CHAPTER 18: MORTGAGE DELINQUENCY AND DEFAULT

18-1: OVERVIEW OF CHAPTER

This chapter describes the issuer's obligation to service delinquent mortgages and mortgages that are in default. The chapter sets forth Ginnie Mae's broad prohibition on the removal of loans from pools or loan packages, while describing circumstances in which an issuer may purchase a defaulted mortgage from a pool or loan package. The chapter also explains Ginnie Mae's system for determining whether an issuer is managing delinquencies adequately and describes Ginnie Mae's remedies in cases in which delinquency management is inadequate.

18-2: REMOVAL OF LOANS FROM POOLS AND LOAN PACKAGES

No issuer or subcontract servicer may, without the written permission of Ginnie Mae, remove a loan, whether pursuant to a substitution or otherwise, from a pool or loan package or reduce a balance on a pooled loan for any reason not specifically authorized in the applicable Guaranty Agreement or in this Guide.

18-3: MORTGAGE DELINQUENCY AND DEFAULT

(A) Servicing Delinquent Loans

The issuer must service delinquent mortgages and manage foreclosure or assignment procedures in accordance with applicable servicing and claims collection requirements of the mortgage insurance or guaranty agency, the applicable Guaranty Agreement, and accepted mortgage lending and servicing practices, ethics, and standards.

(B) Repurchase of Certain Loans

For pools or loan packages issued on or before December 1, 2002, at its option and without Ginnie Mae's prior authorization, the issuer may repurchase any pooled loan for an amount equal to 100 percent of the loan RPB, less the principal payments advanced by the issuer on the loan, in the following circumstances.

(1) For four consecutive months, at least one missed payment remains uncured:

For example, assume that the payment due on March 1 is not made. On each of April 1, May 1 and June 1, a single monthly installment is paid, but one installment remains unpaid. The issuer may purchase the loan out of the pool on or after July 1.

However, for pools originated during the period beginning on August 1, 2002 and ending on December 1, 2002 (inclusive), loans purchased under this paragraph may not be repooled into a new Ginnie Mae security except in the following circumstances:

(i) The repurchased loan becomes current and remains current for six (6) consecutive months.

(ii) The loan has undergone formal loss mitigation and is otherwise eligible to be placed in a Ginnie Mae pool. Formal loss mitigation includes loan modification, partial claims, and special forbearance.

A repurchased loan may only be placed in a new Ginnie Mae pool or loan package once, even if the loan is sold to a different issuer.

(2) No payment is made for three consecutive months:

For example, assume that no payments are made for the months of March, April and May. The issuer may purchase the loan out of the pool on or after June 1.

For all pools or loan packages issued on or after January 1, 2003, issuers may only repurchase loans under this section if the loan qualifies under Section 18-3 (B)(2) above.

The principal amount of a loan repurchased out of the pool or loan package must be included in the payment made to security holders of the related securities in the month following the reporting month in which the loan is removed from the pool or loan package. The removed loan must not be included in the RPB reported in the month in which the proceeds of the repurchase are paid to security holders.

(C) Acceptable Delinquency Rates

Issuers must maintain delinquency rates on outstanding pools and loan packages below the threshold levels described in this Section 18-3(C). Data used to measure delinquency rates will come from the Issuer's Monthly Accounting Report, form HUD 11710-A (Appendix VI-4).

An event of delinquency is determined by the terms established by the agency that insures or guarantees the mortgage.

(1) Ginnie Mae evaluates delinquency rates for Ginnie Mae pools and loan packages as follows.

(a) Three indicators of delinquencies are used:

DQ3+ Delinquency Ratio: Number of loans in the issuer's Ginnie Mae portfolio that are either in the foreclosure process or are three months or more delinquent divided by total number of loans remaining in the portfolio.

DQ2+ Delinquency Ratio: Number of loans in the issuer's Ginnie Mae portfolio that are either in the foreclosure process or are two months or more delinquent divided by total number of loans remaining in the portfolio.

DQP Delinquency Ratio: Accumulated amount of delinquent P&I payments divided by total monthly fixed installment control due the issuer.

(b) For purposes of establishing threshold levels for delinquencies, issuers are grouped into one of two categories: those with more than 1000 active loans, and those with 1000 or fewer active loans in their Ginnie Mae portfolios. The threshold levels for the delinquency indicators within each category are shown in the following table for all pools of loans. A higher ratio in any one category will be sufficient cause for Ginnie Mae to impose the sanctions of Section 18-3(D).

INDICATORS	CATEGORIES	
	Issuers with more than 1000 loans	Issuers with 1000 loans or fewer
DQ3+ Delinquency Ratio	5%	9%
DQ2+ Delinquency Ratio	7.5%	10%
DQP Delinquency Ratio	60%	90%

(2) Issuers of multifamily pools:

For multifamily pools, the threshold level is 7.5 percent of the aggregate remaining principal balance of the loans that are two or more months delinquent. A lower delinquency ratio, however, will not ensure that Ginnie Mae will approve a request for additional commitment authority or will not impose the sanctions set forth in Section 18-3(D).

(3) Issuers with single family or manufactured home status and multifamily status:

Issuers that are approved to do both single family or manufactured home transactions and multifamily pool transactions must meet the single family and manufactured home delinquency criteria and the multifamily delinquency criteria for each respective pool type.

(4) Other delinquency criteria:

In addition to requiring an issuer to maintain delinquency rates within the limits prescribed above, Ginnie Mae may require corrective action by the issuer for the following conditions:

(a) an excessive number of loan delinquencies and foreclosures in pools and loan packages originated within the preceding 24 months;

(b) indications of faulty or improper processing of delinquencies and foreclosures; or

(c) significant inconsistencies or errors in the monthly reporting on forms HUD 11710-A and HUD 11710-E (see Appendix VI-4) or quarterly reporting of loan level detail.

(D) Failure to Maintain Acceptable Delinquency Rates

If an issuer fails to maintain delinquency rates on outstanding pools and loan packages below the applicable threshold levels described in Section 18-3(C) or to otherwise comply with the requirements of this section, Ginnie Mae may impose sanctions on the issuer, including but not limited to the following:

(1) denial of further commitment authority;

(2) denial of approval of transfers of issuer responsibility to the issuer;

(3) denial of issuer's request to subcontract service for other issuers;

(4) denial of authority to issue additional securities, even though issuer may have commitment authority outstanding;

(5) imposition of civil money penalties; and

(6) declaration of a default and termination of issuer status.