

Washington, DC 20219

To: All *Comptroller's Handbook* Subscribers

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The enclosed booklet, "Mortgage Banking," is part of an ongoing revision of the *Comptroller's Handbook*. This section is a new addition to the handbook, and is not mentioned in the "Introduction" booklet issued in July 1994.

This booklet provides an overview of the OCC's supervisory policy for mortgage banking operations. It discusses the business of mortgage banking, the risks associated with this activity, and the procedures that OCC bank examiners will use when they review mortgage banking activities at national banks.

Mortgage banking generally involves loan originations, and buying and selling mortgages through the secondary mortgage market. A national bank engaged in mortgage banking can retain or sell loans it originates, can retain or sell the servicing on these loans, and can purchase servicing rights on loans originated by other institutions. National banks can participate in any or a combination of these activities. The major functional areas within a comprehensive mortgage banking operation are: loan production, pipeline and warehouse management, secondary marketing, and servicing.

This booklet extends the OCC's Supervision by Risk philosophy to mortgage banking. Of the OCC's nine categories of risk for bank supervision, eight categories are associated with mortgage banking. These eight risks are: credit, interest rate, price, transaction, liquidity, compliance, strategic, and reputation. This section of the handbook discusses how these risks are related to mortgage banking.

This booklet outlines the OCC's examination procedures that will be used in conducting a review of a national bank's mortgage banking operation. The procedures address the following areas:

- Management and supervision
- Internal and external audit
- Loan production
- Pipeline, warehouse, and hedging

- Secondary marketing
- Servicing
- Mortgage servicing assets.

The scope of the OCC's review will depend to a large extent on the size and complexity of the bank's mortgage banking operation and the sophistication of management's control systems.

This section of the handbook has incorporated information contained in OCC Advisory Letter (AL) 93-3, "Mortgage Banking Advisory," dated May 28, 1993; therefore, AL 93-3 is rescinded.

If you have questions regarding this booklet, please contact the Office of the Chief National Bank Examiner, (202) 874-5409.