



Press Release

FIL-41-95  
June 21, 1995

**APPLICABILITY OF FAS 122 FOR REPORTING PURPOSES  
AND THE TREATMENT OF MORTGAGE SERVICING  
RIGHTS FOR REGULATORY CAPITAL PURPOSES**

The Reports Task Force of the Federal Financial Institutions Examination Council (FFIEC), acting under delegated authority, is announcing its decisions regarding the appropriate regulatory reporting treatment for mortgage servicing rights (MSRs) by banks. The Office of Thrift Supervision has reached similar reporting decisions for savings associations. The need for this guidance arises because of the Financial Accounting Standards Board's issuance of Statement No. 122, "Accounting for Mortgage Servicing Rights," in May 1995. In addition, the FFIEC's Task Force on Supervision, acting under delegated authority, is recommending that the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision ("the agencies") adopt interim capital rules to clarify the regulatory capital treatment for MSRs.

MSRs are the contractual obligations undertaken by an institution to provide servicing for mortgage loans owned by others, typically for a fee. "Originated" MSRs (OMSRs) generally represent the MSRs acquired when an institution originates and subsequently sells mortgage loans but retains the servicing rights. "Purchased" MSRs (PMSRs) are MSRs that have been purchased from other parties. Prior to the adoption of Statement No. 122, only PMSRs -- but not OMSRs -- could be capitalized as balance sheet assets. However, once an institution adopts Statement No. 122, it generally must capitalize OMSRs on a prospective basis. In addition, Statement No. 122 requires all capitalized MSRs (both originated and purchased) to be evaluated for impairment based on their fair values.

The Financial Accounting Standards Board has also determined that it is not necessary to characterize MSRs as either tangible or intangible assets when similar characterizations have not been made for most other assets. Statement No. 122 indicates, however, that the elimination of the previous reference in the accounting literature to MSRs as intangible assets does not imply that MSRs are tangible assets.

In view of the issues raised by the issuance of Statement No. 122, the two FFIEC Task Forces are taking the following actions concerning the regulatory reporting and capital treatment of MSRs.

**Applicability of Statement No. 122 for Regulatory Reporting Purposes.** For purposes of the bank Reports of Condition and Income (Call Report) and Thrift Financial Report (TFR), all insured banks and savings associations must adopt Statement No. 122 for fiscal years beginning after December 15, 1995. Early adoption is also permitted to the extent allowable under Statement No. 122. Thus, for institutions with a calendar year fiscal year that do not elect early adoption, the March 31, 1996, Call Report or TFR will be the first report to be completed in accordance with Statement No. 122. In addition, once an institution adopts Statement No. 122, the fair value of MSRs must be used in determining whether impairment exists, rather than the impairment guidance currently set forth in the Call Report and TFR instructions.<sup>1</sup>

**Reporting Treatment for PMSRs and OMSRs.** As an interim measure, banks should continue to report PMSRs in Call Report Schedule RC-M, item 6.a, "Mortgage servicing rights," and on the balance sheet in Schedule RC, item 10, "Intangible Assets." OMSRs that are capitalized as balance sheet assets in accordance with Statement No. 122 should be reported in these same Call Report items. Similarly, savings associations should report capitalized MSRs (both purchased and originated) on TFR Schedule SC, line 640, which is currently labeled "purchased loan servicing rights."

**Interim Capital Treatment for MSRs.** Given the provisions in Statement No. 122 that require capitalization of OMSRs as balance sheet assets and the FASB's decision not to characterize MSRs as tangible or intangible assets, the FFIEC's Task Force on Supervision is recommending that the agencies seek public comment on the appropriate regulatory capital treatment of MSRs. Pending completion of this review, the Task Force recommends that the agencies issue interim capital rules that would apply the same regulatory capital provisions to OMSRs that presently apply to PMSRs.

Under the Task Force's recommended interim approach, capitalized MSRs (both purchased and originated) would be subject to a quarterly valuation requirement and a restriction limiting the amount of MSRs that may be recognized for Tier 1 capital purposes to the lesser of 90 percent of fair value or 100 percent of book value (net of any valuation allowance). In addition, the aggregate amount of PMSRs, OMSRs,<sup>2</sup> and purchased credit card relationship intangibles that may be recognized for regulatory capital purposes (i.e., not deducted from assets and capital) would be limited to no more than 50 percent of Tier 1 (core) capital. The quarterly valuations of the fair value of OMSRs would be based on the same regulatory guidance the agencies have issued with respect to determining the fair value of PMSRs.

Distribution: FDIC-Supervised Banks (Commercial and Savings)

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<sup>1</sup>The fair value approach to impairment in Statement No. 122 assumes that a market discount rate is used to calculate the present value of estimated future cash flows. This differs from the existing Call Report and TFR instructions, which require the use of the original discount rate inherent in the servicing rights when measuring impairment.

<sup>2</sup>For purposes of determining the amount of any OMSRs that would be deducted (or disallowed) under this 50 percent of Tier 1 (core) capital limitation, institutions may choose to reduce the otherwise disallowed OMSRs by the amount of any associated deferred tax liability.