STRENGTHENING FINANCIAL INSTITUTIONS

Call Report References for Loans Sold with Servicing Retained

Released June 2025

Introduction

If loans are sold with servicing retained, the servicing rights and associated balance sheet, income, and expense items must be properly reported on the call report. The most common form of servicing rights is a result of selling mortgage loans on the secondary market. The Federal Home Loan Bank ("FHLB") Mortgage Partnership Finance™ ("MPF") Program offers both credit risk sharing and non-credit risk sharing products. Additional call report disclosures are required for financial institutions that sell loans under credit risk sharing products with limited recourse for the credit enhancement income receivable and obligation liability. Additionally, financial institutions sell whole loans and loan participations, servicing retained, of various other loan types including but not limited to the guaranteed (and less frequently the unguaranteed) portion of SBA 7(a) loans, commercial loans (both real estate and non-real estate), vehicle loans, and agricultural loans.

This guide details the necessary call report references for FFIEC 051, FFIEC 041, and the NCUA 5300 under both the fair value method and the amortization method (also referred to as the Lower of Cost or Market "LOCOM" approach).

KEY TAKEAWAY

This document is a comprehensive guide to the proper call report treatment of servicing rights under both fair value and amortization methods, including reporting requirements for banks and credit unions, credit-enhanced loan sales under the FHLB MPF™ Program, and Basel III impacts.

CLIENT-FOCUSED SOLUTIONS

Since 2003, Wilary Winn has provided independent, objective, fee-based advice to financial institutions and now serves more than 600 clients across the country.

Our main service lines include:

> ASSET LIABILITY MANAGEMENT (ALM)

> CURRENT EXPECTED CREDIT LOSS (CECL)

> MERGERS & ACQUISITIONS (M&A)

> VALUATION OF LOAN SERVICING

> FAIR VALUE DETERMINATIONS

Servicing Rights

The proper accounting and reporting for servicing rights is set forth in FASB ASC 860-50. "Transfers and Servicing - Servicing Assets and Liabilities" (FASB ASC 860-50-25-1) provides that an entity shall recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations. Details related to this, including detail on the initial and ongoing accounting, can be found in our supporting white paper, "Accounting & Regulatory Reporting for Mortgage Servicing Rights."

Servicing assets and servicing liabilities are to be initially reported at fair value. Servicing assets are to be reported separately from servicing liabilities. Furthermore, servicing assets for mortgages are to be reported separately from all other loan types (e.g., vehicle, agricultural, etc.). The servicing is to be subsequently measured using one of the following two methods:

1. Fair value measurement method: Measure the servicing asset and servicing liability at fair value at each reporting date and report changes in fair value of servicing assets and liabilities in earnings in the period in which the changes occur.
2. Amortization method: Amortize the servicing asset in proportion to and over the period of estimated net servicing income (level yield method) and assess servicing assets for impairment based on fair value at each reporting date.

Wilary Winn notes that at the beginning of the Fiscal Year, an entity may elect to subsequently measure a class of servicing assets and servicing liabilities at fair value with the amount of the cumulative-effect adjustment reported to retained earnings, separately. Once an entity elects fair value, the decision is irrevocable, meaning the amortization method cannot be elected in future periods.

Mortgage Servicing Rights

The most common form of servicing rights is a result of selling mortgage loans on the secondary market. Fannie Mae, Freddie Mac, and Ginnie Mae are some of the top purchasers of loans sold servicing retained. For loans sold in years prior to when the asset is initially reported, the entry may require a prior period adjustment to equity whereas the fair value for current year loans would be reported to income.

1. Record the initial capitalization to gain (loss) on sale of loans.
2. As cash is received each month, record the offset to service fee income.
3. If electing the amortization method, record the offsetting amortization expense to service fee income through a separate contra account on the balance sheet that nets against the MSRs intangible asset.
    a. Create another contra account for impairment as needed, often also reflected as an expense to service fee income.
4. If electing the fair value method, write the asset up/down with each reporting period and record the offset against earnings (service fee income).

CALL REPORT REFERENCES

The following references are based on call report instructions and forms as of December 31, 2024, for clients filing under FFIEC 041, FFIEC 051, and NCUA 5300 call reports.

FFIEC 041

Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only

The call report references are as follows:

Item	Location to Report
Net servicing fees	Schedule RI, item 5.f.
Net gains (losses) on sales of loans and leases	Schedule RI, item 5.i.
Prior period adjustment to equity	Schedule RI-A, item 2
Describe prior period adjustment to equity	Schedule RI-E, item 4
Intangible assets – mortgage servicing	Schedule RC-M, Memoranda, item 2.a.
Estimated fair value of mortgage servicing assets	Schedule RC-M, Memoranda, item 2.a. (1)

Banks that have elected to report mortgage servicing assets under the fair value option with changes in fair value recognized in earnings (Schedule RI, item 5.f.) also report on Schedule RC-Q as follows:

1. Item 6, all other assets
    a. Column A, Total Fair Value
    b. Column E, Level 3 Fair Value Measurements
2. Memoranda 1. All other assets (itemize and describe amounts included in item 6, that are greater than $100,000 and exceed 25 percent of item 6)
    a. Mortgage servicing assets, Column A, Total Fair Value
    b. Column E, Level 3 Fair Value Measurements

FFIEC 051

Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $5 Billion

The call report references are as follows:

Item	Location to Report
Net servicing fees	Schedule RI, item 5.f.
Amount of pretax gain / (loss)	Schedule RI, item 5.i.
Prior period adjustment to equity	Schedule RI-A, item 2
Describe prior period adjustment to equity	Schedule RI-E, item 4
Book Value of Retained Servicing	Schedule RC-M, Memoranda, item 2.a.
Estimated Fair Value of Retained Servicing	Schedule RC-M, Memoranda, item 2.a. (1)

Banks that have elected to report mortgage servicing assets under the fair value option with changes in fair value recognized in earnings (Schedule RI, item 5.f.) also report on Schedule SU – Supplemental Information as follows:

Item	Location to Report
Aggregate amount of fair value option assets	Schedule SU, item 3.a.
Year-to-date net gains (losses) recognized in earnings on fair value option assets	Schedule SU, item 3.c.

NCUA 5300

Call report for all federally insured credit unions

The call report references are as follows:

Item	Location to Report	Account
	Statement of Financial Condition	
Mortgage servicing assets	Page 2, 23. Other Assets, item b	779
	Statement of Income and Expense	
Loan servicing fees (year-to-date)	Non-interest income, page 5, item 13	131
Gain (loss) on sales of loans and leases	Non-interest income, page 5, item 19	IS0029
Loan servicing expense	Non-interest expense, page 5, item 29	280
Prior period adjustment to equity	Equity, page 3, undivided earnings, item 9	940
	Schedule A, Section 6 - Loans Sold	
Loans Sold	Item 3, year-to-date (number)	SL0022
	Item 3, year-to-date (amount)	SL0023
First mortgage loans sold on the secondary market	a. Year-to-date (number)	SL0024
	a. Year-to-date (amount)	736
Real estate loans sold with servicing retained	c. Year-to-date (number)	SL0028
	c. Year-to-date (amount)	SL0029
	c. Outstanding (number)	SL0030
	c. Outstanding (amount)	779A

CALL REPORT DISCLOSURES

Financial institutions may also encounter call report disclosures including but not limited to the balance of loans serviced, the range and weighted average discount rate and constant prepayment rate used to determine the fair value of servicing rights, and capitalization, amortization, and change in fair value totals year over year.

Example 1 - Amortization

Loans serviced for other entities are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were approximately $31 million and $34 million at December 31, 2024 and 2023, respectively. The fair value of servicing rights was determined using a discount rate of 10.0% and 9.375% and a weighted-average constant prepayment rate of 6.512% and 6.850% for December 31, 2024 and 2023, respectively.

The following summarizes loan servicing rights capitalized and amortized (in thousands):

	Year Ended	
	December 31, 2024	December 31, 2023
Loan servicing rights capitalized	$1,002	$535
Loan servicing rights amortized	$1,152	$1,110

Example 2 – Fair Value

Fair value at year-end 2024 was determined using a discount rate of 10.000%, prepayment speeds ranging from 4.540% to 18.712%, depending on the stratification of the specific right, and a weighted average default rate of 0.157%. Fair value at year-end 2023 was determined using a discount rate of 9.375%, prepayment speeds ranging from 5.352% to 20.528%, depending on the stratification of the specific right, and a weighted average default rate of 0.136%.

Activity for loan servicing rights and the related valuation allowance follows:

	12/31/2022 12/31/2023	**12/31/2023 12/31/2024**
Beginning Fair Value	356,564	338,745
Additions	3,814	8,492
Disposals	(6,874)	(15,560)
Change in fair value due to changes in assumptions	(14,758)	(27,023)
Ending Fair Value	338,745	304,653

Federal Home Loan Bank Mortgage Partnership Finance™ Program

Financial institutions also sell loans under the Federal Home Loan Banks' ("FHLB") Mortgage Partnership Finance™ ("MPF") program. The FHLBs offer both credit risk sharing and non-credit risk sharing products. Additional call report disclosures are required for financial institutions that sell loans under credit risk sharing products. While banks with under $5 billion in total assets can file an FFIEC 051 call report in certain circumstances, we believe that engaging in sales of credit enhanced loans under certain FHLB MPF programs and the related creation of credit enhancement receivables and liabilities means they must file under FFIEC 041 as such activities would be considered "one or more complex, specialized, or other higher risk activities, such as those for which limited information is reported in the FFIEC 051 as compared to the FFIEC 041 (trading; derivatives; mortgage banking; fair value option usage; servicing, securitization, and asset sales; and variable interest entities)."

CALL REPORT REFERENCES

The following references are based on call report instructions and forms as of December 31, 2024, for clients filing under FFIEC 041, FFIEC 051, and NCUA 5300 call reports.

FFIEC 041

Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only

The call report references are as follows:

Item	Location to Report
CE Income Receivable	Schedule RC-F, item 3
CE Recourse Liability	Schedule RC-G, item 3

Banks that have elected to report financial instruments (assets or liabilities) at fair value under a fair value option with changes in fair value recognized in earnings (Schedule RI, item 5.f.) may also report on Schedule RC-Q as follows:

1. Item 6, all other assets
   Column A, Total Fair Value and Column E, Level 3 Fair Value Measurements
2. Memoranda 1. All other assets (itemize and describe amounts included in item 6, that are greater than $100,000 and exceed 25 percent of item 6)
   c. Mortgage servicing assets, Column A, Total Fair Value and Column E, Level 3 Fair Value Measurements
3. Item 13, all other liabilities
   Column A, Total Fair Value and Column E, Level 3 Fair Value Measurements
4. Memoranda 2. All other liabilities (itemize and describe amounts included in item 13, that are greater than $100,000 and exceed 25 percent of item 13)
   a. Loan commitments (not accounted for as derivatives), Column A, Total Fair Value and Column E, Level 3 Fair Value Measurements

For loans sold under a FHLB MPF program with recourse (not securitized), the reporting for the credit exposure amount is as follows:

Item	Location to Report
Assets sold with recourse or other seller-provided credit enhancements and not securitized	Schedule RC-S, item 11 Column A – 1-4 Family Residential Column G – All Other Loans
Maximum amount of credit exposure arising from recourse or other seller-provided credit enhancements provided to assets reported in item 11	Schedule RC-S, item 12 Column A – 1-4 Family Residential Column G – All Other Loans

Item 11 includes the balance of loans sold under the FHLB Original MPF, MPF 125, and MPF 35 programs both servicing retained and servicing released. Item 12 refers to the credit enhancement obligation maximum amount related to assets reported under item 11.

Item	Location to Report
Outstanding principal balance of assets serviced for others (includes participations serviced for others)	Schedule RC-S, Memoranda, item 2 a. Closed-end 1–4 family residential mortgages serviced with recourse or other servicer-provided credit enhancement b. Closed-end 1–4 family residential mortgages serviced with no recourse or other servicer-provided credit enhancement b. 1–4 family residential mortgages serviced for others that are in process of foreclosure at quarter-end (includes closed-end and open-end loans)

Item 2.a. includes loans sold under the FHLB Original MPF, MPF 125, and MPF 35 programs, servicing retained only. Item 2.b. includes loans sold under the FHLB MPF Xtra and MPF Government programs, servicing retained only. While MPF Direct loans are non-credit enhanced, they are servicing released only and should not be included under Memoranda, item 2. The amounts for selling loan participations are included in memoranda, item 2.

With Basel III reporting rules effective January 1, 2015, the credit enhancement obligation arising from the FHLB's MPF programs is treated as a synthetic securitization and is subject to new risk weighting in one of three ways:

1. Multiply the exposure by 12.5 and include the resulting amount in risk-weighted assets thus reducing capital dollar for dollar.
2. Use the Simplified Supervisory Approach ("SSFA")
3. Use the Gross-Up Method

Wilary Winn's online calculator (MPF SSFA Calculator) helps determine the best method and the proper amount to report. If a bank elects to use the Gross-Up Method or the SSFA it must do so consistently across all of its securitization exposures and the exposure under either approach is subject to a risk-weighting floor of 20%. The following references are for reporting the credit enhancement obligation as an off-balance sheet securitization exposure, Schedule RC-R, Part II, item 10.

Item	Location to Report
Total Recourse Obligation Amount	Column A
Recourse Obligation Amount not using CE * 12.5	Column B
Recourse * 12.5	Column Q
SSFA Approach	Column T
Gross-Up Method Approach	Column U

If a bank uses the 1,250 percent risk weight approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B any difference between the notional amount of the off-balance sheet securitization exposure that is reported in column A and its exposure amount. If the bank uses the SSFA or the Gross-Up Approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B the same amount that it reported in column A. The sum of columns B through Q must equal the amount of the off-balance sheet securitization exposures reported in column A.

FFIEC 051

Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $5 Billion

The call report references are as follows:

Item	Location to Report
CE Income Receivable	Schedule RC-F, item 3
CE Recourse Liability	Schedule RC-G, item 3

Banks that have elected to report financial instruments (assets or liabilities) at fair value under a fair value option with changes in fair value recognized in earnings (Schedule RI, item 5.f.) should also report on Schedule SU – Supplemental Information as follows:

Item	Location to Report
Aggregate amount of fair value option assets	Schedule SU, item 3.a.
Aggregate amount of fair value option liabilities	Schedule SU, item 3.b.
Year-to-date net gains (losses) recognized in earnings on fair value option assets	Schedule SU, item 3.c.
Year-to-date net gains (losses) recognized in earnings on fair value option liabilities	Schedule SU, item 3.d.

For loans sold under the FHLB MPF program, additional reporting is required related to the balances of loans sold with recourse and the credit exposure amount. The total outstanding principal balance of closed-end 1-to-4 family residential mortgage loans are also reported on Schedule SU as follows:

Item	Location to Report
Assets sold with recourse, not securitized	Schedule SU, item 5
Outstanding prin. bal. of sold loans with recourse	Schedule SU, item 5.a.
Service any closed end 1-4 residential mortgage loans for others	Schedule SU, item 6
Outstanding prin. bal. of sold loans serviced for others	Schedule SU, item 6.a.

With Basel III reporting rules effective January 1, 2015, the credit enhancement obligation arising from the FHLB's MPF programs is treated as a synthetic securitization and is subject to new risk weighting in one of three ways:

1. Multiply the exposure by 12.5 and include the resulting amount in risk-weighted assets thus reducing capital dollar for dollar.
2. Use the Simplified Supervisory Approach ("SSFA")
3. Use the Gross-Up Method

Wilary Winn's online calculator (MPF SSFA Calculator) helps determine the best method and the proper amount to report. If a bank elects to use the Gross-Up Method or the SSFA it must do so consistently across all its securitization exposures and the exposure under either approach is subject to a risk-weighting floor of 20%. The following references are for reporting the credit enhancement obligation as an off-balance sheet securitization exposure, Schedule RC-R, Part II, item 10. These items are to be reported semiannually as of the June 30 and December 31 dates. A qualifying bank that decides to opt into the community bank leverage ratio (CBLR) framework (i.e., has a CBLR framework election in effect as of the quarter-end report date, as reported in Schedule RC-R, Part I, item 31.a) should not complete Schedule RC-R, Part II.

Item: Off-balance sheet securitization exposures	Location to Report: RC-R, Part II, Item 10
Total Recourse Obligation Amount	Column A
Recourse Obligation Amount not using CE * 12.5	Column B
Recourse * 12.5	Column Q
SSFA Approach	Column T
Gross-Up Method Approach	Column U

If a bank uses the 1,250 percent risk weight approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B any difference between the notional amount of the off-balance sheet securitization exposure that is reported in column A and its exposure amount. If the bank uses the SSFA or the Gross-Up Approach to risk weight an off-balance sheet securitization exposure, the bank will report in column B the same amount that it reported in column A. The sum of columns B through Q must equal the amount of the off-balance sheet securitization exposures reported in column A.

NCUA 5300

Call report for all federally insured credit unions

The call report references are as follows:

Item	Location to Report	Account
	Statement of Financial Condition	
Credit Enhancement Income Receivable	Page 2, 23. Other Assets, item f	009C
	Schedule A, Section 6 - Loans Sold	
Loans transferred with limited recourse qualifying for sales accounting	b. Year-to-date (number) b. Year-to-date (amount)	SL0026 819

For the standard risk based net worth calculation, the amount reported on Schedule A, section 6 will flow to page 24 item 13.a. and will result in a capital charge of 6 percent. If the actual credit enhancement obligation is less than 6 percent, "complex" credit unions could benefit by calculating the capital charge under section 702.107 - Alternative components for standard calculation. In this way, the capital charge is limited to actual credit enhancement obligation percentage. We note that complex credit unions are defined as those having more than $500 million of total assets and a standard risk based net worth over 6 percent. Wilary Winn further notes that on October 9, 2015, the NCUA issued a new rule for Risk-Based Capital for credit unions with more than $500 million in total assets.

For credit unions with more than $500 million in total assets and have loans sold under the FHLB MPF program, additional reporting is required related to the balances of loans sold with recourse and the credit exposure amount. The total outstanding principal balance of closed-end 1-to-4 family residential mortgage loans are also reported on:

Item	Location to Report	Account
	Schedule C, Section 2 Off-balance sheet exposures	
Loans Transferred under the FHLB MPF program	item 4	LQ0021

Under the new rule, which is effective on January 1, 2022, loans sold to the FHLBanks with limited recourse would be reported in total risk-based assets as follows – the balance of loans sold and outstanding (net of any valuation allowances) would be multiplied by a 20% credit conversion factor and then risk-weighted at 50%. In other words, 10% of the balance of the loans sold and outstanding would be included in total risk-weighted assets.

Other Loan Servicing

Additionally, financial institutions sell whole loans and loan participations, servicing retained, of various other loan types including but not limited to:

- the guaranteed (and less frequently the unguaranteed) portion of SBA 7(a) loans
- commercial loans (both real estate and non-real estate)
- vehicle loans
- and agricultural loans.

With the sale of the loan, a gain (loss) is reported related to the sale as well as the mortgage (or non-mortgage) servicing rights asset and/or liability, servicing fee income, servicing fee expense, credit enhancement income, and credit enhancement obligation liability. Furthermore, adjustments to the servicing rights asset and/or liability are reported on the income statement.

CALL REPORT REFERENCES

The following references are based on call report instructions and forms as of December 31, 2024, for clients filing under FFIEC 041, FFIEC 051, and NCUA 5300 call reports.

FFIEC 041

Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only

The call report references are as follows:

Item	Location to Report
All other liabilities	Schedule RC-G, item 4
All other intangible assets	Schedule RC-M, item 2.c.

Banks that have elected to report servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings (Schedule RI, item 5.f.) may also report on Schedule RC-Q as follows:

1. Item 13, all other liabilities
   Column A, Total Fair Value and Column E, Level 3 Fair Value Measurements
2. Memoranda 2. All other liabilities (itemize and describe amounts included in item 13, that are greater than $100,000 and exceed 25 percent of item 13)
   a. Loan commitments (not accounted for as derivatives), Column A, Total Fair Value and Column E, Level 3 Fair Value Measurements

The amounts for selling loan participations are included in memoranda, item 2 as follows:

Item	Location to Report
Outstanding principal balance of assets serviced for others (includes participations serviced for others)	Schedule RC-S, Memoranda, item 2 a. Other financial assets (includes home equity lines), if the principal balance of other financial assets serviced for others is more than $10 million

FFIEC 051

Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $5 Billion

The call report references are as follows:

Item	Location to Report
All other liabilities	Schedule RC-G, item 4
Year-to-date net gains (losses) recognized in earnings on fair value option liabilities	Schedule SU, item 3.d.
Aggregate amount of fair value option liabilities	Schedule SU, item 3.b.

NCUA 5300

Call report for all federally insured credit unions

The call report references are as follows:

Item	Location to Report	Account
	Statement of Financial Condition	
Other intangible assets	Page 2, 23. Other Assets, item c	AS0032
Other liabilities	*Page 3, Liabilities, item 1*	825
All other loans sold with servicing retained	*d. Year-to-date (number)*	SL0032
	d. Year-to-date (amount)	SL0033
	d. Outstanding (number)	SL0034
	d. Outstanding (amount)	SL0035

Selling loan participations of other loan types and retaining the servicing rights is less common but a growing trend among financial institutions. The amounts for selling loan participations are reported as follows:

Item	Location to Report	Account
	Schedule A, Section 6 - Loans Participations	
Vehicle - Non-commercial	Item 4, retained balance outstanding	SL0037
	Item 4, amount sold year-to-date	SL0043
Commercial Loans excluding Construction & Development	Item 4, retained balance outstanding	691N8
	Item 4, amount sold year-to-date	SL0051
Commercial Construction & Development	Item 4, retained balance outstanding	691N9
	Item 4, amount sold year-to-date	SL0055
All Other	Item 4, retained balance outstanding	SL0058
	Item 4, amount sold year-to-date	SL0059

Conclusion

This document provides a detailed guide on the proper reporting for servicing rights and associated balance sheet, income, and expense items on call reports. It covers both the fair value method and the amortization method, offering specific call report references for various items related to MSR. The document also addresses the reporting requirements for banks and credit unions, including those engaging in sales of credit-enhanced loans under the FHLB MPF™ Program. Additionally, it provides example reporting scenarios and explains the impact of Basel III reporting rules on credit enhancement obligations. Overall, this comprehensive guide ensures accurate and detailed reporting to comply with regulatory requirements.