

Q: When BOFI transfers loans to Quick Bridge (or other non-bank lenders), how does it record the transfer for financial-reporting purposes?

When does BOFI get the loan off its own balance sheet?

Does BOFI record the transfer as a sale or as a secured borrowing?

What consideration does BOFI receive in return for transferring the asset to Quick Bridge? How does BOFI profit?

The E&Y decision tree would suggest that BOFI take the loan back on its balance sheet. What does BOFI say about this?

*A: The terms and structure of our agreements with customers and counterparties, including QuickBridge and other correspondent lenders, are confidential. The sale of loans pursuant to our agreements with our business loan correspondent lending counterparties are “true sales” in all respects, and are not subject to repurchase obligations of any sort. We record non-interest income from our correspondent lending relationships in the gain-on-sale – other, line on our income statement. The accounting treatment on our balance sheet and income statement is consistent with all applicable accounting rules and regulations and thoroughly reviewed and vetted by BDO, our external auditor.*

*You should be aware that far from constituting “rent a charter schemes,” arrangements of the type that Bofl maintains with QuickBridge are recognized as entirely proper by regulatory authorities. In its examination manual, the FDIC states that “third-party lending arrangements may provide institutions with the ability to supplement, enhance, or expedite lending services for their customers. Engaging in third-party lending arrangements may also enable institutions to lower costs of delivering credit products and to achieve strategic or profitability goals.” In the same vein, the OCC examination manual instructs examiners to “[d]etermine if the bank has contracted with third-party lenders (e.g., marketplace lenders) to perform some, if not all, operational functions, including processing, underwriting, closing, funding, delivering, and servicing of loans.” A footnote adds that “[t]here is no single or universally accepted definition for ‘marketplace lender.’ Generally, marketplace lenders are companies engaged in Internet-based lending businesses (other than payday lending). Marketplace lenders may offer a wide variety of financial products, including small business loans, consumer loans, student loans, and real estate loans. Marketplace lenders may fund their loans through various means, including equity capital, commercial lines of credit, sale of whole loans to institutional investors, securitizations, and pass-through note programs.”*

