

For years, a significant disconnect has existed between how Mortgage Servicing Rights (MSRs) are traded in the open market and how they are accounted for under Generally Accepted Accounting Principles (GAAP). While some market participants inherently include the value of “recapture” - the ability to retain a borrower through refinancing - in their pricing, GAAP does not provide inherent guidance as to whether this value constitutes part of the MSR.

Following its March 2026 meeting, the Emerging Issues Task Force (EITF) has moved to bridge this gap.

The Core Conflict: Diversity in Practice

Currently, the lack of specific guidance under Accounting Standards Codification (ASC) 860 has led to inconsistent financial reporting. Some entities choose to include recapture value in their MSR fair value measurements, while others exclude it or treat it as a separate borrower-relationship intangible. This diversity has reduced comparability across firms and generated frequent inquiries from investors and stakeholders.

Key EITF Recommendations



SINGLE UNIT OF ACCOUNT

Recapture should be included in the fair value of the MSR. It is not a separate asset but a core economic component of the servicing right.



APPLICATION OF TOPIC 820

Apply ASC 820 principles rather than rigidly defining “recapture,” using market participant assumptions to determine relevant cash flows.



RESIDENTIAL SCOPE

The guidance is specifically targeted at residential MSRs, where recapture activity is most prevalent.



STANDARDIZED REQUIREMENT

If adopted by the FASB, this guidance would be required for all entities, eliminating the current “optionality” found in diverse practices.

WHAT THIS MEANS FOR MSR VALUATIONS

INCREASED ASSET VALUES

Entities that previously excluded recapture will likely see an increase in the reported fair value of their MSR assets.

IMPROVED COMPARABILITY

By requiring a single unit of account, financial statements will more accurately reflect the economic reality of the mortgage servicing market.

REGULATORY CAPITAL IMPACT

Changes in MSR valuations directly affect regulatory capital ratios, requiring firms to re-evaluate their valuation policies, internal controls, and capital planning.

Next Steps

The project is currently in the pre-standard-setting phase. The EITF will share these recommendations with the FASB, which will then deliberate on whether to formally add the project to its technical agenda. The EITF has expressed a preference for a prospective adoption for all entities.

Conclusion

The EITF’s recommendation represents a targeted shift toward market-based valuation. By mandating the inclusion of recapture in MSR fair value, the proposal aims to eliminate diversity in practice and provide investors with a more transparent view of the economic value inherent in servicing portfolios.

Stay ahead of MSR accounting changes.
Partner with PHOENIX to navigate recapture impacts and optimize your valuation strategy.

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