

Business Requirements

Enhanced Reserve Processing

Job#: 15684

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1. Purpose of Project

1.1. Background

Reserves are integral part of many loan agreements some with structures that include reserve minimum and maximum balance monitoring. Although STRATEGY currently provides the ability to monitor and process reserves some of these additional requirements are handled off line on excel spreadsheets. The scope of this project is to enhance the existing functionality in STRATEGY with relation to reserve tracking and reserve processing. These enhancements to the existing functionality should help to further streamline a servicer's ability to efficiently handle today's commercial loans.

1.2. Goals

The objective of this project is to provide the customer base with additional data elements and processing ability:

- Additional data elements to monitor and track reserve requirements
 - Allow for reserve minimum values
 - Allow for reserve cap values
 - Allow for Tiered Rates
 - Daily Interest on Escrow Calculation
 - Additional Reserve transactions
 - Additional Reserve Reporting

2. Project Constraints

2.1. Naming Conventions and Definitions

2.2. Relevant Facts and Assumptions

2.2.1. Facts

- The functionality in this document will work in conjunction with the following modules in STRATEGY
 - Escrow Module > Reserves
 - Loan Entry Module > Escrow > Reserves
 - Enhanced Bills and Notice Functionality
 - Loan Tranche
 - WriteTrack
 - Transaction Module

3. Functional Requirements

3.1. Scope of the Work

The intent of this project is to provide additional functionality with Reserve processing as a result of customer discussions surrounding the Enhanced Reserve project. This includes the ability to provide core structural modifications and enhanced processing ability associated with each reserve type. In addition, this project should aid in reducing or even eliminating the necessity to utilize other systems and spreadsheets to track and process reserve requirements for all segments of commercial servicing needs.

3.2. Functional Requirements

3.2.1. Requirement # 10

Description – Provide new additional data elements to the Reserve record which resides in the Reserve Tab in the Escrow Module and Loan Entry Module.

Rationale – The additional fields are needed in order to accommodate new functionality to be captured at the reserve record level for every reserve type these fields are not available in the system today. The data base section will capture the list of fields required in production and loan entry.

Test Scenario - User is able to enter each of the new fields in the reserve record in the Escrow Module and Loan Entry Module.

Requirement # 15

Description – Provide 1099 Year End Reporting for Tax Withholding associated with each reserve type. A 1099 Y/N required needs to be associated with each reserve type. The 1099 backup withholding would work similarly to the escrow backup withholding that is currently done in STRATEGY today with the exception that we would have to look at the individual reserve record tied to the type for the balance.

Rationale – The IRS requirement to withhold a % if borrowers do not provide appropriate responses to TIN W9 requests. The IRS requires the servicer to withhold this percentage or the servicer will be penalized.

Test Scenario – User is able to enter a value for the 1099 required for each reserve type. Create appropriate 1099 transactions and statements associated with the value indicated on the reserve type.

Requirement # 20

Description - Allow the user to indicate if the system should automatically start or stop the reserve constant from being collected from the borrower when either the reserve minimum values (amounts or rates) or reserve cap values (amounts or rates) tied to the appropriate balance have been reached.

Rationale – Minimum and Cap amounts need to be monitored against the appropriate balance. Due to various borrower agreements and loan complexities the ability to determine how to start and stop reserve collections should be performed on a loan by loan basis.

Test Scenario - User is able to enter various scenarios with regards to the automatic or manual calculation of the collection of the reserve amount when caps and minimums have been reached. When the user enters a minimum/cap amount and processes reserve transactions the system should look at the various elements that will cause the balance to change and determine if the caps and minimums have been reached. See section under Example Section 7 for details

Requirement #30

Description – Allow the user to determine which balance should be used to monitor if the appropriate reserve balance is in place. The balance can be defined as the Current Reserve Balance, Current Principal Balance or the Original Reserve Balance. The system should look at the indicator to recognize which balance should be used to determine if the reserve minimums or caps have been reached. The Original Reserve balance is a new field. See section 7 for details.

Rationale – Lenders have the right to adjust reserve amounts to be collected if certain balances have reached reserve minimums or cap values.

Test Scenario – User is able to enter/maintain balances as a result of processing reserve loan transactions. The balances will adjust accordingly based on the type of transaction whether it is a reserve payment or disbursement.

Requirement #40

Description – Need to have the system provide a projection if the reserve will go above, below or reach the cap amount with the next payment due. The system needs to alert that either the full payment or a partial payment will reach the cap amount on the reserve record Provide a dayend report indicating the projection at least 2-3 months ahead and if it will cause the reserve to go above, below or reach the cap amount for the next payment due date. The report should also indicate if the amount will be satisfied with the next payment due. If possible provide an alert on the window indicating this condition. Customer response was they do not want a message window that they will have to take action and answer a message.

Rationale- Servicer's have to monitor reserve balances to determine if payment elements need to change. Due to various reserve agreements the ability to make the determination on a loan level is essential.

Test Scenario – User is able to view the projection amounts which will cause the reserve balance to go above, below or meet the cap requirement.

Requirement #50

Description – A new field will be added to the system for the ability to automatically start or stop collecting the next reserve payment because of functionality for reserve caps and minimums stated above. If the field automate payment calculation is = Y the system will need to validate whether or not the payment change should be included with the next receivable. The system will need to check the next billing date and print bills Yes; if bills have been generated the adjustment to the receivable will be held until the

next billing period. If the field automate payment calculation is =N then the system will not automatically change the reserve receivable record.

Rationale – Minimum and Cap amounts need to be monitored against the appropriate balance. Due to various borrower agreements and loan complexities the ability to determine how to start and stop reserve collections should be performed on a loan by loan basis.

The ability to automate this feature will provide automation and efficiency and minimize the risk of error.

Test Scenario – Create a test scenario that will both change the reserve payment calculation because the balance has reached the minimum and or caps. The value would need to be set to a Yes. Create a test scenario that will not change the reserve payment calculation when the balance has reached the minimum or cap because the flag is set to No.

Requirement #60

Description – If the automate payment calculation is a No; customers would like the ability to manually start or stop the reserve collection. The user will need to enter the reserve start or stop date depending on the activity.

Rationale – Because of various lender requirements and borrower agreements some do not require the payment to be automatically changed. This would give the servicer greater flexibility for servicing each reserve agreement on a loan by loan basis.

Test Scenario – Set the automate payment calculation to an N and enter the manual start of stop date for the reserve collection.

3.2.2. **Requirement # 70**

Description – Ability to generate an automatic letter to the related party/borrower when caps or minimums have been reached. Once the balance identified by the indicator is above or below the caps and minimums the system should generated WriteTrack reserve letter.

Rationale – Notification to the borrower is required for any payment changes. Notices can be distributed to any one, or multiple, names and addresses associated with a loan.

Test Scenario - User is able to indicate which names and addresses associated with a loan.

Requirement # 80

Description – System to calculate and store monthly reserve payment collections for future changes. Reserve increase/decrease parameters for amounts could result in a new reserve payment collection if the balance goes up or down by the amount. The payment is determined by which balance is used to calculate as stated in requirement #3.

Options to calculate the new payment are \$ Amount Increase or Decrease. The reserve calculations can be based on Current Reserve Balance, Current Principal Balance or Initial/Original Reserve Balance. See new database section. Whether or not the payment automatically changes depends on the values set above in the earlier requirements.

- \$ Amount Increase/Decrease

- Reserve calculations can be based on Current Reserve Balance, Current Principal Balance or Initial/Original Reserve Balance

Rationale – Some reserve agreements or loan documents call for payment recalculations due to reserve schedules.

Test Scenario - User is able to establish an amount increases and or decreases associated by reserve type and balance used to calculate new payment collection.

Requirement # 90

Description – System to calculate and store monthly reserve payment collections for future changes. Reserve increase/decrease parameters for a percentage change could result in a new reserve payment collection if the balance goes up or down by the amount. The balance is determined by which balance is used to calculate as stated in requirement #3. Options to calculate the new payment are a percentage Increase or Decrease value. The reserve calculations can be based on Current Reserve Balance, Current Principal Balance or Initial/Original Reserve Balance. See new database section. Whether or not the payment automatically changes depends on the values set above in the earlier requirements.

- Percentage% Amount Increase/Decrease
- Reserve calculations can be based on Current Reserve Balance, Current Principal Balance or Initial/Original Reserve Balance

Rationale – Some reserve agreements or loan documents call for payment recalculations due to reserve schedules.

Test Scenario - User is able to establish a percentage increases and or decrease value associated by reserve type and balance used to calculate new payment collection.

3.2.3. Requirement # 100

Description – Many reserve agreements call for the reserve collections to have multiple records. Flexibility is needed to enter a Start and End Date, Number or payments or a Payment Grid to check off the applicable months. The user should not be able to enter both a start and end date and # of payments. This will allow for seasonal payment changes. Allow tiered structure to be selected by:

- Effective Date – Start Date
- Amount
- # of Payments or End Date

Rationale – Reserve agreements can identify specific contract changes at stated times.

Test Scenario - User is able to indicate a schedule when loan payment calculation should change.

3.2.4. Requirement #110

Description – Ability to calculate and or post interest on reserves daily. This should include a daily interest rate table depicting the current reserve balance, the reserve type, daily rate and interest basis code. Historical records for each calculation should be available on a daily basis. Allow for the backdating of interest on reserve calculations. The system needs to include paid in full loans if the current reserve balance is positive at any time during the interest on reserve period. If a loan is paid off; provide a date

range for calculating the interest on the paid off loans by entering a from and to date. Provide a flag to identify the loan is paid off on the report after running the calculation process. The interest calculation should be reserve balance x rate/ number of days in the year x 1. . Each dayend the system should go through the interest on reserve calculation and post the transaction if it is set to daily. If the indicator is set to another frequency such as monthly post the interest on reserve transaction when the monthly accruals post in the system. This setting for the posting of interest should be at the System Control level with an option to override at the reserve record level. The system should have a table indicating how the posting of interest will be accomplished. The system should allow for daily, monthly, annual or semi annual frequencies.

Rationale – The ability to calculate and or post interest on reserve daily would also be an ease of use issue when they need to review past interest on reserve calculations. Also by calculating daily and paid in full loans would be taken into consideration.

Test Scenario – Populate the interest on reserve table with appropriate rates and date values to calculate and or post interest on reserves. Enter a backdated rate for the calculation of interest on reserves.

3.2.5. **Requirement # 120**

Allow for Bank Credited Interest on Escrow to be processed in bulk not by individual loan through transaction processing. Bank statements are received in various formats customers have requested that McCracken provide the ability to allow for a bulk upload of an Excel© spreadsheet with loan number, reserve type, reserve sequence #, and amount. The system should be able to create the interest on reserve transaction from the spreadsheet upload.

Rationale – Bank credited interest on reserves is a time consuming processing that is handled on a loan by loan basis in transaction processing. Eliminate manual process by an allowing an automated process.

Test Scenario- Create bank credited interest on reserve transactions.

3.2.6. **Requirement #130**

3.2.7. General Ledger transactions need to be reported at the loan level for a balance sheet loan. Allow to identify at the reserve type level if the reserve is tied to a DDA or G/L. Provide a dropdown to be used for selection of DDA or G/L account.

Rationale – Any reserve transaction on a loan that is on balance sheet should be reported to general ledger at the loan level.

Test Scenario- Create reserve transactions on a balance sheet loan to process through general ledger.

3.3.9 **Requirement #140**

System should generate a daily report when minimums and caps have been reached.

Rationale - *Report* can be used as a management tool to monitor and track reserve balances, minimums and caps

Test Scenario – Create transactions at the reserve level to activate reserve functionality that enables reserves minimums and caps. Validate daily report generated.

3.3. Data Elements

Data	Min Length	A / N	Description
Reserve Start Date			Start Date of Reserve
Reserve Stop Date			
# of Payments			
Reserve Minimum Amount			
Reserve Minimum Rate			
Reserve Minimum Balance			
Reserve Cap Amount			
Reserve Cap Balance			
Reserve Cap Expiration Date			
Reserve Minimum Expiration Date			
Reserve Increase/Decrease Amount			
Balance Used to Calculate: Current Reserve Balance, Current Principal Balance, Original Reserve Balance			
Original Reserve Balance			
Automate Payment Calculation Y/N			
Form Letter Required Y/N			
Letter Generated Y/N			
Special Instructions			User Defined Drop Down
Description Field			Currently this is available in STRATEGY. However, the request has been to increase the size or add a second description field
Reserve Held Offsite Y/N			
Original Reserve Balance			
1099 Required Y/N			

4. Nonfunctional Requirements

4.1. Look and Feel Requirements

4.1.1. The appearance of any screens developed for this project should follow the standards of STRATEGY CS.

- 4.1.2. Any changes to data regarding the tracking and processing of reserves will be stored in file maintenance history.

4.2. Security Requirements

- 4.2.1. Security will be needed for Read, Write, Print and Delete access on the functionality to enhanced reserve processing. In some cases additional field level security should be enabled.
- 4.2.2. Provide additional field level security associated with the starting and stopping of the collection of the reserve payment.

5. Project Issues

5.1. Open Issues

- 5.1.1.

5.2. Considerations

- 5.2.1. Need to research WriteTrack bill to determine if the automatic letter can be generated. Generate letter at the reserve level on demand.
- 5.2.2. Need to identify if a separate billing notice needs be generated.
- 5.2.3. Bank Credited interest on Reserves is a flag on the reserve record to identify bank credited. Do we need to enhance the interest of reserve rate table to include bank credited reserve for bulk processing? Currently *B indicates it is bank credited with no further information associated with it.

6. Future Requirements

The following requirements will be reviewed for future enhancement developments.

- 6.1.1. **Requirement** Ability to automate payments from reserves by allowing the transfer of funds from a reserve and crediting a specific loan/tranche.

Description – Allow for the automation of a payment of interest from the reserve account. Create ACH transactions with transactions.

Rationale – This transaction is manually handled today. Automation could provide the need to eliminate manual process.

- 6.1.2. **Requirement**

Description – Reserve account history should be modified to resemble transaction history with beginning and ending balances for each activity.

Rationale – The reserve account history would include similar fields as the transaction history all in one report.

- 6.1.3. **Requirement**

Description - Add logic to prevent processing of disbursements at a reserve level

Rationale - Reserves that are held offsite should not have any cash movement associated with the reserve.

- 6.1.4. **Requirement**

- 6.1.5. *Description* – Provide the ability to have a Cash Value which is Reserve Balance and a Face Value field for Invested Reserve Types. Allow only non cash transactions to be associated with these fields. Allow the reserve to go negative with the non cash transaction. Transaction code 40 does address the movement of funds however, the description does not provide information needed for the borrowers. Allow the ability to have a tran code 40 to have user defined descriptions associated with each transaction performed. A user defined drop down table has been requested for this transaction description.

A new field should be added at the reserve type level to indicate if it is an invested reserve which could be an outside investment. Provide a user defined drop down value to indicate the type of investment examples, are Bank, Government, tax exempt. Cusip #, description and Purchased Date is also needed for the invested reserve type. The reserve type will also need to have other identifiers associated with it, such as Y/N for 1099 reporting, an indicator if the account is tied to a DDA or G/L and a code to initiate the movement of funds via ach.

Rationale FHA loans have the ability to have reserves invested in treasury products. Additional fields are required to track this investment data. Face Value and Cash Value fields are needed in order to track the premiums or discounts for these invested products based on market conditions. For instance, a \$100,000.00 Treasury Bill is purchased at a discount for \$95,300.00 or at a premium for \$102,000 based on market conditions. The face value would be \$100,000.00 while the cash value would be \$95,300.00 or \$102,000.00. The reason a reserve balance can go negative because of the non cash transaction is due to the fact the Treasury Note could be purchased at a discount and when it is redeemed for the full faced value there would be a negative balance. The new transaction code needed for ‘reserve credit –accrued interest’ is due to the fact

when a Treasury Bill is purchased it includes a portion for principal and a portion for accrued interest. The accrued interest is interest earned by the Treasury Bill prior to the purchase date. Need for transaction codes that clear out the negative balances from items bought at a discount or positive balances bought at a premium. Using existing reserve debit and reserve credit transactions is confusing.

Test Scenario – Populate the Cash Value, Face Value, Yield fields and produce activity based on transaction codes.

6.1.6.

7. Examples

7.1 Requirement #2 Example:

- Reserve minimum of \$25,000
- Reserve Cap of \$150,000
- Monthly Payment Collection \$5,000
- Current Reserve Balance as of 6/1/09 is \$148,000
- Payment received on 6/2/09 of \$5,000 will increase current reserve balance to \$153,00

Conversely, the following scenario:

Test Scenario –

- On 7/01/09 Reserve disbursement of \$143,000
- Current Reserve Balance is adjusted to \$10,000
- Balance is below the reserve minimum
- Reserve Constant of \$5,000 should be collected