

## EITF ABSTRACTS

Issue No. 85-13

**Title:** Sale of Mortgage Service Rights on Mortgages Owned by Others

**Dates Discussed:** March 28, 1985; May 9, 1985

**References:** FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*  
FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*  
FASB Statement No. 156, *Accounting for Servicing of Financial Assets*  
AICPA Audit and Accounting Guide, *Savings and Loan Associations* (1979)

### ISSUE

An enterprise sells the right to service mortgage loans that are owned by other parties; the mortgages have been previously sold, with servicing retained, in a separate transaction. Because of the ability to invest the "float" that results from payments received from borrowers but not yet passed to the owners of the mortgages, the mortgage servicing rights can be sold for immediate cash or for a participation in the future interest stream of the loans.

The issues are whether a gain should be recorded on the sale of the mortgage service rights when the sale is for a participation in the future interest income stream and, if a gain is recognized, how that gain should be measured.

### EITF DISCUSSION

The Task Force reached a consensus that gain recognition is appropriate at the sale date. Task Force members agreed that there are difficulties in measuring the amount of the gain if the sales price is based on a participation in future payments and that accounting rules do not specify an upper limit on the computed sales price. The seller of mortgage servicing rights should consider all available information, including the amount of gain that would be recognized if the servicing rights were to be sold outright for a fixed cash price.

## **STATUS**

A related issue was discussed in Issue No. 89-5, "Sale of Mortgage Loan Servicing Rights." That Issue considers whether there are any circumstances in which the sale of mortgage loan servicing rights may be recognized before the date that the sale is closed. The Task Force reached a consensus on Issue 89-5 that a sale of mortgage loan servicing rights should not be recognized before the closing of the sale; that is, when title and all risks and rewards have irrevocably passed to the buyer, and there are no significant unresolved contingencies. The Task Force also reached a consensus on Issue 89-5 that a temporary subservicing agreement in which the subservicing will be performed by the seller for a short period of time would not necessarily preclude recognizing a sale at the closing date.

The consensus in Issue 89-5 were superseded by the Task Force in Issue No. 95-5, "Determination of What Risks and Rewards, If Any, Can Be Retained and Whether Any Unresolved Contingencies May Exist in a Sale of Mortgage Loan Servicing Rights." See Issue 95-5 for details of the consensus reached.

Statement 156, issued in March 2006, amends Statement 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. Statement 156 does not modify the consensus reached on this Issue. However, changes in the fair value of servicing assets or servicing liabilities subsequently measured at fair value should be included in earnings in the period in which those changes occur, with any additional change in fair value from the last measurement date to the sale date included in earnings at that time.

No further EITF discussion is planned.