

Summary of Basic Mortgage Accounting

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MORTGAGE BANKING
SOLUTIONS

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These Slides Provide an Overview of Basic Mortgage Accounting

MBS also provides advanced mortgage accounting and hedging training, and provides outsourced mortgage accounting* for Mortgage Lenders

* MBS is not a CPA firm and does not provide attestation services



Request Funds

- 1 MB prepares **Funds Request**
- 2 MB sends closing instructions
- 3 MB sends request to WHB
- 4 WHB reviews MB request
- 5 WHB sends wire to Title

Loan Closed

- 6 Borrower and Seller sign
- 7 Loan Closed
- 8 Title sends docs to MB
- 9 Title sends orig Note to WHB
- 10 MB sends file to Investor
- 11 **Accounting posts funding entry**

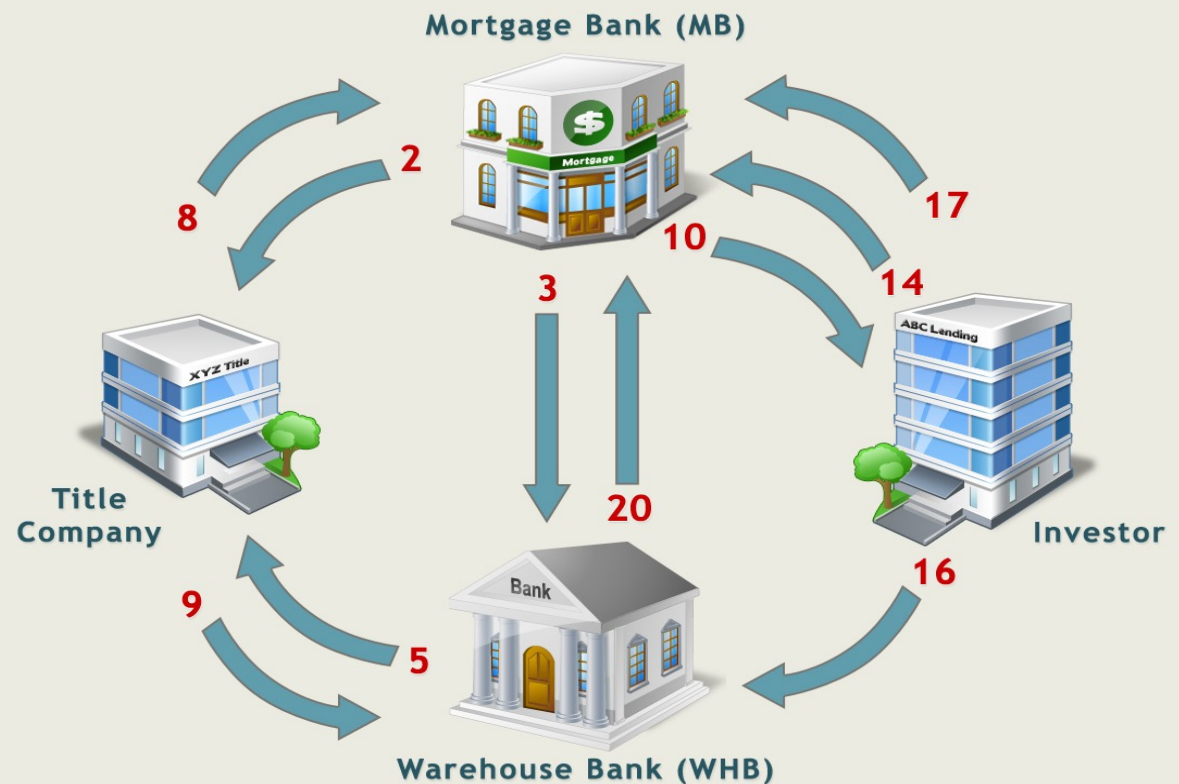
Investor Review

- 12 Investor logs file
- 13 Investor reviews file
- 14 Investor send exception to MB
- 15 MB resolves exceptions

Investor Purchase

- 16 Investor sends net proceeds to WHB
- 17 Investor sends **Purchase Advice** to MB
- 18 WHB pays off loan
- 19 WHB deposits net funds
- 20 WHB sends **Payoff** calculation to MB
- 21 **Accounting posts sale entry**
- 22 Determine if first payment is due MB
- 23 Prepare for interim servicing
- 24 Capture data for 1098

Mortgage Banker Process Flow





Net Funding Warehouse

Improper management of the Borrower's Escrow Funds for taxes and insurance is a Violation of Agency Requirements and a Violation of State Law

Escrow Liability must be recorded and Escrow Funds must be segregated



Net Funding Warehouse Advance

Warehouse Funding Calculation

Loan Amount	\$	100,000	Escrow Funds	\$	3,500
Warehouse Hair-Cut		2%	Points	\$	1,500
Max Loan Amount	\$	98,000	Fees	\$	895
				\$	5,895

Net Funding Escrow & Fees

Loan Amount	\$	100,000
Customer Funds		
Escrow for T&I	\$	3,500
Points	\$	1,500
Fees	\$	895
Total Customer Fees	\$	5,895
Funding Amount	\$	94,105

Customer Funds Liability	\$	3,500
Customer Funds in Cash	\$	-

Net Funding Fees Only

Loan Amount	\$	100,000
Customer Funds		
Escrow for T&I	\$	-
Points	\$	1,500
Fees	\$	895
Total Customer Fees	\$	2,395
Funding Amount	\$	97,605

Customer Funds Liability	\$	3,500
Customer Funds in Cash	\$	3,500



Caution to Mini-Correspondents

If you close a loan that is not purchased until the following month....

At month end you must report:

- Loans Held for Sale
- Borrower Escrow & Warehouse Liability

It is a violation of State Law and Agency Guideline to wait until the loan is purchased to record the accounting activity

This was OK as a Broker, but NOT as a Mini-Corr



MBS Authentic Documentation

Closing Entry -

- Lock Confirmation – (Best Efforts)
- Expected Margin Preservation (Hedging)
- Warehouse Funding Request
- Final Closing Statement – CD
- Commission Calculation

Sale Entry -

- Investor Purchase Advice (PA) (Best Efforts)
- Security Settlement Confirmation (Hedging)
- Warehouse Payoff (PO)
- Copy of Funding Entry



Loan Funding

Best Efforts

MBS knows the rules to prepare the NMLS call report and the FDIC call report

Loan Funding Journal Entry

Loans Held for Sale	231,877.00		
Warehouse Line		222,796.15	96.084%
Escrows held for Others		2,309.18	
Origination Fee		1,251.00	
Discount			
Credit Report Income			
Tax Service Fee			
Commitment Fee			
Application Fee			
Lender Doc Prep Fee			
Flood Certification		18.00	
Processing Fee Income			
Interest Income		400.23	
Gain Accounts Receivable*	9,775.93		104.216%
Gain on Sale - Corp		9,775.93	
Corp Admin Fee - Branch	695.00		
Corp Admin Income		695.00	
MIP Payable		5,102.44	
	242,347.93	242,347.93	

Commission Accrual Excluded

* Gain Receivable is substantially similar to LHFS MTM. Enables gain reconciliation.



Loan Sale

Loan Funding Journal Entry

Loans Held for Sale	231,877.00	
Warehouse Line		222,796.15
Escrows held for Others		2,309.18
Origination Fee		1,251.00
Discount		
Credit Report Income		
Tax Service Fee		
Commitment Fee		
Application Fee		
Lender Doc Prep Fee		
Flood Certification		18.00
Processing Fee Income		
Interest Income		400.23
Gain Accounts Receivable	9,775.93	
Gain on Sale - Corp		9,775.93
Corp Admin Fee - Branch	695.00	
Corp Admin Income		695.00
MIP Payable		5,102.44
	<u>242,347.93</u>	<u>242,347.93</u>

Commission Accrual Excluded

Investor Purchase Journal Entry

First Payment to Investor

Loans Held for Sale		231,877.00
Warehouse Line	222,796.15	
WH diff exp	33.36	
Escrows held for Others	2,309.18	
Gain Accounts Receivable		9,775.93
Warehouse Line Int. Expense	1,196.56	
Bank processing fee	175.00	
Warehouse Fee	125.00	
Tax Service Fee	84.00	
Bank Account	15,508.55	
Gain on Sale		0.01
Interest Income		574.86
	<u>242,227.80</u>	<u>242,227.80</u>

Balance Sheet Clears

Journal Entries Balance

NO first payment in this example

If first payment, create receivable



MBS Monthly Financial Reports

Company

Balance Sheet
Profit & Loss consolidated
Statement of Cash Flows

Balance Sheet - monthly reconciliation

Mortgage Loans Held for Sales - each line
Warehouse Line - each line
Escrow Impounds - each customer
First Payments receivable - each customer
Payroll Liability Balances
Employee Advances
Gain on Sale Receivable each investor
Prepaid Expenses
Prepaid Insurance
Fixed Assets
Accounts Payable
Accrued Expenses
Warehouse Fees Payable
Due To (From) Correspondent
Due to Affiliate Branches

Performance Reports

Profit & Loss per branch
Profit & Loss per loan
Profit & Loss per LO
Loan Fees by LO
Loan Volume by Product Type
Loan Volume Funded by LO
Loan Volume Funded by Month
Branch Payment Detail Report
Interest Variance for each line
Loan Volume Sold by Month each investor
Gross Income by Product Type

Year End Reports

Audit Ready BS, P&L
Every BS account reconciliation
1098 Report

**MBS custom programs QuickBooks
to produce these reports**



First Payment Federal Rules

- Calling the Borrower to collect a First Payment must follow the Fair Debt Collection Practices Act
- Missed First Payment may create repurchase risk
- Receiving First Payments is Servicing
- CFPB Servicing Rules for QWR apply
- IRS 1098 data
 - Payments made at closing
 - First Payments collected
 - 1098 due to customer by January 31st



Mortgage Accounting Hedge Activity



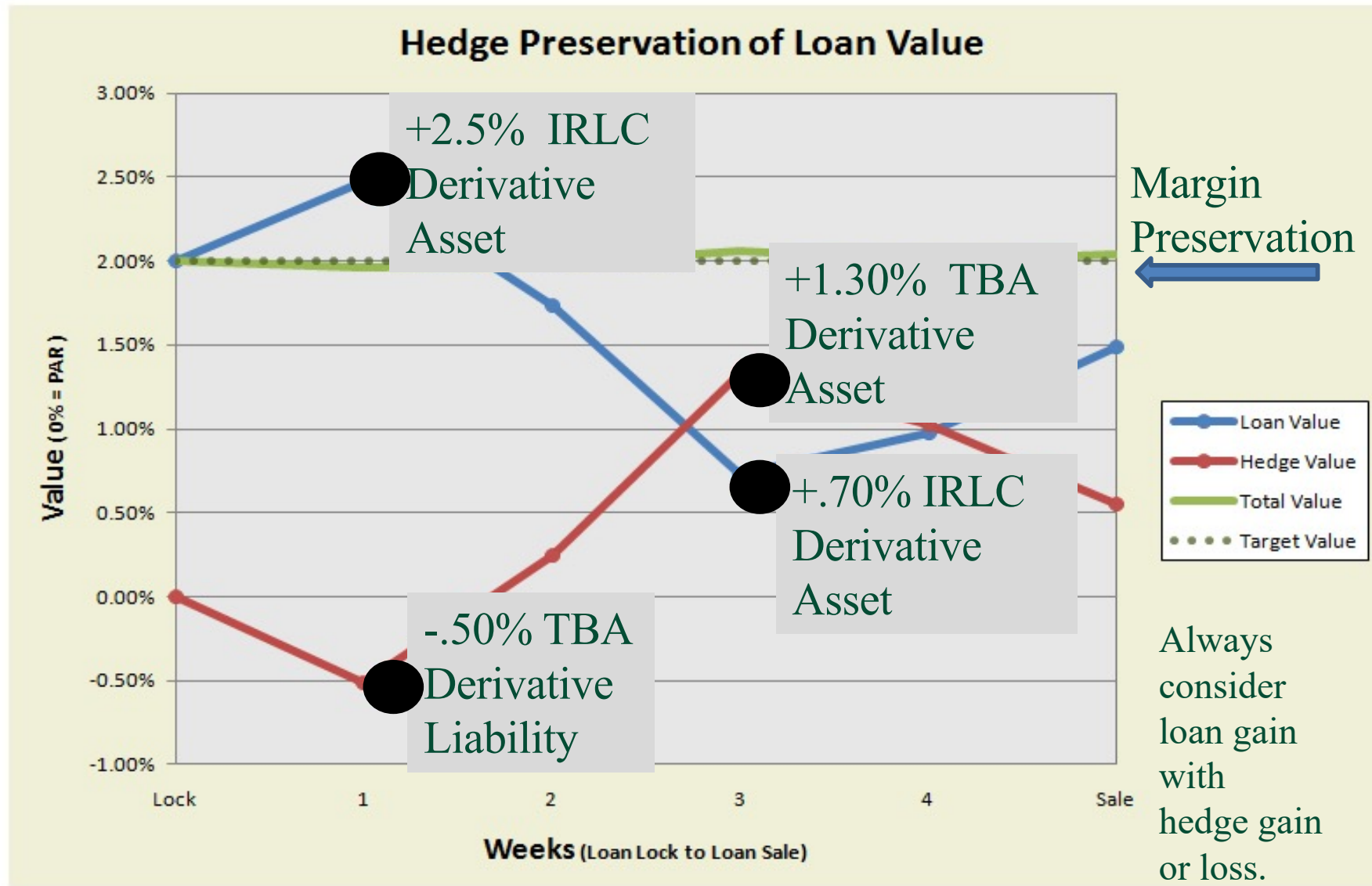
FASB Accounting Standards

ASC 815 – Derivatives

ASC 820 – Fair Value Measurement

ASC 825 – Fair Value Option

ASC 860 – MSR





Derivative Asset & Liability

- An Interest Rate Lock Commitment (IRLC) offered to a borrower is an off-balance sheet loan commitment subject to market risk and recorded at Fair Value
- ASC 815-25 requires consideration of Fair Value Measurement of the IRLC Locked Pipeline typically resulting in an increase in the Derivative Asset.
- TBA Short Position is either a Derivative Liability or Derivative Asset



Hedging Accounting is one of the most complicated areas of Mortgage Accounting

MBS can teach your Accounting Staff
how to properly account for
Hedging Transactions



MBS Offers Outsourced Accounting

Mortgage Accounting & Hedge Accounting
via the Cloud
on a fee per loan basis

* MBS is not a CPA firm and does not provide attestation services



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Dr. Schell teaches CPAs who audit mortgage lenders about mortgage accounting and teaches mortgage accountants about hedging activity and hedge accounting through the MBA.org.

Accounting is Complicated
We Can Help



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