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OCC Publishes Comprehensive Mortgage Banking Handbook

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) today released a comprehensive booklet that discusses the business of mortgage banking and the risks associated with it, and details the procedures that OCC bank examiners will use when they review mortgage banking activities at national banks.

The publication of the Mortgage Banking Handbook corresponds with an increased volume of mortgage banking activities in national banks and the recent consolidation of some of the major financial institutions in the mortgage banking field. All multinational banking companies, most regional banks and many community banks now engage in mortgage banking activities.

"Large-scale mortgage banking requires a major investment in technology, a highly skilled work force, sophisticated risk management operations and adequate capitalization to succeed in a business so susceptible to changes in interest rates and prices," said Comptroller of the Currency Eugene A. Ludwig. "This handbook will help mortgage bankers -- and those considering entering this highly competitive business -- become more aware of the responsibilities, opportunities and challenges inherent in this activity."

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, retain or sell the servicing rights on those loans, and buy servicing rights on loans originated by others.

This handbook extends the OCC's Supervision by Risk program to mortgage banking. Mortgage banking can expose a bank to eight of the nine banking risks defined by the OCC: credit, interest rate, liquidity, price, transaction, compliance, strategic and reputation risk. The handbook discusses each of these risks.

The scope of OCC reviews will depend to a large extent on the size and complexity of the bank's operation and the sophistication of management's control systems. The new booklet focuses on seven areas of supervisory interest:

- management and supervision;
- internal and external audit;
- loan production;
- pipeline, warehouse and hedging;
- secondary marketing;
- servicing;
- mortgage servicing assets.

The OCC began routine supervision of mortgage banking

operations at national banks in the late 1980's, but this is the first time the OCC has published mortgage banking examination procedures. The handbook released today provides a uniform and consistent set of procedures and standards and will be the basis for training more examiners to review a bank's mortgage banking operations.

In preparing the procedures in the handbook, the OCC staff consulted with senior field examiners and industry sources, and included information drawn from other government agencies and the accounting profession.

All national banks, OCC examiners, and subscribers to the Comptroller's Handbook will receive a copy of the Mortgage Banking Handbook. To obtain a copy of this new booklet, send a written request along with a check for \$15 to the Office of the Comptroller of the Currency, P.O. Box 70004, Chicago, IL 60673-0004.

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The OCC charters, regulates and examines approximately 2,800 national banks

and 70 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is

to ensure the safety and soundness of the national banking system.