

# PFI Advisory

July 6, 2005

## Special Attention:

PFI's MPF<sup>®</sup> Program Management and PFI's Accounting Management

## Subject:

### Accounting for MPF Program Assets and Liabilities

In September, 2000, the Financial Accounting Standards Board issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which governs the accounting treatment of the sale of Closed Loans (Original MPF, MPF 125, MPF Plus) and of the servicing rights and the credit enhancement obligation for all MPF Program products, both Closed Loans and Bank Funded Loans (MPF 100).

We encourage you to review with your auditors your compliance with SFAS 140. If you are participating in the Original MPF, MPF 125 and MPF Plus products, we encourage you to review the provisions of SFAS 140 pertaining to "true sale" opinions.

You may also wish to refer to the guidance on the FDIC website titled: "Guidance on Accounting for the Mortgage Partnership Finance Program". See: [http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/accounting\\_news.html](http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/accounting_news.html). This document applies to participation in the MPF Program by PFIs which are FDIC insured institutions, but may also be referenced by external auditors even if the FDIC is not your primary regulator. The FDIC's guidance appears to affirm our view for all PFIs that participation in the MPF Program results in either:

- The PFI's sale of a mortgage loan asset with the retention of servicing rights and a credit enhancement obligation [in the case of the Original MPF, MPF 125 and MPF Plus products], or
- The PFI's origination of a mortgage loan as the agent of the MPF Bank, thus never owning the mortgage loan asset for purposes of accounting [in the case of the MPF 100 product], and acquiring servicing rights and a credit enhancement obligation.

We want to remind those PFIs delivering Bank Funded Loans under the MPF 100 product that the mortgages are never owned by the PFIs, and therefore "gain on sale" accounting treatment generally may not be applicable to the servicing rights related to such mortgages. Such PFIs should review the matter with their external auditors.

This advisory does not address any other accounting issues that may apply to PFIs participating in the MPF Program and is provided solely as information to PFIs and does not constitute professional accounting or legal advice.

**If you have any questions about the information in this Advisory please contact your MPF Bank Representative.**