

To the Point

FASB – proposed guidance

FASB proposes amending accounting guidance on residential mortgage servicing rights

The proposal
is intended
to improve
consistency and
comparability
across entities
that recognize
residential MSRs.

What you need to know

- ▶ The FASB proposed amendments that would require entities to include the value attributable to recapture when measuring the fair value of residential mortgage servicing rights.
- ▶ The proposal would apply to all entities that recognize residential mortgage servicing rights in accordance with the guidance in ASC 860-50.
- ▶ Entities would apply the amendments using a modified prospective transition approach.
- ▶ Comments are due by 9 November 2026.

Overview

The Financial Accounting Standards Board (FASB or Board) **proposed** amendments to Accounting Standards Codification (ASC) 860-50, *Transfers and Servicing – Servicing Assets and Liabilities*, that would require entities to include the value attributable to recapture when measuring the fair value of a residential mortgage servicing right (MSR).

A residential MSR represents a contractual right to service an underlying residential mortgage loan. Recapture refers to a mortgage servicer's ability to solicit a borrower to refinance an existing mortgage loan and retain the servicing rights on the new loan. This allows the servicer to retain some or all of the economic benefits that otherwise would be lost when the loan is prepaid through refinancing.



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ASC 860-50 requires an entity to initially measure residential MSRs (which may represent servicing assets or servicing liabilities) at fair value. An entity subsequently measures each class of servicing assets and servicing liabilities using either the fair value method or the amortization method. When MSRs are accounted for using the amortization method, entities are required to assess servicing assets for impairment (and servicing liabilities for any increased obligation) based on the fair value of the MSR at each reporting date.

Stakeholders have observed that market participants attribute value to recapture and, as a result, this value is typically reflected in the prices paid for residential MSRs. However, US GAAP does not address whether entities should include the value attributable to recapture when measuring a residential MSR at fair value, resulting in diversity in practice. Some entities include the value attributable to recapture, either explicitly or implicitly, by adjusting other assumptions in the fair value model, while others exclude it.

The proposed guidance, which is based on a recommendation by the Emerging Issues Task Force, is intended to improve consistency and comparability across entities and increase transparency by aligning the fair value measurement of residential MSRs with how they are priced in the marketplace.

Key considerations

The proposal would amend ASC 860-50 to require an entity measuring a servicing asset or servicing liability related to a residential mortgage loan at fair value to include all of the servicer's rights and obligations associated with that contract (including the ability to solicit a borrower of an underlying residential mortgage loan for refinancing), unless those rights and obligations are required to be recognized separately (e.g., as it pertains to interest-only strips).

The proposal does not define recapture or prescribe specific cash flows that need to be included in its measurement. The FASB noted that defining recapture would add unnecessary complexity and be inconsistent with the principles-based framework in ASC 820, *Fair Value Measurement*.

The proposal would not amend the amortization guidance for MSRs. However, it would clarify that the proposed amendments are applicable when measuring the fair value of a servicing asset or a servicing liability related to a residential mortgage loan for purposes of assessing impairment under the amortization method.

The proposed amendments would not result in any new recurring disclosure requirements related to MSRs. The Board noted the current disclosure requirements in ASC 860-50 and ASC 820 provide investors with sufficient information to understand the effects of recapture on an entity's valuation model when those effects are material.

Effective date and transition

The Board will determine the effective date after considering stakeholder feedback. Early adoption would be permitted, including in an interim or annual period for which financial statements have not been issued or made available for issuance.

Entities would apply the proposed guidance to residential MSRs outstanding as of the beginning of adoption period using a modified prospective approach by recording a cumulative-effect adjustment (if applicable) to the opening balance of retained earnings (or another appropriate component of equity or net assets) as of the adoption date.

Existing residential MSRs subsequently accounted for at fair value would be remeasured as of the adoption date using fair value as determined under the proposed amendments. Existing residential MSRs subsequently accounted for under the amortization model would be assessed for impairment as of the adoption date, with fair value determined in accordance with the proposed guidance.

Entities also would be required to disclose the nature of and reason for the change in accounting principle, the method used to apply the change, and the cumulative effect of the change on retained earnings (or other components of equity or net assets in the statement of financial position) as of the beginning of the annual reporting period in which the amendments are adopted. These disclosures would be required in both the interim reporting period (if applicable) and the annual reporting period that include the adoption date.

How we see it

Because many entities currently consider recapture in the fair value measurement of their residential MSRs, either explicitly or implicitly, the proposed guidance may not result in significant changes to the carrying value of existing MSRs.

However, entities that consider the value of recapture implicitly may need to challenge whether other assumptions used in the fair value measurement of their residual MSRs (e.g., prepayment speeds, discount rates) need to be updated to make sure the estimated fair value continues to represent a market exit price.

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