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Accounting for origination costs and loan and commitment fees in the mortgage banking industry : recommendation to the Financial Accounting Standards Board; Statement of position 76-2;

American Institute of Certified Public Accountants. Accounting Standards Division

Statement of Position on

76-2

Accounting for Origination Costs and Loan and Commitment Fees in the Mortgage Banking Industry

August 25, 1976

Recommendation to the Financial Accounting Standards Board

Issued by
Accounting Standards Division

American Institute of
Certified Public Accountants

AICPA

Notes

Statements of Position of the Accounting Standards Division are issued for the general information of those interested in the subject. They present the conclusions of at least a majority of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting and cost accounting.

The objective of Statements of Position is to influence the development of accounting and reporting standards in directions the Division believes are in the public interest. It is intended that they should be considered, as deemed appropriate, by bodies having authority to issue pronouncements on the subject. However, Statements of Position do not establish standards enforceable under the Institute's Code of Professional Ethics.

AICPA

American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

August 25, 1976

Marshall S. Armstrong, CPA
Chairman
Financial Accounting Standards Board
High Ridge Park
Stamford, Connecticut 06905

Dear Mr. Armstrong:

The accompanying Statement of Position presents recommendations of the Accounting Standards Division on Accounting for Origination Costs and Loan and Commitment Fees in the Mortgage Banking Industry. It was prepared on behalf of the Division by the Accounting Standards Executive Committee for consideration by the Financial Accounting Standards Board and for such action as the Board deems appropriate. The accounting principles recommended herein are applicable to mortgage banking companies and to divisions of commercial banks and other financial institutions that originate and service loans for other than their own account.

The Statement takes the position that the deferral of any costs of originating mortgage loans in-house (including warehousing and/or marketing costs) should no longer be considered acceptable. However, a portion of the purchase price of certain bulk purchases should be deferred as the cost of the right to receive future servicing revenue. The cost equivalent to one month's interest incurred upon issuance of GNMA securities using the internal reserve method should also be deferred. In each of these cases, according to the Statement, the aggregate amount deferred should not exceed the present value of the amount of future servicing revenue reduced by the present value of expected servicing costs. It is suggested that it is more appropriate to amortize such deferred costs in proportion to the estimated net servicing income from the related mortgage loans.

A mortgage banker can also obtain contractual rights to receive future servicing revenue by acquiring other mortgage banking companies or by acquiring selected servicing contracts. The Statement discusses the appropriate accounting in these circumstances.

The Statement also identifies several different types of loan and commitment fees and suggests appropriate accounting for such fees. In general, these recommendations defer income recognition to a greater extent than is usual in present practice.

The Division would appreciate being advised as to the Board's proposed action on the recommendations set forth in this Statement of Position.

Sincerely yours,

Raymond C. Lauver

Raymond C. Lauver
Chairman
Accounting Standards Division

cc: Securities and Exchange Commission

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INTRODUCTION

1. The Accounting Standards Division of the American Institute of Certified Public Accountants issued a Statement of Position on Accounting Practices in the Mortgage Banking Industry on December 30, 1974 (Statement of Position No. 74-12) outlining the Division's position on mortgage banker accounting for inventory of permanent mortgage loans held for sale and certain other accounting matters. The Division has also noted that mortgage bankers use a variety of practices to account for loan origination costs and loan and commitment fees and believes that it is desirable to narrow the range of those practices.

2. The Division's recommendations with respect to accounting for origination costs and loan and commitment fees, as set forth herein, are applicable to financial statements of mortgage bankers that are intended to present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. In addition, certain commercial banks and other financial institutions have divisions which conduct operations that are very similar to those performed by mortgage bankers; when such divisions originate and service loans for other than their own account, the accounting principles recommended in this Statement should be followed.

MORTGAGE BANKING OPERATIONS

3. Mortgage bankers originate, market and service real estate

mortgage loans by bringing potential borrowers and investors together. They originate real estate mortgage loans in order to increase their servicing portfolio and the related servicing income. Many mortgage bankers engage in other related operations, including insurance brokerage, property management, real estate development and sales, management of real estate investment trusts, joint venture investments, and construction lending for residential and commercial development. Mortgage bankers acquire mortgage loans for sale to permanent investors from a variety of sources, including applications received directly from borrowers (in-house originations), purchases from realtors and brokers, purchases from investors and conversions of various forms of interim and construction financing. The mortgage loans are sold to a variety of permanent investors, including insurance companies, pension funds, savings banks, the Federal National Mortgage Association (FNMA), and since 1970 have been placed in trusts to collateralize Mortgage Backed Securities (MBS) guaranteed by the Government National Mortgage Association (GNMA).

4. Mortgage bankers often originate permanent residential loans (one to four family dwellings) without specific commitments from permanent investors to purchase such loans. Since the amount of a typical residential loan is relatively small, mortgage bankers normally obtain block commitments from investors for large dollar

amounts of residential loans meeting broad general criteria. However, permanent commercial loans are usually large in amount and require careful underwriting and, normally, mortgage bankers will not issue commitments for commercial loans without first obtaining investors' commitments to purchase the specific loans.

5. Many mortgage bankers solicit land acquisition, development, and construction loans. Mortgage bankers became active in such lending in order to increase their volume of originations of real estate mortgage loans and many, because of the relatively high interest rates associated with such loans, found this activity profitable. These loans generally require the borrower to repay the loan at or shortly after completion of development or construction and, consequently, are usually relatively short-term, seldom exceeding three years.

6. Mortgage bankers usually retain the right to service the permanent loans which they originate and sell to investors. The loans being serviced are called a loan servicing portfolio. Loan servicing includes, among other functions, collecting monthly mortgagor payments; forwarding payments and related accounting reports to investors; collecting escrow deposits for the payment of mortgagor property taxes and insurance; and paying taxes and insurance from escrow funds when due. The mortgage banker receives a servicing fee, usually based on a percentage of the outstanding principal balance of the loan,

for performing these servicing functions. When servicing fees exceed the costs of performing servicing functions the existing contractual rights associated with a servicing portfolio have an economic value, and portions or all of such servicing portfolios have frequently been purchased and sold.

7. Mortgage bankers have traditionally sold their originated loans individually or in relatively small blocks to a variety of different investors. Recently, however, a growing volume of mortgages have been placed in trusts to collateralize mortgage-backed securities guaranteed by GNMA. Payments to GNMA security holders are made on either the concurrent dates (15 day) method or the internal reserve (45 day) method. When mortgage bankers use the internal reserve method, a cost equivalent to one month's interest, which may be partially recovered in future periods, is incurred upon issuance of the security. There is no such cost associated with securities issued under the concurrent dates method.

ORIGINATION COSTS

Background

8. Costs of originating mortgage loans in-house include (1) direct personnel expenses, (2) other direct costs, and (3) general and administrative expenses such as occupancy, equipment rental, etc. Mortgage bankers may incur expenses at both home office and branch locations for the purpose of originating loans. Certain of these expenses, such as commissions paid to loan originators, may vary

proportionately with origination activity, while other expenses may be more fixed in nature. Some mortgage bankers have indicated that origination fees are adequate to cover direct origination costs; others, particularly those who believe general and administrative and certain other expenses should be allocated to origination activities, disagree. Identification of the costs of originating specific loans is difficult, and many mortgage bankers do not believe it is necessary to maintain the records required to identify such specific loan costs.

9. Many mortgage bankers, however, have incurred in-house origination costs in excess of the revenue derived from their origination operations. They originate such loans in order to obtain the increase in servicing revenue resulting from selling the loans to investors while retaining the loans in their servicing portfolio.

10. Mortgage bankers, in addition to originating mortgage loans in-house, use other methods to increase their servicing portfolios. One method is to acquire, from other companies, existing contractual rights to service specific mortgage loans for investors. This has been accomplished both by acquiring selected servicing contracts and by acquiring other mortgage banking companies. A portion or all of the price has often been allocated both to the right to receive future servicing revenue and to the relationship with new investors, to whom the mortgage banker may more readily sell future mortgage loans because of the servicing relationship. The

amortization of the amount allocated to the right to receive future servicing revenue is deductible for income tax purposes while the amount allocated to the relationship with new investors is not.

11. Another method used to increase servicing portfolios is to make bulk purchases of mortgage loans from governmental agencies, particularly GNMA, and from FNMA and other mortgage companies. Some of these bulk purchases are made only after contracts for sale of the related mortgage-backed security or of the mortgage loans themselves have been negotiated by the mortgage banker with permanent investors. Others are made on a "market risk" basis; that is, the loans are marketed on the same basis as loans originated in-house. Mortgage bankers may enter into these transactions even when they estimate that the costs of the mortgage loans will exceed the subsequent selling prices in order to obtain the future servicing revenue. Such bulk purchases have been fairly rare. However, many mortgage bankers expect GNMA and FNMA to continue to conduct auctions of their mortgages and, therefore, mortgage bankers may make more purchases from FNMA and governmental agencies in the future.

Costs of Originating Mortgage Loans In-House

Current Industry Practice

12. Under present practices followed by most mortgage bankers for

both financial reporting and income tax purposes, all revenue and costs associated with the origination of mortgage loans in-house are reflected in current operations; however, a few companies have begun to defer some of these costs on the basis that such costs were incurred to obtain the related future servicing revenue. The components of origination costs deferred vary from company to company. Some companies consider the origination function completed once a loan is funded by the mortgage banker, while others also include the income and costs associated with the warehousing and/or marketing functions in deferred origination costs.

The Division's Position

13. In view of (1) the long-standing practice followed by mortgage bankers of expensing costs of originating mortgage loans in-house as incurred, (2) the fact that mortgage bankers receive origination fees as at least partial reimbursement of in-house origination costs, (3) the difficulty in identifying the costs of originating specific loans, and (4) the practice followed by other industries with similar activities (costs are reflected in current operations), the Division believes that the deferral of any costs of originating mortgage loans in-house (including warehousing and/or marketing costs) should no longer be considered acceptable.

Bulk Purchases and Sales of Mortgage Loans

Current Industry Practice

14. Generally, the revenues and costs associated with the purchase

and sale of mortgage loans have been recorded in current operations by mortgage bankers. However, because of the large dollar amounts and because of the similarities to the purchase of servicing contracts (see paragraphs 10 and 18 to 24), many mortgage bankers have treated a portion of the purchase price of bulk purchases of mortgage loans from governmental agencies, particularly GNMA, and from FNMA and other mortgage companies as the cost of acquiring rights to receive future servicing revenue and have deferred such amounts. The portion of the purchase price allocated to these rights has usually been the difference between the total purchase price, including any transfer fees, and either the eventual sales price of the loans or the market value of the loans at the date of purchase. Some mortgage bankers have also deferred processing costs associated with purchasing and selling the loans and any interest spread between the loan rate and their borrowing rate for warehousing the loans during their holding period. All amounts deferred have been amortized to future operations.

The Division's Position

15. The Division believes that a portion of the purchase price of certain bulk purchases (usually only purchases from FNMA and GNMA and other governmental agencies) should be deferred as the cost of acquiring rights to receive future servicing revenue associated with the purchased loans when the mortgage banker retains the right to service such loans. The amount deferred should not exceed the excess of the purchase price of the loans, including any transfer fees paid,

over the market value of the loans at the date of purchase,[1/] subject to the following limitations and conditions:

(a) At the time the transaction is initiated, there should exist a definitive plan for the sale of the mortgage loans or related mortgage-backed securities. This plan should include estimates of purchase price and selling price with reasonable support for such estimates. A definitive plan is deemed to exist when the mortgage banker (1) has, previous to the date of the bulk purchase, obtained commitments from permanent investors to purchase the mortgage loans or mortgage-backed securities or (2) enters into a commitment within a reasonable period of time (usually not more than thirty days after the date of the bulk purchase) to sell the mortgage loans or mortgage-backed securities to an investor or underwriter.

(b) The amount deferred should be reduced by any excess of the final sales price to the permanent investor over the market value of the loans at the date of the bulk purchase. The purpose of this requirement is to preclude the deferral of any amount recovered at the date of sale through the sales price.

(c) No costs associated with the transactions other than those identified above (excess of purchase price, including transfer fees, over market value as defined) should be deferred. Therefore, interest, salary, and general and administrative expenses, for example, should specifically not be deferred.

(d) The amount deferred should not exceed the present value of the amount of net future servicing income, determined in accordance with the provisions of paragraph 25.

(e) No amounts arising from transactions with other mortgage bankers should be deferred unless such purchases from other mortgage bankers are rare and unusual and not in the ordinary course of business. The purpose of this requirement is to preclude the capitalization, through such transactions, of in-house origination costs that should be charged to current operations.

1/ See the Division's Statement of Position No. 74-12 for guidelines as to the computation of market value.

Cost Incurred Upon Issuance of Certain GNMA Mortgage-Backed Securities

Current Industry Practice

16. The cost equivalent to one month's interest incurred upon issuance of GNMA securities using the internal reserve method has been expensed by some companies. It has been deferred and amortized by others, on the basis that this cost was incurred to secure future mortgage servicing revenue and might be partially recovered in future periods.

The Division's Position

17. The Division believes that the one month's interest cost incurred upon issuance of GNMA securities using the internal reserve method should be deferred and amortized. The aggregate amount deferred (including amounts deferred under other provisions of this Statement of Position) should not exceed the present value of the future net servicing income as determined in accordance with the recommendations in paragraph 25.

Costs of Purchasing Existing Contractual Rights to Service Mortgage Loans

Current Industry Practice

18. As discussed in paragraph 10, a mortgage banker may acquire contractual rights to service mortgage loans (i.e., the right to receive future servicing revenue) from other mortgage bankers by acquiring selected servicing contracts or by acquiring the assets

or the outstanding stock of the selling company. APB Opinions No. 16 and No. 17 provide guidance as to the appropriate accounting for the costs of the intangible assets resulting from the acquisition of such contractual rights, both those acquired separately and those acquired in connection with a business combination. The costs have often been allocated both to the right to receive future servicing revenue and to the relationship with new investors; such costs have been deferred and amortized to operations over future periods. In business combinations, amounts may also be recorded as goodwill.

19. The costs allocated to the right to receive future servicing revenue have usually been calculated based upon at least some of the factors mentioned in paragraph 25. The amounts deferred have generally been amortized over the estimated remaining lives of the loans. Costs allocated to the relationship with new investors have usually been amortized over a forty-year period, in conformity with APB Opinion No. 17, since they were presumed to have an indeterminate life.

20. Amounts recorded as goodwill in connection with business combinations initiated after October 31, 1970, have been accounted for in conformity with APB Opinions No. 16 and No. 17.

The Division's Position

21. APB Opinions No. 16 and No. 17 provide guidelines for accounting for business combinations and for intangible assets; it is not the

intention of this Statement of Position to modify the provisions of those Opinions.

Servicing Contracts Acquired
in a Business Combination

22. The Division believes that the right to receive future servicing revenue is an intangible asset of the type discussed in APB Opinion No. 17 and that an allocation of the purchase price to that right is appropriate. In no event, however, should the amount allocated to such a right exceed the present value of the future net servicing income, calculated in accordance with the recommendations in paragraph 25.

23. When the purchase price includes amounts paid for other intangible assets, those assets should be accounted for in accordance with the applicable provisions of APB Opinions No. 16 and No. 17. One such asset might be a relationship with a new investor. The Division believes, however, that the value of such a relationship in the mortgage banking industry usually cannot be determined, for the following reasons. Although a relationship with a new investor may facilitate future sales to that investor, generally that new investor makes no specific commitment to purchase additional loans from the mortgage banker and the mortgage banker is not assured of any future sales. Absent such sales, the relationship has, of course, no value. Furthermore, even when the investor agrees to an exclusive territorial relationship with the mortgage banker, the Division believes it is usually not possible to make a reasonable

estimate of the volume or price of future loan originations and the amount of the related future servicing revenue.

Servicing Contracts Acquired
In Other Circumstances

24. When contractual rights to service mortgage loans are acquired other than by a business combination, the Division believes that an allocation of the purchase price should first be made to the right to receive future servicing revenue. This amount should not exceed the present value of the future net servicing income, calculated in accordance with the recommendations in paragraph 25. Any excess of the purchase price over the amount allocated to the right to receive future servicing revenue should be accounted for in accordance with the applicable provisions of APB Opinion No. 17.

Limitation on Amounts to be Deferred

25. Amounts deferred in accordance with paragraphs 15, 17, 22 and 24 that are associated with the right to receive future servicing revenue should not exceed the present value of the amount of future servicing revenue reduced by the present value of expected servicing costs. The estimates of future servicing revenue should include probable late charges and other ancillary income. Servicing costs should include direct costs associated with performing the servicing functions associated with the acquired contractual rights and appropriate allocations of other costs.[2/] The rate used to calculate

2/ Reference should be made to the Mortgage Bankers Association of America, Inc., suggested chart of accounts for guidance as to the types of revenues and costs to be included. In this connection, the Division believes that servicing costs may be calculated on an incremental cost basis.

the present value should be an appropriate current interest rate.[3/]

Amortization of Deferred Costs

Current Industry Practice

26. The two methods currently used for amortizing deferred costs associated with future servicing revenue are the straight-line and the accelerated methods. Although servicing revenue (other than late charges and certain other related ancillary income) is generally reflected in operations based on a fixed percentage of the unpaid principal balances of the mortgages, a substantial number of mortgage bankers amortize related deferred costs on the straight-line method. Most mortgage bankers using an accelerated amortization method have chosen the sum-of-the-years' digits method. Deferred costs associated with future servicing revenue are usually amortized over the estimated average remaining lives of the related mortgage loans.

The Division's Position

27. The Division recommends that any deferred costs of rights to receive future servicing revenue and any deferred costs equivalent to one month's interest incurred upon issuance of GNMA mortgage-backed securities using the internal reserve method be amortized in proportion to the estimated net servicing income from the related

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3/ The use of an appropriate current interest rate is in accordance with APB Opinion No. 16, paragraph 88. Since servicing income will be recognized over a period of several years, the Division believes that a long-term rate is the most appropriate interest rate to use in calculating the present value of such servicing income.

mortgage loans, because this method relates the amortization to the benefits expected to be received (see paragraph 25). For that reason, the Division believes that the method described is more appropriate than the straight-line method in the mortgage banking industry.

28. It should be noted that deferred costs are to be amortized over the period of net servicing income rather than the period of the servicing revenue, since the period estimated to be benefited by the deferred costs is the period of net servicing income.

LOAN AND COMMITMENT FEES

Background

29. Mortgage bankers frequently charge borrowers fees in addition to the interest charges on the funds advanced. While the types of fees charged may vary and are limited only by the imagination of borrowers and lenders, loan fees can be identified as one or more of the following:

(a) A fee which in reality is an adjustment of the interest rate.

(b) A fee received as compensation to the lender for earmarking funds so that they will be available to the borrower when required. Maintaining such funds in a liquid position may result in a lower yield than could be realized absent the need for liquidity. Also, the lender may need available lines of credit to call upon to honor his commitments, and various costs are normally incurred to maintain such available credit.

(c) A fee received to guarantee the borrower an interest rate at or near the market rate at the time the commitment is issued. The fee is charged to compensate the lender for taking the risk that the market rate of interest for the individual borrower when the loan is funded will be higher than the commitment rate.

(d) A fee to compensate the lender for underwriting and processing the loan.

(e) A fee received to provide a construction lender with assurance that he will be repaid. Such fees are frequently called "standby" or "gap" commitment fees. The related loan commitments are usually not expected to be funded. "Standby" commitments are normally issued to enable the borrower to obtain construction loans from a lender who is unwilling to provide such financing without the protection of a commitment for permanent financing which will repay the construction loan. Such commitments normally provide for an interest rate substantially above the market rate in effect at the time of issuance of the commitment. Commitment fees may also relate to the issuance of a commitment to loan funds to cover possible cost overruns or to provide intermediate term "gap" financing while the borrower is in the process of satisfying provisions of the permanent financing agreement, such as obtaining designated occupancy levels on an apartment project.

(f) A fee received for performing other services.

30. In addition to collecting fees, mortgage bankers often pay fees to obtain commitments from permanent investors to purchase mortgage loans from the mortgage banker.

31. Mortgage bankers have followed a number of methods for recognition of income from loan fees, including the following:

(a) Immediate recognition upon receipt

(b) Deferral with amortization--
  (1) over the commitment period
  (2) over the combined commitment and loan period
  (3) over the loan period

(c) Deferral without amortization with recognition in operations when it is clear the commitment will not be funded

(d) Deferral until loan is repaid or sold

The Division's Position

32. The terminology applied by mortgage bankers to the fees which they receive varies widely. The selection of the most appropriate treatment for a loan fee should be based not on its descriptive title but on an analysis of the nature and substance of the related transaction. The Division believes that all fees received by mortgage bankers as a result of their loan origination activities should be accounted for in accordance with the recommendations in the following paragraphs.

33. The Division believes that loan fees collected by mortgage bankers generally represent compensation for a combination of services and may include, for example, an adjustment of the interest rate on the loan, a fee for earmarking funds, and/or an offset of underwriting costs. The Division also believes it is not practicable to separate a loan fee into its components and, therefore, recommends that such fees be accounted for in accordance with their primary purpose as outlined below.

(a) Residential Loan Origination Fees— Mortgage bankers usually collect origination fees for residential loan originations. The Division believes that the normal residential origination fee is essentially a reimbursement for the costs of the underwriting process of obtaining appraisals, processing the loan application, reviewing legal title to the real estate, and other procedures. The Division believes such fees, to the extent they are a reimbursement for such costs, should be recognized in income as they are collected, since the costs of these services are charged to expense as incurred. Any fees in excess of this amount should be treated as commitment fees. Since the identification of origination costs is extremely difficult (see paragraph 8), the Division believes that fees in an amount not in excess of the allowable FHA and VA rates may be recorded as income at loan closing, because fees based on such rates will generally not exceed origination costs.

(b) Residential Loan Commitment Fees—
In addition to the origination fees, mortgage bankers often charge a commitment fee to the borrower or to a builder/developer to guarantee the funding of loans. In addition, the mortgage banker often pays commitment fees to permanent investors to ensure the ultimate sale of the funded loans. Normally these commitment fees (both received and paid) relate to blocks of loans for a specified total dollar amount. The Division believes that both the commitment fees paid and those received should be deferred. They should be recognized in operations upon completion of the sale of the loans to the permanent investor or when it is evident that the commitment will not be used. If the commitment fees paid or received relate to a commitment amount for a block of loans, the portion of the fees recognized in operations as the result of an individual loan transaction should be based on the ratio of the individual loan amount to the total commitment amount.

(c) Commercial Loan Placement Fees—
Mortgage bankers may receive fees for arranging a commitment directly between a lender and a borrower. Additionally, mortgage bankers sometimes issue commitments in their own name which contain clauses making the loan funding contingent upon simultaneous funding of the loan by a permanent investor. The Division believes that if the mortgage banker has obtained a commitment from an investor prior to making his own commitment, and if his own commitment to the borrower requires simultaneous assignment to and funding by the investor, the transaction is in substance a loan placement transaction. In transactions

of either of these types, the Division believes that the mortgage banker is serving only as a conduit between lender and borrower and the fees received should be recognized in operations when the mortgage banker has no remaining significant obligations for performance in connection with the transaction.

(d) <u>Commercial Loan Commitment Fees—</u>
Commitments to fund a loan on an income-producing or commercial property frequently have longer terms than those associated with residential loans. The fees from such commitments generally involve larger dollar amounts and they vary more widely as a percentage of the loan amount than residential loan fees. The Division believes that commitment fees received and paid in connection with a commercial permanent loan should be deferred and recognized in income upon completion of the sale of the loan to the permanent investor.

(e) <u>Land Acquisition, Development, and Construction Loan Fees—</u>
The Division believes that such loan fees should be deferred and recognized as income over the combined commitment and loan period. The straight-line method of amortization should be used until funding begins; the interest method should be used for the remaining unamortized balance during the loan period. The commitment and loan period of a construction or development loan is directly related to the length of the construction or development period, which is affected by many variable factors. The best estimate of such period should be utilized. In the event of a significant revision to the original estimate of the period, the unamortized portion of the commitment fee at the time of revising the estimate should be amortized ratably over the revised period. Any subsequent fees collected as a result of changes in the period should likewise be amortized over the revised period.

(f) Standby and Gap Commitment Fees—
The Division believes that because the potentially volatile nature of the market for real estate loans may require the funding of standby and gap commitments, fees for such commitments should be recognized as income over the combination of the commitment and standby or gap loan period. The straight-line method of amortization should be used during the commitment period and the interest method should be used for the remaining unamortized balance during the loan period if the loan is funded. Any additional fees collected at the time of funding the loan should be amortized over the loan period.

(g) Fees for Services Rendered—
In some cases mortgage bankers will collect fees solely for providing services with respect to the origination of a loan, such as appraisals, etc. The Division believes that such fees should be recognized in operations when the services have been performed.

34. In recognizing loan fees as income, consideration must be given to the collectibility of the fee. If the fee has not been received in cash, there must be evidence that its collectibility is reasonably assured.

35. When commitments expire without being funded or loans are repaid prior to the estimated repayment date, the Division believes any unamortized loan fees should be recognized in operations at that time.

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