae, in effect at all times.

#### ***(A) Type of Coverage***

- (1) Fidelity bond: The fidelity bond must cover all losses resulting from dishonest, fraudulent, or negligent acts committed by the applicant's officers and employees or other persons authorized by the applicant to act on its behalf, including but not limited to:
  - (a) officers and employees of outside firms while they are providing legal, data processing, or accounting services to the applicant;
  - (b) persons assigned to the applicant through an intervening employer or agency to perform the usual duties of an employee of the applicant on a contingent or temporary basis; and

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- (c) students pursuing studies or duties in the applicant's office.
- (2) Mortgagee errors and omissions, mortgage impairment, or mortgage interest insurance: The mortgagee errors and omissions policy must protect the applicant against loss resulting from negligence, error, or omissions committed by officers and employees of the company and other persons identified in Section 2-7(A)(1) above that are required to be covered while performing normal duties with respect to the mortgages originated or acquired, and mortgages serviced, by the applicant. These duties include but are not limited to:
  - (a) determining whether the mortgaged properties are located in special hazard flood areas as defined by the Director of the Federal Emergency Management Agency;
  - (b) ensuring that the mortgaged properties are insured in accordance with the requirements of this Guide;
  - (c) maintaining FHA insurance or guaranties by VA, RHS, or PIH on each mortgage; and
  - (d) ensuring the payment of real estate taxes and any other mandatory assessments on each mortgaged property.
- (3) The Mortgage Bankers' Bond meets Ginnie Mae's standards for fidelity bond and mortgagee errors and omissions coverage (see paragraphs (1) and (2) above), provided that all of Ginnie Mae's requirements are met.

### ***(B) Loss Payable Endorsement***

The fidelity bond and the mortgagee errors and omissions policy must each contain a loss payable endorsement naming Ginnie Mae as the loss payee, as follows:

In the event of a loss affecting the interest of the Government National Mortgage Association, the Government National Mortgage Association, its successors and assigns shall be named on the loss payable draft as their interests may appear.

### ***(C) Exclusionary Endorsement***

If no officer or employee of the applicant is excluded by endorsement from the coverage of the fidelity bond or the mortgagee errors and omissions policy, a standard certificate of insurance, accepted by the insurance industry, is adequate evidence of insurance. The certificate must show the name

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and address of both the insurer and the insured party, the types of coverage, the liability limits and deductible for each coverage, and the loss payable endorsement for each coverage. At its discretion, Ginnie Mae may request that the issuer submit to Ginnie Mae a copy of the bond or policy or both.

If the fidelity bond or the mortgagee errors and omissions policy contains an endorsement excluding one or more of the applicant's officers or employees from coverage, the applicant must submit for approval a copy of the bond or policy or both showing the kinds and limits of coverage, the Ginnie Mae-required endorsements, and all exclusionary endorsements.

In addition, if the applicant is a sole proprietorship or a partnership, Ginnie Mae requires endorsements to the fidelity bond and mortgagee errors and omissions policy stating that principals of the proprietorship or partnership are not excluded as insured "employees" under the policies.

**(D) Amount of Coverage**

The minimum amount of the fidelity bond and the mortgagee errors and omissions policy, which is \$300,000 in each case, must be written (1) per loss or per occurrence, or (2) in the aggregate. The maximum amount of the required insurance for each type will be based on the remaining principal balance of the applicant's total servicing portfolio and calculated as follows:

<b>TOTAL SERVICING PORTFOLIO</b>	<b>MINIMUM AMOUNT OF COVERAGE</b>
\$100 million or less	\$300,000
Over \$100 million to and including \$500 million	\$300,000 plus 0.15 percent of portfolio for amounts over \$100 million to less than or equal to \$500 million
Over \$500 million to and including \$1 billion	The amount produced by the preceding calculation plus 0.125 percent of portfolio for amounts over \$500 million to less than or equal to \$1 billion
Over \$1 billion	The amount produced by the preceding calculation plus 0.1 percent of portfolio for amounts over \$1 billion

- (1) Fidelity bond coverage is not capped.
- (2) Mortgagee errors and omissions coverage is capped at \$20 million.

Examples of calculations of minimum amounts of insurance required are:

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TOTAL SERVICING PORTFOLIO		MINIMUM AMOUNT OF COVERAGE
\$100 million		\$ 300,000
\$500 million	\$300,000 + 0.15% of \$400 million	\$ 900,000
\$1 billion	\$900,000 + 0.125% of \$500 million	\$1,525,000
\$1.5 billion	\$1,525,000 + 0.1% of \$500 million	\$2,025,000

**(E) Rating for Carrier**

The required insurance must be written by an insurance carrier with an A.M. Best's rating of B+ or better. The carrier must be specifically licensed or authorized by law to transact business within the states or territories where the properties are located.

**2-8: REQUIRED FINANCIAL STATEMENTS**

At the time it applies for issuer status, the applicant must provide two copies each of its annual financial statements for the three most recent fiscal years. The statements must be audited and certified by an independent auditor (IA) that meets the auditor qualifications set out in Section 1-2 of the "Consolidated Audit Guide for Auditors of HUD Programs," Handbook No. IG 2000.04 Rev. 2 (Audit Guide) (Appendix IX-1).

The annual financial statements must include a balance sheet and a statement of operations and cash flows, prepared in accordance with Generally Accepted Accounting Principles (GAAP).

If the latest audited statement is applicable to a period ending more than 6 months prior to the date Ginnie Mae receives the application, a current, unaudited statement certified by the chief executive officer of the applicant also must be submitted. (See Section 3-7(C)(6) for the form of certification)

**2-9: NET WORTH REQUIREMENTS**

The applicant must have an adjusted net worth, calculated as provided in paragraph (D) below, of at least:

**(A) Types of Authorized Securities**

- (1) SF, BD, APM, GPM, GEM, or SN securities: If the applicant seeks authority that will enable it to issue only one or more of the types of securities included in this category, \$250,000.
- (2) MH, project loan, and construction loan securities: If the applicant seeks authority that will enable it to issue only one or more of the types of securities included in this category, \$500,000.

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- (3) Types of securities from both categories: If the applicant seeks authority that will enable it to issue one or more types of securities from both categories, \$500,000.
- (B) Guidelines for Assets**
- (1) Acceptable assets: Assets acceptable to Ginnie Mae in determining adjusted net worth (see paragraph (D) below) are those of demonstrable economic value and liquidity, which are reported according to GAAP. (See Section 6-5 of the Audit Guide (Appendix IX-1)). Ginnie Mae will not give credit for unaudited earnings. Ginnie Mae will give credit for capital contributions of economic value made between audit statements if verified by the issuer's IA.
- (2) Unacceptable assets: Assets unacceptable to Ginnie Mae are those assets that are unacceptable to FHA in determining whether a non-supervised lender qualifies as an FHA-approved mortgagee, plus such other assets as Ginnie Mae determines do not meet the above stated criteria for acceptability (see Section 6-5 of the Audit Guide (Appendix IX-1)).
- If evidence exists indicating affiliate receivables have not been deducted by the IA, Ginnie Mae will deduct the amount of the receivables from the issuer's adjusted net worth.
- Any questions regarding the acceptability of assets should be directed to Ginnie Mae's Office of Mortgage-Backed Securities (see [Addresses](#)).

### **(C) Inflation Adjustment**

The net worth requirements for all applicants will be indexed to inflation and adjusted every five years with a one-year advance notice to issuers. The Consumer Price Index (CPI) will be used for calculating the adjustments.

The base net worth requirement may float downward, subject to a \$250,000 or \$500,000 minimum, depending upon an issuer's pool type eligibility.

The adjusted base net worth will be rounded to the nearest thousand. The reference time from which inflation will be calculated is January 1, 2002. The first adjustment of the base net worth requirement will be on January 1, 2007. Future adjustments will follow in the same manner. Ginnie Mae, in its sole discretion, may waive or lessen any increase or decrease produced by the indexing formula.

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### **(D) Net Worth Calculation**

The computation of net worth must be performed in accordance with the procedures set forth in the Audit Guide (Appendix IX-1).

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 audited balance sheet. Excess/(deficit) net worth is the difference between adjusted net worth and required net worth.

If the balance sheet includes "Other Assets" or the equivalent, a schedule identifying the major components of any such asset, signed by an officer of the issuer, must be included. If a schedule is not included, the item will be deducted by Ginnie Mae for purposes of calculating adjusted net worth.

### **(E) Failure to Comply**

If the issuer or its IA fails to respond in a timely and satisfactory manner to requests made by Ginnie Mae, its agents, or contractors for additional information, questionable assets will be disallowed. If the disallowances cause the issuer's net worth to be inadequate, Ginnie Mae may suspend or terminate the issuer's status as an issuer if the deficiency is not corrected in a timely manner.

### **2-10: QUALITY CONTROL**

The applicant must have in place a quality control plan for underwriting, originating, and servicing mortgage loans and for secondary marketing. This quality control plan must include procedures for monitoring the work of each of the applicant's subcontract servicers, if any. The applicant must also submit its most recent quality control audit and disclose any action taken as a result of the findings.

### **2-11: PRIOR DEFAULTS: APPLICANTS**

Ginnie Mae will consider applications from former issuers who were terminated under the Ginnie Mae MBS Program and from applicants that employ one or more persons who served as a principal or officer of another issuer at the time that issuer was terminated under the Ginnie Mae MBS Program. Ginnie Mae, however, reserves the right to decide, in its sole discretion, who may participate in the Ginnie Mae MBS Program and on what terms. Additional requirements imposed on former issuers include, but are not limited to, the following:

- (A) An applicant may not reenter the program for three years following its receipt of a letter of extinguishment from Ginnie Mae. Should an applicant be debarred or sanctioned by any government agency or by a government-chartered entity for a period in excess of the period that Ginnie Mae restricts reentry, it may not reenter any Ginnie Mae program until the removal of



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the other sanctions. If approved to reenter the MBS Program, the applicant must serve a three-year provisional participation. (See Section 3-10)

- (B) Prior to receiving approval to participate in the Ginnie Mae MBS Program, an applicant may be required to reimburse Ginnie Mae for any deficiency that existed in the applicant's P&I and escrow custodial accounts at the time of extinguishment and any other loss incurred by Ginnie Mae as a result of the default. If the deficiency or loss results from wrongdoing by the applicant or any principal, officer, employee, or agent of the applicant, the applicant must reimburse Ginnie Mae for the deficiency or loss prior to receiving approval to participate in the Ginnie Mae MBS Program.
- (C) A person employed by an applicant who served as a principal or officer of another issuer at the time that issuer was terminated under the Ginnie Mae MBS Program will be permitted to reenter the Program in accordance with Section 3-11.

### 2-12: AFFILIATES

The applicant must provide the name and address of each affiliate engaged in mortgage origination, servicing, or securitization. An "affiliate" of an applicant is defined for these purposes as an entity that can exercise control or significant influence over the management or operating policies of the applicant, directly or indirectly, through some type of control or ownership, as defined in GAAP FAS-57.

The applicant must also provide the affiliate's four-digit Ginnie Mae issuer number if the affiliate is an issuer in the Ginnie Mae MBS Program. This information must be furnished when the annual audited financial statement is submitted.

The applicant and all affiliated Ginnie Mae issuers will be required to execute a Cross-Default Agreement. (See Appendix I-4) If Ginnie Mae declares the applicant in default under the applicable Guaranty Agreement, Ginnie Mae will have the right, without further cause, to declare a default on all of the applicant's other pools and loan packages and all pools and loan packages of any affiliated issuer that has executed a Cross-Default Agreement. An applicant may seek and be granted an exemption from this requirement with respect to a regulated affiliate if it submits a legal opinion, acceptable to Ginnie Mae, that a Cross-Default Agreement would be prohibited by the affiliated issuer's federal regulator.

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### 2-13: ADDITIONAL REQUIREMENTS

A company that owns one or more Ginnie Mae issuers may be required to execute a corporate guaranty. (See Section 2-13(B))

At its discretion, Ginnie Mae also may require any or all of the following:

- (A) Credit reports on the applicant's principals and a commercial credit report on the applicant.
- (B) Corporate guaranties in the following circumstances, among others:
  - (1) If the applicant does not have current audited financial statements at the time of application and the applicant is a wholly-owned subsidiary of an institution or holding company with current audited financial statements that are presented in accordance with GAAP and acceptable to Ginnie Mae.
  - (2) If the applicant, although meeting Ginnie Mae's net worth requirements, has been experiencing financial problems but its parent is financially strong.
  - (3) If the applicant is financially strong but its parent or an affiliate is experiencing financial problems, Ginnie Mae may require the parent company to sign a corporate guaranty not to remove assets or increase liabilities of its subsidiary for the benefit of the parent or affiliate.
  - (4) If the applicant does not make up at least 40% or more of its parent's equity and has elected to submit consolidated audited financial statements for its parent company along with supplemental reports from the applicant. See Section 6-4 of the Audit Guide (Appendix [IX-1](#)).
  - (5) If the applicant is affiliated with an existing Ginnie Mae issuer and the issuer's federal regulator will not permit it to sign a Cross-Default Agreement.

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### **2-14: ANTI-DISCRIMINATION POLICIES**

All applicants for Ginnie Mae issuer status must maintain policies prohibiting discrimination based on race, religion, color, sex, national origin, or age. All issuers must comply with all rules, regulations, and orders specified below and all related requirements:

- (A) Title VI of the Civil Rights Act of 1964, and related rules, regulations, and orders of general applicability.
- (B) Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on November 20, 1962.
- (C) Title VII of the Civil Rights Act of 1968.
- (D) Title VIII of the Civil Rights Act of 1968, as amended.
- (E) Fair Housing Law of 1968, in accordance with applicable rules and regulations of the Federal Housing Administration.
- (F) The implementing rules and regulations of the Department of Labor (41 CFR Part 60-1) and the Department of Housing and Urban Development (24 CFR Part 130).

This section incorporates by reference section 202 of Executive Order 11246, Equal Employment Opportunity, issued by the President on September 24, 1965, and amended on October 13, 1967. For purposes of Executive Order 11246, this Guide is a Government contract.

### **2-15: SUBCONTRACT SERVICER ELIGIBILITY REQUIREMENTS**

A subcontract servicer must be a Ginnie Mae-approved issuer and meet all issuer eligibility requirements. See Section 4-3 for a discussion of subcontract servicer responsibilities.