repay its warehouse loans and the mortgage-backed securities are sold pursuant to prior agreements for cash, which is also used to repay warehouse loans. PWF also underwrites and originates multi-family and commercial mortgages for insurance companies and banks.

PWF receives origination fees which are included in mortgage banking fees in the consolidated statements of income. Neither we nor PWF retain any interest in any of the mortgage loans, except for mortgage servicing rights ("MSRs") and certain liabilities under the loss-sharing arrangement with Fannie Mae.

Mortgage Servicing Rights

PWF recognizes as assets the rights to service mortgage loans for others, whether the MSRs are acquired through a separate purchase or through loan origination, by allocating total costs incurred between the loan and the MSRs retained based on their relative fair value. MSRs are being carried at their adjusted cost basis. MSRs are amortized in proportion to, and over the period of, estimated net servicing income.

We have two areas of loss exposure related to its lending activities. First, while a loan is recorded on the balance sheet, there is exposure to potential loss if a loan becomes impaired and defaults. Second, we have exposure to loss due to the retention of a portion of credit risk within PWF's servicing contract under the Fannie Mae DUS program.

For loans on our balance sheet, we identify loans that are impaired and evaluate the allowance for loss on a specific loan basis for losses believed to currently exist.

We account for exposure to loss under our servicing contract with Fannie Mae, as guarantees under FIN 45, by recording an asset equal to our estimate of the portion of the servicing cash flows deemed to represent compensation for our guarantee for loans originated on/or after January 1, 2003. On an ongoing basis, we will account for the asset by offsetting cash received for the guarantee against the asset and crediting interest income for the change in asset due to the passage of time. The portion of the liability representing an accrual for probable losses under SFAS No. 5, "Accounting for Contingencies" ("FAS 5") is adjusted as loss estimates change; the portion representing our willingness to stand by as guarantor will be amortized over the expected life of the guarantee.

The components of the change in MSRs are as follows:

Servicing Assets	*(Dollars in millions)*
Balance at December 31, 2002	$35.6
MSRs capitalized during the year ended December 31, 2003	6.5
Amortization	(6.3)
Increase in reserves	(2.4)
Balance at December 31, 2003	$33.4

Reserve for Loan Loss Reserves of Servicing Assets	
Balance at December 31, 2002	$ 4.3
Additions	2.4
Balance at December 31, 2003	$ 6.7

The estimated fair values of the MSRs were $39.7 million and $36.7 million, at December 31, 2003 and 2002, respectively.