



# New Revenue Standard and Implications for Independent Mortgage Bankers

By: **Katie Compton** - Senior Audit Manager | **Richard Guy** - Audit Supervisor

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In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, which created Topic 606, Revenue from Contracts with Customers (ASC 606), and subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers (ASC 340-40). The effective date for the application of ASU 2014-09 is January 1, 2019 for Independent Mortgage Bankers (IMBs) operating on a calendar year.

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## Scope of Standard and Its Impact on IMBs

The authoritative guidance within ASC 606 should have a limited effect on IMBs, as ASC 606 includes a scope exception for goods or services covered under:

- Transfers and Servicing (ASC 860), including subservicing fees
- Insurance Contracts (ASC 944)
- Lease Contracts (ASC 840)
- Guarantees (ASC 460), excluding product or service warranties
- Nonmonetary Transactions (ASC 845), including nonmonetary exchanges between entities in the same line of business to facilitate sales to customers other than the parties to the exchange
- Financial instruments, including interest and dividend income generated from the financial instruments:
  - Receivables (ASC 310)
  - Investments – *Debt Securities* (ASC 320)
  - Investments – *Equity Securities* (ASC 321)
  - Investments – *Equity Method and Joint Venture* (ASC 323)
  - Liabilities (ASC 405)
  - Debt (ASC 470)
  - **Derivative Instruments and Hedging (ASC 815)**
    - Includes interest rate lock commitments and forward delivery commitments
  - **Financial Instruments (ASC 825)**
    - Includes mortgage loans held for sale

Given that most IMBs' contracts with customers are covered under Financial Instruments and Transfers of Servicing (if they retain mortgage servicing rights), IMBs will not be required to change their accounting for gains and losses associated with mortgage loans, interest rate lock commitments, forward delivery commitments, or debt and equity securities.

## Real Estate Sales

The guidance provided in ASC 606 is applicable to real estate sales only if the sale is an ordinary activity of an entity. If the sale is not an ordinary activity, the accounting guidance is contained in ASC 610, Other Income. As the ordinary course of business for IMBs is the origination, purchase, securitization, sale and/or servicing of mortgage loans, the sale of real estate is not considered an ordinary activity, and therefore the related income and/or losses qualify for the recognition noted in ASC 610.

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## Accounting for Revenue from Contracts with Customers

In the event an IMB generates revenue from contracts with customers that is not included in a scope exception as previously defined, the following is a summary of the accounting as of January 1, 2019.

The core revenue recognition principle is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify performance obligations
- Step 3: Determine the transaction price
- Step 4: Allocating the transaction price to performance obligations
- Step 5: Satisfaction of performance obligations

### *Disclaimer*

This is a highly complex area of accounting that is often not understood by professionals without specialized expertise in the area.

Please feel free to contact us with any questions.

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## Financial Statement Presentation

If either of the parties has performed their side of the contract, then a contract asset or liability will be presented on the balance sheet of that party. Revenue recognized from contracts with customers should be presented separately from other sources of revenue on the statement of operations.

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## Disclosure

The disclosure requirements are intended to provide the reader with enough information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In order to achieve that objective, disclosures should include the following information:

- Revenue recognized from contracts with customers
- Contract balances, including opening and closing balances of receivables, contract assets, and contract liabilities
- Performance obligations
- The significant judgments and changes in judgments made in applying revenue recognition guidance
- Quantitative and/or qualitative information about assets recognized from the costs to obtain or fulfill a contract

## Notice To Readers

The information contained herein is of a general nature and based on authoritative guidance that is subject to change. The descriptive and summary statements in this document are not intended to be a substitute for FASB or IRS guidance or requirements, or any other applicable accounting literature. Companies applying U.S. GAAP should apply the texts of relevant laws, regulations, and accounting requirements, considering their particular circumstances, and consult their accounting and legal advisors. The applicability of the tax information to specific situations should be determined through consultation with tax advisors.

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