Chapter 3. Handling and Protecting Securities

3-1. Policy. It is the policy of HUD to fully protect and preserve at all times the securities (both marketable and nonmarketable) which pass through or are retained in Headquarters and Field Offices. This portion of the Handbook sets forth the procedures to be followed by all elements of HUD in the safekeeping of securities in

a. the assignment of custodial responsibilities;
b. the designation of depositors and safekeeping locations;
c. the selection of appropriate storage facilities;
d. the transfer of accountability by various shipment methods; and,
e. the records to be maintained to accurately and promptly detect and report lost, missing, or stolen documents.

The security processing procedures of this Handbook apply to Headquarters, Field Offices, and Corporations (GNMA) under the jurisdiction of HUD. This does not apply to investing "reserves for replacements and residual receipts funds" of projects with HUD-Held Mortgages. Local managers shall determine the detailed requirements under this chapter based on local conditions.

3-2. Control Over and Accountability for Securities

It is HUD policy that local managers will develop the required detailed procedures to implement the minimum standards cited in this chapter. Local procedures must be documented and available for review by Headquarters, Regional, and other authorized personnel. All employees in local offices having a need to process or administratively use securities shall be given a copy of the procedures.

a. Receiving Securities. Establishing securities receiving points in HUD is of primary importance to control. The objectives are to limit the number of receiving points to the minimum number commensurate with efficient and effective processing; to assure that only authorized Personnel receive and process securities; and to record each security as soon as it is received. To this end, local management should assure that securities sent to HUD are delivered to authorized personnel, by courier, or to post office boxes where access is controlled. Every effort shall be made to keep securities separated from other HUD mail.

b. Recording Securities. All securities must be recorded at the securities receiving points as soon as they are

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received. Securities shall be recorded in sufficient detail to

assure that copies or replacements can be secured, or that a claim for loss can be supported. Regardless of whether the system used to record securities is manual or automated, the system must provide a record of all securities received, track the location of each security, and record the transfer of safekeeping or final disposition of each security. In effect, the system shall provide a perpetual inventory of the securities activity at the receiving point.

c. Storage of Securities. The requirements for storage are linked to whether they are negotiable or replaceable.

A negotiable security may be easily converted to cash (sold). Factors related to negotiability are: whether there is a market (conversion mechanism) for the security; the security could be readily converted on the market (demand); and, the form of the security (bearer/registered /book entry).

A replaceable security is one where an equivalent substitute can be obtained.

The following standards are stated as minimums and may be exceeded by Office Directors when they determine more stringent measures are required.

(1) Limited Access. Access to securities storage areas should be restricted to employees of the immediate staff of the custodial office. Areas accessible to the general public shall not be used as securities storage areas. Access to the safes/files or other immediate storage facility shall be limited to the securities custodian and alternate. Suitable provisions for emergency access, in the event of absence of both custodians, shall be made in each office.

(2) Storage Facilities. Local managers shall determine the appropriate storage facilities keeping in mind the minimum requirements stated in this Handbook. At a minimum, storage areas shall be in rooms with lockable interior doors. The storage facilities shall be locking file cabinets. The minimum storage facility for highly negotiable securities, such as bearer instruments, is a fire-proof safe with a built-in combination lock.

(3) Separation of Securities Registers and Securities. The securities register shall be maintained in a location separate and apart from the securities themselves so that in the event of fire, theft, or other loss, a new register may

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be prepared from the securities, or the securities may be replaced, or a claim filed based on the register. In those

instances where the securities register is automated, a back-up copy of the data will be maintained separate and apart from the securities.

(4) Periodic Inventory. An annual physical inventory shall be taken in each office that maintains securities. The securities on hand shall be matched against the securities register and a written report stating that all securities are accounted for, or identifying missing securities, shall be sent to the RAD or Director, OFA. It is the responsibility of the local Office Manager to assure replacement securities are secured, or to take other appropriate action as directed by the RAD or Director, OFA. Inventories shall be taken as of June 30, 19XX and the report issued by July 31, 19XX.

d. Security Safekeeping Reviews. Annually, the securities handling practices shall be reviewed. These reviews are to be performed by OFA's Financial Management Systems Staff in Headquarters and by the Regional Accounting Divisions or designees in the Field. Managers should use the checklist specified in Appendix 5 as a guide for their own reviews.

3-3. Shipment of Securities. Each mailing, shipment, or delivery by messenger shall be made by the most protective method available. Shipments of valuables, i.e., marketable securities, shall be governed by the provisions of the Government Losses-in Shipment Act (P.L. 192, 75th Congress 7-8-37). Nonmarketable securities are not included under the provision of the Act. The use of mail service or commercial armored transport service will be used to the fullest extent possible when transporting securities between buildings of HUD, between cities, and between HUD and other agencies, depositories, or individuals. Use of messengers, particularly unarmed and/or untrained HUD employees, will be discouraged. However, transfers between offices within a HUD building can utilize courier or hand-delivery of documents. Each mailing, shipment, or delivery by messenger must be receipted for by the recipient organization. Such receipts will be retained by the surrendering custodian as evidence of relief of accountability.

3-4. Appointing Securities Custodian Officer. Each director of an office, Region, and corporation (GNMA) shall appoint a Securities Custodian Officer for the organization. If the office handles more securities than can reasonably be controlled by one person, a Securities Custodian Officer for each division of the organization may be designated. Designation of Securities Custodian Officers shall be in writing, and a copy of the letter of appointment will be sent to the RAD, or to the Director, OFA. The letter of appointment will specify those classes of securities for which custodial responsibility is assigned.

3-5. Custodial Responsibilities. Securities custodian officers will be responsible for the following functions:

a. The receipt and acceptance of all securities, both marketable and nonmarketable, entering the office.

b. The establishment of registers of securities received and the continued control of securities through the record.

c. The scheduling and direction of the annual physical inventory of securities.

d. Determining the proper method of shipment and ascertaining that shipment is accomplished.

e. Limiting the access of unauthorized personnel to securities storage areas, or offices in which securities are processed.

f. Reporting of lost, stolen, counterfeit or missing securities to the Securities and Exchange Commission Information System.

g. Informing all office personnel of securities protection and safekeeping policy and procedures.

h. Making recommendations to the director on safekeeping matters.

3-6. Distinction between Marketable and Nonmarketable Securities. It is important to HUD operations for all security custodians to be aware of the distinction between marketable and nonmarketable securities, since HUD receives, processes, and keeps in storage both types of securities. In the nonmarketable securities classification, HUD processes a number of securities which are unique to real property transactions, such as mortgage notes, deeds of trust, and project loan notes, which must be safeguarded to a degree consistent with the importance and replaceability of the document(s).

a. Marketable Securities. These are generally characterized as:

(1) readily and easily converted to cash upon receipt; and,

(2) require a high degree of protection in storage and shipment.

Securities in the marketable classification are:

(1) Bearer Instruments

(2) FHA Debentures

(3) GNMA Participation Certificates and Mortgage Backed Securities

(4) U.S. Treasury Bills, Notes and Bonds

(5) Tax Anticipation Warrants

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(6) Passbooks for Assigned Multifamily Project Escrow Funds

(7) Time Deposit Certificates for Assigned Multifamily Projects

(8) Stock Certificates

(9) Debentures

(10) Certificates of Deposit

(11) Money Market Accounts

(12) Letters-of-Credit

(13) GNMA Deposit Agreements

b. Nonmarketable Securities. The characteristics of these securities are: (1) difficulty in conversion to cash due to limited secondary market and lack of value, except to maker; (2) only reasonable protection against loss in shipment and storage required; and (3) extensive use throughout HUD mortgage and grant administration processes to evidence indebtedness to HUD. Securities in the nonmarketable classification are:

(1) Original mortgage notes made to HUD, or endorsed to HUD by a mortgagee

(2) Section 312 Notes

(3) Title I Promissory Notes

(4) Low-Rent Project Loan Notes

(5) Urban Renewal Project Loan Notes

(6) Housing for Elderly Project Loan Notes