

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

June 7, 2005

**BANKING SUPERVISION AND REGULATION:
COMMITMENTS TO ORIGINATE
AND SELL MORTGAGE LOANS**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans (SR 05-10)

The Federal Reserve Board, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and National Credit Union Administration have issued the attached *Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans*. The advisory is a guidance on the appropriate accounting and reporting for both derivative loan commitments (that is, commitments to originate mortgage loans that will be held for resale) and forward loan sales commitments (that is, commitments to sell mortgage loans). Many institutions have experienced difficulty in reporting derivative loan commitments and forward loan sales commitments, and the Federal Reserve reminds institutions that they are expected to apply Generally Accepted Accounting Principles when accounting for these transactions.

As specified in Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement of Financial Accounting Standards No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, institutions must account for both derivative loan commitments and forward loan sales commitments as derivatives. In addition, the Federal Reserve expects all supervised institutions to follow the related guidance in the SEC Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments*.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>.

For additional information about the guidance, please contact our Banking Supervision and Regulation Department at (415) 974-2936.

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Attachment: Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans