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CHAPTER 18. ASSET MANAGEMENT OF FORMERLY COINSURED  
LOANS AND PROPERTIES

SECTION 1. BACKGROUND AND CHAPTER OVERVIEW

- 18-1. Purpose. The purpose of this chapter is to explain to the Field Office and Owners/Managers of projects with formerly coinsured (now fully insured) mortgages, the responsibilities of the various parties concerned with the management and servicing of these projects. This chapter will review the origination of loans in the Multifamily Coinsurance program, as well as, explain the process by which some of the coinsured loans become fully insured and, in some instances, assigned (Secretary-held) mortgages. It will outline the roles and responsibilities at each level of HUD as well as the role of an asset management contractor.
- 18-2. An Overview of the Multifamily Coinsurance Program. When the FHA Multifamily Coinsurance Program was developed, the Government National Mortgage Association (GNMA) agreed to accept coinsured mortgages for its mortgage-backed securities program. In return, FHA agreed that any coinsured loans acquired by GNMA would be converted to fully-insured so that GNMA would not have to bear the risk of loss on any coinsured loans. As a result, the vast majority of coinsured loans were funded from the sale of GNMA Mortgage-Backed Securities.

Below is a description of a typical sequence of events by which a loan moves from coinsured to fully-insured status.

- A. Step 1: A Typical Securities Funded Transaction. Typically, the originating lender of a coinsured loan was not only an FHA-approved coinsuring lender, but also was approved by GNMA to be an issuer and servicer of GNMA Mortgage-Backed Securities. The process of originating a typical coinsured loan may be described as follows:
1. A prospective borrower (mortgagor) applied to an FHA-approved coinsuring lender for a mortgage loan;

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2. The loan was processed and underwritten by the coinsuring lender who issued a commitment, binding on itself and FHA, to coinsure a loan; at the same time, the lender obtained a commitment from GNMA for mortgage-backed-securities to be issued based on the subject loan.
  3. After the closing of the coinsured mortgage loan, the lender, acting on authority granted by GNMA, issued mortgage-backed securities that were then sold to investors. The dollar amount and the yield of the mortgage-backed securities are directly determined by the mortgage which "backs" them. The money paid for the mortgage-backed securities is received by the coinsuring lender/issuer and ultimately used to provide the mortgage funds to the mortgagor. Because of timing, there usually is an interim bridge loan or "warehouse" loan that the lender uses to fund the mortgage at the closing table. This bridge loan is paid off with the proceeds of the sale of the mortgage-backed securities.

- B. Step 2: The Lender Defaults on Securities Payments. A key feature of these mortgage-backed securities is that they are fully guaranteed by GNMA as to the timely payment of interest and principal. Thus, there is no risk to the investor of any loss of principal or earnings because of any mortgage default. This feature makes it much easier to attract investors to provide mortgage funds.

Normally, the mortgagor makes full monthly mortgage payments to the coinsuring lender, who in turn makes "pass through" payments (principal and interest) to the investors who purchased the mortgage-backed securities. If, for any reason, the "pass through" payments are not made by the issuer in full and on time, the issuer is considered by GNMA to be in default under the mortgage-backed security agreement.

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- C. Step 3: GNMA Seizes the Mortgage-Backed

portfolio. Under this agreement, GNMA then has the right to (and will) seize the issuer's entire portfolio of loans which are funded by mortgage-backed securities. In these circumstances, GNMA assumes all rights and responsibilities of the lender, with respect to the security holders and, on such loans, GNMA becomes the mortgagee.

In October 1988, a major coinsuring lender defaulted on its obligation to make payments on certain GNMA mortgage-backed securities. These securities were guaranteed by GNMA and issued to fund FHA coinsured mortgages. As a consequence of the default, GNMA seized the defaulting lender's entire portfolio. The seizure of the portfolio had a significant impact on FHA because of the prior guarantees given by FHA to GNMA.

18-3. FHA's Current Involvement. After GNMA took over the defaulted lender's coinsured portfolio, it exercised its ultimate rights under the prior guarantee agreement with FHA and requested, after following prescribed regulatory procedures, endorsement of all coinsured mortgages in the portfolio for full FHA insurance. GNMA then elected to assign the defaulted mortgages to FHA, continued as mortgagee on the current (performing) loans, and conveyed to FHA those properties previously acquired through foreclosure by the coinsuring lender or acquired by GNMA acting as mortgagee.

The same scenario has occurred with 12 other coinsuring lenders. As of December 31, 1991 the portfolios taken by GNMA in this process currently represent over 800 loans totaling over \$4 billion dollars. As these assets flow into the FHA inventory they present an enormous additional burden for FHA both at the Headquarters and Regional/Field Office levels in terms of staffing and workload.

Faced with a very large and rapid increase in the inventory of ASSIGNED MORTGAGES, INSURED MORTGAGES, and ACQUIRED PROPERTIES, the Department has taken action by creating the Coinsurance Management Division, under the Office of Multifamily Housing Management in Headquarters, and temporarily securing the services of an asset management contractor in an attempt to manage the special problems associated with this new portfolio.

SECTION 2. THE PURPOSE OF THE CONTRACTOR

- 18-4. Definition. The term asset management contractor is used to describe a contractor engaged by HUD to perform intensive loan servicing and property management services.
- 18-5. Purpose. The primary objective in obtaining contractor services is to provide HUD Field Offices and Headquarters with immediate assistance to address the large numbers of projects being assigned to the Department in a very short period of time. Currently, the contractor provides specific, in-depth asset management services for formerly coinsured mortgages (assigned to the contractor through work orders) which are in default (Secretary-held mortgages) and, if required, the acquired properties. It is resource which can be utilized by both Headquarters and the Field in dealing with the troubled formerly coinsured mortgages which are assigned to the Department.

A vigorous initial effort to foreclose on the unworkable projects, and to bring the remainder to a stabilized condition, using various resources available to the Department, should ultimately result in a portfolio of formerly coinsured loans that can be managed entirely by the Field Offices. In the course of stabilizing or foreclosing defaulted mortgages, the contractor will work closely with the Field Offices and Headquarters, regarding all cases assigned to the contractor, to assure that all parties are well informed on each case before any recommendations are made.

- 18-6. The role of the contractor. The contractor is a resource to help HUD to manage the large number of defaulted, formerly coinsured projects now assigned to the Department, but the contractor will not be responsible for the complete servicing or management of any project. In every case, primary responsibility for loan servicing and property management decisions will be in the hands of the HUD Field Office. The utilization of contractor services will vary from Office to Office depending on the assistance needed by each Field Office to enable it to handle the complete servicing of the formerly coinsured loans.

The contractor will only work on loans previously assigned to it through a work order. The contractor will work under the direction of the HUD Headquarters' Coinsurance Management Division and will receive all of its assignments from the GTR in the Coinsurance Management Division.

- 18-7. Responsibility for contractor duties in the event a contract is not in place. The Contract is a temporary measure designed to assist the Field Offices in managing a large number of new projects. In the long term, the Field Offices must be prepared to assume all of the duties performed by the contractor.

### SECTION 3. KEY PLAYERS AND RELATIONSHIPS

- 18-8. Purpose. This section will describe the roles of Headquarters, the Field and the asset management contractor relative to the mortgages and properties received from the defaulted coinsurers' inventories.

- 18-9. Headquarters, Coinsurance Management Division. The primary purpose of this office is to provide, at the Headquarters level, policy guidance, technical assistance, monitoring and oversight for the portfolio of both presently and formerly coinsured loans as well as oversight of loan and property management operations of coinsuring lenders. Specific responsibilities include:

- A. Developing project specific guidance for the management and servicing of coinsured and formerly coinsured loans;
- B. Developing policies and processes for mortgage relief as part of an effort to work out troubled projects with mortgages transferred from GNMA;
- C. Monitoring the transfer process of formerly coinsured mortgages from GNMA to the Field Office and the contractor for servicing;

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- D. Assigning work to and monitoring the performance of the third party contractor; (All Field Office requests for use of the third party contractor must be submitted to GTR in the Coinsurance Management Division who has been delegated the responsibility to prepare a work order by the

Contracting Officer. The exception to this would be requests by the Field for minimal amounts of information or copies of documentation. In such a case, the contractor may be contacted directly.)

- E. Concurring on or approving actions requiring HUD Headquarters' decisions;
  - F. Providing technical assistance to the Field Offices;
  - G. Developing and providing training to Headquarters and Field Office staff relating to management aspects of the coinsured and formerly coinsured inventory; and
  - H. Providing information to the Field, through monthly reports to Regional Directors of Housing and Housing Management Directors, on the status of the formerly coinsured portfolio.
- 18-10. The Field Office Loan Management Branch. The Field Office holds the sole responsibility for any and all decisions (which do not require Headquarters, concurrence or approval) concerning the formerly coinsured mortgages and properties under its jurisdiction. The contractor may be utilized to the extent the Contract permits, but final decisions will rest with the Field Office. The Loan Management Branch will keep the Field Office Property Disposition Branch informed of the current status of all potential acquisitions and Mortgagee-in-Possession actions.
- 18-11. The Field Office Property Disposition Branch. The Property Disposition Branch will manage and sell all acquired properties and will be responsible for the management of those projects which HUD owns or where HUD is Mortgagee-in-Possession. This includes projects with formerly coinsured loans.

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- 18-12. The asset management contractor. The contractor will be responsible for maintaining contact with Headquarters, the Field Offices, owners and other principal entities who are involved with the mortgages/properties assigned to it. The contractor will collect the necessary data needed to make fully informed recommendations to Headquarters and the Field Office.

18-13. GNMA and the GNMA Master Sub-Servicers. On current loans, GNMA will remain the mortgagee of record until such time as the owner may default on the loan and GNMA elects to assign the loan to FHA. The GNMA Sub-servicers act for the mortgagee of record (GNMA), on current loans. These GNMA Sub-servicers are responsible for all servicing functions of a normal mortgagee with a HUD fully insured loan including, but not limited to, the collection of mortgage payments, the holding of escrows and the performance of the mortgagee's physical inspection.

SECTION 4. RESPONSIBILITIES FOR ASSETS RECEIVED BY FHA FROM  
DEFAULTED COINSURING LENDERS

18-14. Purpose. This Section will outline the three types of assets which might be transferred to the HUD formerly coinsured portfolio and the responsibilities of each level of HUD and the contractor for their management. The three types of assets are: Acquired Properties, Current Loans, and Loans in Default. Specific servicing and management issues relating to these properties are addressed more thoroughly in Section V.

18-15. Acquired Properties.

A. Description of the Asset. These are properties to which GNMA has obtained title either through conveyance from the lender or through foreclosure following the take-over of the defaulted lender's portfolio. Because GNMA is unable to meet the McKinney Act requirements to supply Section 8 assistance with the sale of a property and because of the fact they are not in the property management business, GNMA systematically elects to convey the properties to HUD. Once acquired, these properties enter the HUD-owned inventory and are managed as any other HUD-owned asset in the Property Disposition inventory. These cases will retain their original FHA coinsured number and are not assigned a new 94000 number.

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B. Specific Responsibilities for Asset Management.

1. Headquarters' Role (prior to conveyance).  
The Coinsurance Management Division in  
Headquarters is responsible for facilitating

the conveyance of these properties from GNMA and the establishment of a conveyance date. GNMA obtains title to the properties in either of two ways. The first method is by receiving title from the defaulting coinsuring lender who had previously obtained title through foreclosure or deed in lieu of foreclosure. (Properties that were not sold by the coinsuring lender are then acquired by GNMA.) The second method includes situations where GNMA itself authorized its sub-servicers to foreclose and acquire title to property. In either cases, GNMA normally elects to convey title to FHA. Once the conveyance from GNMA to FHA has been accomplished, the Multifamily Property Disposition Division becomes responsible for the property at the HUD Headquarters level. The Coinsurance Management Division will inform the Regional Housing Director (RHD) and the Housing Management Division Director of the conveyance date via cc:mail.

2. Field Office. The Field Office responsibilities will be the same as for any HUD-owned property in the Property Disposition inventory as described in Housing Notice 91-84, Processing and Approving the Disposition of HUD-Owned Multifamily Projects.
3. Contractor's Role. The contractor is available to assist the Field Office in preparing disposition plans, obtaining appraisals and performing other tasks deemed necessary by the Field Office to dispose of the property. Any requests for use of the third party contractor to assist in preparation of disposition documentation should be made in advance to the GTR of the contract, but only with prior approval from the Regional Director of Housing (RHD) and the Division Director of Multifamily Property Disposition in Headquarters. The Field

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Office is responsible for contacting the GTR to assure that an appropriate work order to the contractor has been prepared.

18-16. Current Loans.

A. Description of the Asset. Under the existing rules and regulations, if a loan is current when it is assigned to GNMA from a defaulted lender, it is offered to other coinsuring lenders for purchase by issuing a Request for Proposal. If no other coinsuring lender is interested in purchasing the loan at an acceptable price, GNMA will request that the loan be endorsed by FHA for full insurance. Upon endorsement, the loan will be assigned a new 94000 number and enter HUD's fully-insured inventory. The servicing files, legal documents, etc. will then be shipped by GNMA and its sub-servicer to the Loan Management Branch Chief in the HUD Field Office with jurisdiction. GNMA will remain the mortgagee of record, working through its Master Sub-servicers, as long as the loan is current under its mortgage.

B. Specific Responsibilities for Asset Management.

1. Field Office role. Current formerly coinsured loans which have been endorsed for full insurance are part of the fully insured inventory and should be serviced by the Field Office accordingly. Physical Inspections, Management Reviews, Occupancy Reviews, Reviews of Financial Statements, Reserve Releases and other related activities shall be performed in the manner prescribed by applicable Handbooks and issuances including, but not limited to: Handbooks 4350.1, 4350.3, 4370.1, 4370.2, and IG 4372.1.

The previous coinsured status of these loans may have resulted in agreements between the coinsuring lender and the mortgagor which are not strictly in accordance with HUD program requirements or HUD servicing practices. For example, an owner may have an informal agreement with its coinsuring mortgagee which varies the deposits to the Reserve for Replacement account depending on available cash. In other cases, mortgagees have agreed to permit investment of Reserve funds in

institutions not on the FHA permitted lists. There also may be "floor-to-ceiling" mortgage arrangements with part of the mortgage proceeds held by the lender to be released when the project produces a certain net income; side agreements regarding disposition of surplus cash or sale proceeds to mortgage investors, in exchange for providing mortgage funds on favorable terms; and second mortgages used to foreclose in the event of default, and thereby allow the first mortgage to be preserved.

In cases where such agreements exist, the Field Office should use its judgement if asked to honor them. Unless the agreement jeopardizes the project's feasibility, or the agreement is in conflict with statutory, regulatory, or handbook requirements, the Field Office should make every attempt to accommodate the mortgagor who entered into the coinsurance loan program in good faith, has kept the loan current and is not responsible for the loan moving from coinsured to fully insured status.

2. Role of GNMA and the GNMA Master sub-servicer. GNMA is the mortgagee of record until such time as GNMA elects to assign a mortgage to FHA. Those formerly coinsured loans that are current are serviced in the same manner as all other current, fully insured loans. The GNMA Master sub-servicer serves as the representative of GNMA so long as the loan is in GNMA's portfolio. Field Offices will be dealing with the GNMA master sub-servicers, acting for GNMA as a fully insured mortgagee. Specific GNMA Sub-servicer responsibilities include:
  - a. Collecting mortgage payments (PITI);
  - b. Holding project escrows (taxes, insurance, R/R, etc.);
  - c. Making payments on taxes and insurance premiums; and
  - d. Performing the mortgagee's physical inspection and other inspections required by Chapter 6 of this handbook.

If a current loan in the portfolio goes into default, GNMA normally will elect to assign the mortgage to FHA and it will become part of the HUD-held mortgage inventory.

3. The role of the contractor. At this time, the contractor has not been delegated any duties concerning current loans.
4. Headquarters' role. The Coinsurance Management Division facilitates the endorsement of current loans for full insurance and serves as a point of coordination between FHA and GNMA.

18-17. Loans in Default

- A. Description of the Asset. When GNMA receives a loan in default from a lender-defaulted portfolio, it is not obligated to seek a purchaser but may request immediate endorsement by FHA for full insurance. Upon endorsement, the loan receives a 94000 number and GNMA elects to assign the mortgage to the FHA. The assignment documents are received by the Coinsurance management Division and forwarded to the Office of General Counsel and the Multifamily Accounting and Servicing Division. The servicing files, legal documents, etc. will be shipped by GNMA and its sub-servicer to the HUD Field Office with jurisdiction. Once assigned, the loans become part of the defaulted HUD-held mortgage inventory and are generally subject to the appropriate rules, regulations and policies covering such loans. However, the refunding of bonds or supplemental insured financing must be approved by Headquarters in accordance with outstanding instructions.
- B. Specific Responsibilities for Asset Management. If a loan from a defaulted coinsuring lender's portfolio is in default, GNMA will elect to assign the loan to HUD and it will become a part of the HUD-held mortgage inventory. To the extent that this chapter and the Contract permits, a Field Office may utilize the technical resources of the asset management contractor in the servicing of these defaulted HM-held mortgages.

1. Contractor role. Although the ultimate responsibility for any servicing decisions made will continue to rest with the Field Office, the contractor, through Headquarters, will be available to assist the field in a variety of ways as outlined below concerning the loans which have been assigned through work orders. A more extensive discussion of permissible uses of the contractor concerning specific servicing issues is contained in Section V of this chapter. The contractor can be utilized to assist in:
  - a. development of project physical and management profiles;
  - b. financial analysis of proposed TPAs;
  - c. analysis of bond refunders and other forms of proposed relief;
  - d. analysis of the ramifications of proposed reorganization plans growing out of bankruptcy filings;
  - e. contracting for appraisals in connection with the initiation of foreclosure; and
  - f. assisting in negotiations with mortgagors proposing workouts; etc. However, before the contractor may carry out any of these functions, the case must be assigned to the contractor through a work order prepared by the GTR.
2. Field Office Role. Servicing of all defaulted loans should be performed in accordance with this handbook. Specific responsibilities include Workout Arrangements and Foreclosure actions are described in section V.
3. Headquarters' Role. Headquarters may be available to assist the field on any case where such technical assistance is requested.

SECTION 5. RESPONSIBILITIES ON SPECIFIC SERVICING ISSUES  
PERTAINING TO FORMERLY COINSURED LOANS

- 18-18. Purpose. This Section will address any distinction in servicing between formerly coinsured and fully insured loans as well as the duties of all the entities concerning specific servicing issues. Unless otherwise specified below, a formerly coinsured loan will be serviced under the same statutes, laws, regulations and handbooks as a fully insured loan.
- 18-19. Transfer of Physical Assets (TPA). Initial review, feasibility studies and final approval will be performed by the Field Office with the assistance of the contractor, if necessary. The contractor will be available to provide historical information, financial information and an analysis of the property which can assist the Field Office in preparing the financial feasibility finding. For further guidance on TPA requirements, refer to Chapter 13 of this handbook.
- 18-20. Inspections. All inspections are the ultimate responsibility of the Field Office. Assistance may be requested from the asset management contractor (through the GTR in the Coinsurance Management Division) in conducting regular physical inspections and reporting findings, when Field Office staff are not available to perform the required number of inspections. Inspections which require definitive findings by technical experts (Architectural, Engineering or Cost) must be done by qualified HUD Staff or approved HUD fee technicians. All other special inspection requests will be considered on a case-by-case basis by the GTR in the Coinsurance Management Division. The Field Office will be responsible for clearing all findings with the owner.

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- 18-21. Management reviews. Field Offices are responsible for management reviews of formerly coinsured loans. The asset management contractor can and should be used for this task, provided the property is covered by a contract work order. It will be the responsibility of the Field Office to see that the owners and property managers are notified of any findings and that the findings are properly cleared. HUD Management Review forms and procedures must be used regardless of the party performing the review.

18-22. Financial Statement Reviews. Along with the Field Offices, the contractor will review all financial statements submitted and enter them into their automated systems for historical information needed in workouts, foreclosures, and MIP transactions. Field Offices may request input from the contractor for their own analysis of the property. The contractor will forward any findings and recommendations regarding financial statements to the Field Office.

18-23. Workouts. Workout proposals involving the refunding of bonds or supplemental HUD insured financing must be approved by Headquarters. To the extent necessary, the Field may request the assistance of the asset management contractor in negotiating and reviewing the workout agreements provided the GTR has issued a work order on the case.

18-24. Foreclosures. The Field Office may complete the foreclosure package for processing on its own or, if needed, the contractor will be available to assist in preparing or obtaining the material required in Notice 91-68, Delegation of Authority to Foreclose Multifamily Mortgages. Use of the contractor for the purpose of assisting in the preparation of a foreclosure package is available to those properties covered by a work order. For further guidance on foreclosures, refer to Handbook 4315.1.

The responsibility for the following will remain with the Field Office and may not be assigned to the contractor:

A. The issuance of the Foreclosure Hearing Letter.

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B. If the mortgagor requests a hearing to present legal reasons why the foreclosure should not take place, it must be held within 30 days of the date of the Foreclosure Hearing Letter. The Foreclosure Hearing will be the responsibility of the Regional Director of Housing.

C. The designation of a Foreclosure Official, if necessary.

D. Any decision related to termination of foreclosure processing must continue to rest with the RHD.

- 18-25. Property Disposition. For the use of the contractor in preparing a disposition package, approval should be obtained from the Regional Director of Housing (RHD) and the Division Director of Multifamily Property Disposition in Headquarters prior to engaging the contractor for this service. It is the responsibility of the Field Office to ensure that the property is still covered under a work order, by contacting the GTR, before proceeding with the request for disposition assistance. For further guidance on disposition procedures, see Housing Notice 91-84, Processing and Approving the Disposition of HUD-Owned Multifamily Projects.
- 18-26. Sanctions. In the course of any involvement with a formerly coinsured loan, HUD Headquarters, the Regional Office, the Field Office and the contractor will have the right and responsibility to recommend sanctions against the owner to preserve the tenants' rights and the Secretary's interest in the assets.
- 18-27. Communication. The contractor will keep the Field Office and Headquarters informed of any developments concerning loans and/or properties assigned to it. In addition to verbal reporting in the normal course of servicing, the contractor will provide quarterly reports to Headquarters, Regional and Field Offices as to the status of all properties which have been assigned.