Federal Reserve System

Supervision and Regulation
Task Force on Securitization

Examination Guidelines
for Asset Securitization
EXAMINATION GUIDELINES FOR ASSET SECURITIZATION

Asset securitization involves the issuance of securities (asset-backed securities, or ABS) as claims against a pool of assets held in trust. A banking organization may be involved in originating the assets to be pooled, packaging the assets for securitization, servicing the pooled assets, acting as trustee for the pool, providing credit enhancement, underwriting or placing the asset-backed securities, or investing in the securities.

Mortgages are the most commonly securitized assets, but other types of assets have been securitized, and the volume of non-mortgage securitization has been increasing over time. These examination guidelines address the securitization of non-mortgage assets. Securitization of mortgages is not directly addressed, although many of the same risks and considerations arise with mortgage-backed securities.

Individual securitization arrangements often possess unique features, and the risks addressed in these guidelines do not apply to all securitization arrangements; conversely, arrangements may entail risks not summarized here. Examiners should judge a banking organization’s exposure to securitization with reference to the specific structures in which the organization is involved, and the degree to which the organization has identified exposures and has implemented policies and controls to manage those exposures. Some tailoring of the scope of the examination may be in order if involvement in securitization is immaterial relative to the size and financial strength of an organization.

A banking organization participating in securitization in any capacity should ensure that the activities are clearly and logically integrated into the overall strategic objectives of the organization. The management of the organization should understand the risks, and should not place excessive reliance on outside expertise to make crucial decisions regarding securitization activities.

Securitization exposure faced by an individual banking organization depends on the role of the organization in the securitization process. An organization involved in the issuance of ABS as originator, packager, servicer, credit enhancer, underwriter, or trustee may face combinations and degrees of risk different from those faced by an organization that only invests in ABS. Examiners should assess a banking organization’s level, identification, and
management of risks within the context of the organization's roles.

A banking organization should conduct an independent analysis of its exposures prior to participating in any aspect of securitization, and should continue to monitor its exposures throughout its involvement. The analysis and subsequent monitoring should take into account the entire securitization arrangement, with the emphasis on different risks varying according the role that the organization plays. Excessive reliance on opinions of third parties and reported collateral values should be avoided.

Analysis and monitoring of the underlying securitized assets should be conducted, giving consideration to yield, maturity, credit risk, prepayment risk, and the accessibility of collateral in cases of default. Evaluation of the securitization arrangement, including its structure and the ability of the participants to meet their obligations, should be carried out as well. An organization involved in the issuance of ABS can be expected to scrutinize the underlying assets, as well as the structure of the securitization arrangement. On the other hand, a banking organization holding ABS can be expected to place greater emphasis on the characteristics of the ABS as securities, paying attention primarily to credit risk, prepayment risk, liquidity risk and concentration risk; the underlying assets and structure of the securitization arrangement would be evaluated only within this context.

Appropriate policies, procedures and controls should be established by a banking organization prior to participating in asset securitization. Controls should include well-developed management information systems. In addition, significant policies and procedures should be approved and reviewed periodically by the organization’s Board of Directors.

In addition to evaluating and monitoring exposure to particular securitization deals, a banking organization should manage its overall exposure on a consolidated holding company basis. Management of these exposures should include:

(i) reasonable limits on geographic and industrial concentrations, as well as on exposures to individual institutions;

(ii) internal systems and controls to monitor these exposures and provide periodic and timely reports to
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(ii) internal systems and controls to monitor these exposures and provide periodic and timely reports to
senior management and the Board of Directors on performance and risks; and

(iii) procedures for identifying potential or actual conflicts of interest and policies for resolving those conflicts.

The following general guidelines are intended to assist examiners in assessing the exposures of banks and bank holding companies to asset securitization. Section I addresses the examination of banking organizations involved in the issuance of or management of ABS (originators, packagers, servicers, credit enhancers, underwriters, and trustees). Section II addresses the examination of banking organizations that invest in ABS. Each section is subdivided into risks arising from policies and portfolios, audit practices and management information systems, and legal issues.

The guidelines include provide a brief overview of accounting issues and policies relevant to securitization in Section III. The attributes of entire securitization arrangements must be analyzed to determine the proper accounting treatments, and such analysis is properly the role of the banking organizations themselves.

The focus of these guidelines is on broad principles and general categories of risk in asset securitization. A detailed checklist of exam procedures is not included; such a checklist would rapidly become obsolete, due to the currently evolving nature of asset securitization. Examiners should use the guidelines to direct their attention to potential problem areas.
I. GUIDELINES FOR EXAMINATIONS OF BANKING ORGANIZATIONS INVOLVED IN SECURITIZATION OF ASSETS

A. INTRODUCTION

A banking organization involved in the issuance of asset-backed securities (ABS) as originator, packager, servicer, credit enhancer, underwriter, or trustee should analyze the assets underlying the ABS and the structure of the arrangement, including:

(i) the characteristics and expected performance of the underlying assets;

(ii) the banking organization's ability to meet its obligations under the securitization arrangement; and

(iii) the ability of the other participants in the arrangement to meet their obligations.

Analysis of the underlying assets should be conducted independently by each participant in the process, giving consideration to yield, maturity, credit risk, prepayment risk, and the accessibility of collateral in cases of default. An originator should further consider the impact of securitization on the remaining asset portfolio and on the adequacy of loan loss reserves and overall capital.

Financial position and operational capacity should be adequate to meet obligations to other parties in a securitization arrangement, even under adverse scenarios. Accordingly, a banking organization should ensure that pricing of services is adequate to cover costs over the term of the obligation, as well as to compensate for associated risks. Further, the organization should have contingency plans to transfer responsibilities to another institution in the event that those responsibilities can no longer be fulfilled. Examiners should determine that the banking organization has policies and controls for managing contractual obligations, including management of collateral if applicable. Staffing levels should be adequate to fulfill responsibilities.

If a banking organization's obligations under a securitization agreement are subcontracted to other parties, an assessment of the subcontractor's financial position and operational capacity should be conducted prior to delegating responsibility. Further, the subcontractor's financial position and compliance with contractual obligations should be monitored periodically.
A banking organization involved in issuing ABS should assess the ability of other participants in the securitization arrangement to meet their obligations, with consideration given to obligations that they may have under other securitization arrangements. The rights and obligations of each of the participants under possibly novel legal and institutional arrangements should be clearly documented.

Funding and liquidity management for originators and packagers of securitized assets should avoid excessive reliance on the device of securitization. Originators and packagers should monitor the securitization market closely, develop a broad customer base for their securitization activities, and maintain diversified funding sources.

Banking organizations should not rely excessively on the expertise of a single individual or a small group of individuals, either inside or outside the organization, for the management of participation in securitization activities.

Examiners should ensure that an organization acting as trustee for ABS follows the usual standards for trust services.

B. POLICY AND PORTFOLIO ANALYSIS

Credit Risk

Any banking organization involved in the process of issuing ABS may be exposed to credit risk from the underlying assets. Limits of an institution's credit responsibility may not always be well-defined and distinct, particularly because an institution may come under pressure to repurchase defaulted assets in order to maintain credibility in the marketplace, even where it has no clearly-defined legal liability.

- Examiners should review a banking organization's policies and procedures to ensure that the organization follows prudent standards of credit assessment and approval for all securitization exposure. Procedures should include an initial thorough and independent credit assessment of each loan or pool for which it has assumed credit risk, followed by periodic credit reviews to monitor performance throughout the life of the exposure.

- Examiners should determine that rigorous credit standards are applied regardless of the role an organization plays in the issuance of ABS. The servicer, credit enhancer,
and underwriter must perform assessments and approvals independent of and distinct from reviews provided by the originator or packager.

- Major policies and procedures, including internal credit review and approval procedures and "in-house" exposure limits, should be reviewed periodically and approved by the institution's Board of Directors.

- Failure, fraud, or mismanagement on the part of one participant in an ABS issue could result in loss to any of the other institutions involved in the issue. A banking organization involved in securitization should have adequate procedures for evaluating the internal control procedures and financial strength of other institutions with which it is involved.

- Securitization arrangements may remove a credit enhancer from direct access to the collateral. The remedies available to a banking organization involved in provision of credit enhancement in the event of a default should be clearly documented.

- Examiners should ensure that, regardless of the role an institution plays in securitization, ABS documentation clearly specifies the limitations of the institution's legal responsibility to assume losses.

- Examiners should verify that a banking organization acting as originator, packager or underwriter has written policies addressing the repurchase of assets and other reimbursement to investors in the event that a defaulted package results in losses exceeding any contractual credit enhancement. A banking organization that repurchases defaulted assets or pools in contradiction of the underlying agreement in effect sets a standard by which it could potentially be found legally liable for all "sold" assets. Examiners should therefore review any situations in which the organization has repurchased or otherwise reimbursed investors for poor quality assets.

- A banking organization's records should be reviewed to assure that credit, pricing, and servicing standards for securitized assets are equivalent to standards for assets that remain on the books. The quality of securitized assets should be accurately characterized to investors and other parties to the securitization arrangement in order to avoid unforeseen pressures to repurchase defaulted issues.
Pricing policies and practices should be reviewed to
determine that they incorporate an analysis of the trade-
off between risk and return.

Examiners should consider securitization risks when
analyzing the adequacy of an organization's capital or
reserve levels. Adverse credit risk should be classified
accordingly.

Concentration Risk

A banking organization involved in originating,
packaging, servicing, underwriting or credit enhancing ABS
must take special care to follow "in-house" diversification
requirements regarding aggregate outstandings to a
particular institution, industry, or geographic area.

Securitization exposure should be aggregated with all
loans, extensions of credit, debt and equity securities,
legally binding financial guarantees and commitments, and
any other investments involving the same obligor when
determining compliance with internal credit exposure
limits.

Examiners should review all pools of sold assets for
industrial or geographic concentrations. Excessive
exposures to an industry or region among these assets
should be noted in the review of the banking
organization's loan portfolio.

Inherent in securitization is the risk that if another
party involved in the securitization arrangement becomes
unable to perform according to contract terms, the issue
might default even while the underlying credits are
performing. This credit exposure to the other managing
parties in a securitization transaction should be
included under a banking organization's general line to
those institutions. Examiners should therefore ensure
that, in addition to policies limiting direct credit
exposure, an institution has developed exposure limits
with respect to particular originators, credit enhancers,
and servicers.

Liquidity and Market Risk

The liquidity risk and market risk to which ABS are
subject may be exacerbated by thin secondary markets for
ABS.

Examiners should review the policies of a banking
organization engaged in underwriting with regard to
situations in which it cannot sell underwritten ABS. Credit review, funding capabilities, and approval limits should allow the institution to purchase and hold unsold securities. Absent this analysis, the institution should only handle ABS on a "best efforts" basis. All potential credit exposure should be within legal lending limits.

- Examiners should ensure that a banking organization engaged in underwriting or market-making has implemented adequate hedging or other risk management policies to limit the organization's exposure to adverse price movements.

- Examiners should determine whether an organization targets certain loans at origination to be packaged and securitized. If so, examiners should review the length of time these assets are held while being processed. Examiners should review management information systems reports to age targeted loans and to determine if there is any decline in value while the loans are in the "pipeline". Loans held for resale in this pipeline should be segregated and carried at the lower of cost or market value.

Transfer Risk and Operational Risk

Transfer risk is analogous to liquidity risk. It is the risk that an organization with obligations under securitization arrangements may wish to relinquish those obligations but not be able to do so. Operational risk arises from uncertainty about an organization's ability to meet its obligations under securitization arrangements, and may arise from insufficient computer resources or from a failure of fees to cover associated costs. An organization filling a role that potentially requires long-term resource commitments, such as servicer or credit enhancer, is most susceptible to transfer risk and operational risk.

- Examiners should determine that a banking organization has reviewed the relevant contracts to verify that the contracts are free of any unusual features that increase the potential cost of transfer of obligations.

- Examiners should ascertain that a banking organization has evaluated the fee structure of the securitization to determine that fees are sufficient to cover the costs of associated services. Further, examiners should determine that a banking organization has reviewed the projected cash flow from the underlying assets to ensure that principal and interest payments will be timely, and will
be sufficient to cover costs even under adverse scenarios.

- A servicer or credit enhancer subcontracting or participating responsibilities should initially assess the financial condition and reputation of any organization to which responsibility may be delegated. Subsequent periodic monitoring by the servicer or credit enhancer should assess the financial condition and compliance with contractual obligations of organizations to which responsibility has been delegated. Trustees should likewise monitor the financial condition and compliance of all participants in the securitization arrangement.

Conflicts of Interest

The potential for conflicts of interest exists with respect to the various functions performed by a banking organization when an organization plays multiple roles in securitization. Policies and procedures must address this potential conflict, especially the risk of legal ramifications or negative market perceptions if the organization appears to compromise its fiduciary responsibility to obligors or investors.

- Examiners should review a banking organization's policies regarding disclosure of confidential but pertinent information about the underlying assets and obligors. An organization involved in the origination or processing of a securitization transaction should have written statements from obligors allowing the disclosure of pertinent confidential information to potential investors. In addition, the underwriting bank must follow proper procedures of "due diligence".

- If the securitization business of an originator, underwriter or credit enhancer is volume-driven, legal obligations or prudent banking practices may be breached. Examiners should review credit standards used in analyzing assets earmarked for securitization to determine that sound banking practices are not being compromised in order to increase volume or to realize substantial fees.

- Examiners should determine that the organization's policies addressing activities at various subsidiaries and/or affiliates are managed in a consistent and prudent manner and in compliance with regulatory policies.
C. INTERNAL AUDIT / MANAGEMENT INFORMATION SYSTEMS

Examiners must be aware that a banking organization’s involvement in asset securitization can be very extensive and place significant demands on systems without being evident either as on-balance sheet exposure or as contingent liability. System overload or other technical default in the organization’s systems could render the organization unable to provide proper monitoring or servicing. While the risk is most clearly associated with the servicer (whose responsibility is long-term and requires ongoing resource commitments), systems breakdowns may also have risk implications for the credit enhancer and trustee.

- Examiners should ensure that internal systems and controls adequately track the performance and condition of internal exposures, and should monitor the organization’s compliance with internal procedures and limits. In addition, adequate audit trails and internal audit coverage should be provided.

- Cost accounting systems should be adequate to permit a reliable determination of the profitability and volatility of asset securitization activities.

- Management information systems and reporting procedures should be reviewed to determine that they:

  * Provide a listing of all securitizations for which the banking organization is either originator, servicer, credit enhancer, underwriter, or trustee.

  * Provide concentration listings by industry and geographic area.

  * Generate information on total exposure to specific originators, servicers, credit enhancers, trustees or underwriters.

  * Generate information regarding portfolio aging and performance relative to expectations.

  * Provide periodic and timely information to senior management and directors on the organization’s involvement in, and credit exposure arising from, securitization.

- Examiners should ensure that internal auditors examine all facets of securitization regularly.
D. LEGAL REVIEW AND LIABILITY

The complexity of asset securitization transactions requires a banking organization that participates in any capacity to fully investigate all applicable laws and regulations, to establish policies and procedures to assure legal review of all securitization activities, and to take steps to protect the organization from liability in the case of problems with particular asset-backed issues. Organizations and examiners should be aware of the continual evolution of criteria regarding the types of assets that may be securitized and the types of banking organizations that may engage in the various aspects of securitization.

- Different responsibilities in connection with securitizations may be split between various subsidiaries of an organization. Examiners should therefore review the overall risk exposure to an organization. Specifically, examiners should be alert to situations where the structure of a securitization in effect conceals low quality assets or contingent liabilities from examination scrutiny and possible classification.

- Examiners should review a banking organization's insurance coverage to determine if it is sufficient to cover its fiduciary responsibilities under securitization arrangements. At least one rating agency requests that servicers carry errors and omissions insurance that will cover a minimum of five percent of the outstanding obligation.

- Private placements of ABS are not subject to the same legal disclosure requirements as are public placements. An organization involved in private placements of ABS should therefore exercise special caution with regard to disclosure of the risks and attributes of the securitized assets.
II. GUIDELINES FOR BANKING ORGANIZATIONS INVESTING IN
ASSET-BACKED SECURITIES

A. INTRODUCTION

Asset-backed securities (ABS) are superficially similar to corporate notes, but have many unique characteristics that affect their riskiness as investments. A banking organization should independently analyze all potential risk exposures prior to investing in ABS, and should continue to monitor exposures throughout the life of the ABS. Analyses should focus primarily on characteristics of ABS such as credit risk, concentrations of exposures, interest rate risk, liquidity risk, market risk, and prepayment risk. As an integral part of these analyses, a banking organization investing in ABS should evaluate the underlying assets, the participants in the securitization arrangement, and the structure of the securitization arrangement, although it should not be expected to analyze these factors in the same detail as banking organizations involved in the issuance of ABS.

Any purchase of ABS should be consistent with the overall objectives of the organization. The securities should constitute an integrated component of the investment or hedging plans of the organization, and should not be purchased for speculative purposes. A banking organization should not rely on investment or trading strategies which depend on the existence of liquid secondary ABS markets. The Supervisory Policy Concerning Selection of Securities Dealers and Unsuitable Investment Practices, dated 4/20/89, is applicable to investment in ABS residuals; see especially pages 8 to 10 of the Policy.

B. POLICY AND PORTFOLIO ANALYSIS

Credit Risk

While ABS are often insulated to some extent from the credit risk of the underlying assets, credit risk is still affected by a number of factors in addition to the performance of the underlying asset pool. These include the ability of the parties involved in the securitization arrangement to fulfill their obligations, and the structure of the securitization arrangement itself.

In the event of default by obligors or other failure of the securitization structure, access to collateral may be difficult and recourse to the various providers of credit enhancement may be time-consuming and costly. Some forms of credit enhancement may be revocable. Banking
organizations should not place undue reliance on collateral values and credit enhancement in evaluating ABS.

In many cases, ratings of the creditworthiness of ABS issues are available from external credit agencies. A banking organization may use credit ratings as a source of information, but should not depend solely on external agencies' evaluations of creditworthiness. Unrated ABS should be subject to particular scrutiny.

- Examiners should review a banking organization's policies and procedures to ensure that the organization follows prudent standards of credit assessment, and approval criteria for all ABS exposure. Procedures should include an initial thorough and independent credit assessment of ABS issues for which they have assumed any degree of credit risk, followed by periodic reviews to monitor performance of the ABS throughout the life of the exposure.

- Examiners should determine that a banking organization does not rely solely upon conclusions of external rating services in evaluating ABS.

- Examiners should determine that a banking organization investing in ABS has independently made use of available documents in evaluating the credit risk of ABS. These documents include indentures, trustee reports, rating agency bulletins, and prospectuses.

- Examiners should ensure that a banking organization investing in privately-placed ABS is aware of the differences in disclosure requirements between publicly-placed and privately-placed securities, and has taken extra steps to obtain and analyze information relevant to the evaluation of holdings of any privately-placed ABS.

- Major policies and procedures, including internal credit review and approval procedures and "in-house" exposure limits, should be reviewed periodically and approved by the institution's Board of Directors.

- Failure, fraud or mismanagement on the part of another party could result in loss to investors. A banking organization should have adequate procedures for assessing the financial strength and operational capacity of institutions involved in enhancing the credit quality of, or managing, an ABS issue.

- A banking organization should have procedures for evaluating the structural soundness of securitization
arrangements for ABS in which it invests. The degree of investor control over transfer of servicing rights should be clearly delineated.

- Securitization arrangements may remove the ultimate investor from direct access to the collateral; the remedies available to an investor in the event of default should be clearly documented.

Concentration Risk

Banking organizations may face concentrations of risk within the pool of assets underlying an individual ABS issue, across different ABS issues, or through combinations of ABS and other credit exposures. Banking organizations that invest in ABS must take special care to follow "in-house" diversification requirements regarding aggregate outstandings to a particular institution, industry, or geographic area.

- When determining compliance with internal credit exposure limits, securitization exposure should be aggregated with all loans, extensions of credit, debt and equity securities, legally binding financial guarantees and commitments, and any other investments involving the same obligor.

- Inherent in securitization is the risk that if another party involved in the transaction becomes unable to perform according to contract terms, the issue might default even while the underlying credits are performing. Examiners should therefore ensure that, in addition to policies limiting direct credit exposure, an institution has developed exposure limits with respect to particular credit enhancers, servicers or trustees. Credit exposure to the other managing parties in a securitization should be included under a banking organization's general line to those institutions.

- Examiners should review the ABS portfolio for any industrial or geographic concentrations. Excessive exposures to a particular industry or region within the portfolio should be noted in the examiners' review.

Liquidity Risk and Market Risk

Thin secondary markets may make ABS, especially unrated or innovative ABS, less liquid than many other debt instruments.
- If an investing bank is purchasing securitized assets for trading purposes, the examiner should ensure that the trading assets are carried at market value or at the lower of market or book value, and that market values are determined on a regular basis. The risks involved are similar in character to the risks involved in trading other marketable securities. As with any trading activity, the banking organization must take proper steps to analyze market character and depth.

- A banking organization investing in ABS should not depend on secondary market liquidity for the securities, especially in the case of ABS involving novel structures or innovative types of assets.

- Management information systems should provide management with timely and periodic information on the historical costs, market values, and unrealized gains and losses on ABS held in investment, trading, or resale portfolios.
Prepayment Risk

The prepayment of assets underlying ABS may create prepayment risk for an investor in ABS. Prepayment risk may not be adequately reflected in agency ratings of ABS.

- Examiners should determine that a banking organization investing in ABS has analyzed the prepayment risk of ABS issues in its portfolio. Special care should be taken in the analysis of issues involving multiple tranches.

- Prepayment risk for ABS should be incorporated into an organization’s "net income at risk" model if such a model is used.

C. INTERNAL AUDIT / MANAGEMENT INFORMATION SYSTEMS

A banking organization’s management of securitization risk depends on the provision of timely and accurate information about the organization’s exposure to those responsible for monitoring risks.

- Examiners should ensure that internal systems and controls adequately track the performance and condition of internal exposures, and should monitor the organization’s compliance with internal procedures and limits. In addition, adequate audit trails and internal audit coverage should be provided.

- Management information systems and reporting procedures should be reviewed to determine that they:

  * Provide concentration listings by industry and geographic area.

  * Generate information on total exposure to specific originators, servicers, credit enhancers, trustees, or underwriters.

  * Generate information regarding portfolio aging and performance relative to expectations.

  * Provide periodic and timely information for senior management and directors on the organization’s investment in, and credit exposure arising from, holdings of ABS.

- Examiners should ensure that internal auditors examine all facets of ABS investment and trading regularly.
D. LEGAL REVIEW

Examiners should review policies and procedures for compliance with applicable state lending limits and federal law such as Section 5136 of the Revised Codes. These requirements must be analyzed to determine whether a particular ABS issue is considered a single investment or a loan to each of the creditors underlying the pool. Collateralized mortgage obligations may be exempt from this limitation, if they are issued or guaranteed by an agency or instrumentality of the U.S. government.
III. ACCOUNTING ISSUES AND POLICIES RELEVANT TO ASSET SECURITIZATION

Many accounting issues must be addressed by the management of a banking organization involved in securitization. Management must be aware of all relevant requirements under generally accepted accounting principles (GAAP). These requirements include, but are not limited to, the following:

- Management of the originating bank must determine whether sale or financing treatment for the originator and the issuer is appropriate. In order to make this determination, management should consult
  (a) the Financial Accounting Standards Board's (FASB) Statement No. 77, Reporting by Transferors for Transfers of Receivables with Recourse,
  (b) FASB Technical Bulletin 85-2, Collateralized Mortgage Obligations, and
  (c) the Glossary entries, contained in the Reports of Condition and Income, for "sales of assets" and "participations in pools of residential mortgages."

- Originators must also consider whether they must consolidate a controlled subsidiary that issues asset-backed securities. GAAP requires that all majority-owned subsidiaries be consolidated and, more specifically, FASB Technical Bulletin 85-2 requires the sponsor to consolidate a majority-owned issuer of collateralized mortgage obligations.

- The accounting treatment of fees associated with securitization should be in accordance with
  (a) FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases and
  (b) No. 65, Accounting for Certain Mortgage Banking Enterprises, as amended.

For example, under FASB 91, three types of loan fees are discussed -- origination fees, commitment fees, and syndication fees. Loan origination fees are to be recognized over the life of the loan as an adjustment of yield. Generally, commitment fees must be deferred and recognized as an adjustment of yield over the life of the related loan, or recognized in income upon expiration of the commitment. However, commitment fees that meet certain criteria may be recognized over the commitment period. Syndication fees are usually
recognized in income once the syndication is complete. When pools of loans are sold, the related deferred fees must be recorded in current period income.

- Excess servicing fees can arise in asset securitization transactions involving all types of loans when the seller retains servicing rights related to the underlying pool of assets that have been sold. While FASB pronouncements have generally only addressed the appropriate accounting for excess mortgage servicing, this guidance can usually be applied by analogy to asset securitization involving other loans. GAAP requires that the present value of the future income stream be treated as an immediate gain on the income statement, and that an asset be set up, sometimes termed "excess servicing fees received" or "deferred premium", and amortized over the expected life of the mortgages. However, for Call Report purposes excess servicing may not be reported as a gain but must instead be realized over the life of the servicing contract.

- Banks that have retained the servicing in a securitization transaction should receive "normal" servicing fees. According to FASB Technical Bulletin 87-3, Accounting for Mortgage Servicing Fees and Rights, determinations of normal servicing fees should be based upon established or prevailing rates for comparable servicing obligations. For transactions with federally-sponsored secondary market makers such as GNMA, FNMA or FHLMC, normal servicing fees are defined as the minimum servicing fee rates specified by the agencies. For transactions with private sector investors, TB 87-3 states that the normal servicing fees are those that would apply to comparable transactions with the federally-sponsored agencies. If these agencies do not engage in comparable transactions, then the servicer must determine the predominant servicing rates used by major private sector secondary market makers involved in similar transactions, and consider these to be normal servicing fees.

- Purchased mortgage servicing rights may be recorded at cost as intangible assets when certain criteria are met. These assets must be amortized over the expected period of benefit using an accelerated amortization method. However, servicing rights relating to mortgages originated by the banking organization may not be recorded as assets.