

## CHAPTER 2 – HANDLING AND PROTECTING SECURITIES

**2-1 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 policies to be followed by all elements of HUD in the safekeeping of securities in:

- a. the assignment of custodial responsibilities;
- b. the designation of depositories 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 policies of this Handbook apply to Headquarters, Field Offices, and Government Corporations (GNMA and FHA) 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. These policies also do not apply to securities recorded and kept in electronic format at the Bureau of Public Debt such as FHA Capital Reserve Investment securities.

**2-2 Control Over and Accountability for Securities.** It is HUD policy that local managers shall develop the required detailed procedures to implement the minimum standards cited in this chapter, review them annually, and update them as necessary. 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 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 management 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 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. 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 Accounting Office.

**2-3 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 (40 U.S.C. § 173). 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.

**2-4 Appointing Securities Custodian Officer.** Each Director of an Office, Region, and Government Corporation 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. The letter of appointment will specify those classes of securities for which custodial responsibility is assigned.

**2-5 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.

**2-6 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 unique nature 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
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