



STRENGTHENING FINANCIAL INSTITUTIONS

FFIEC 051 Call Report References for Loans Sold with Servicing Retained

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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. Servicing rights most commonly arise from secondary market mortgage loan sales. The Federal Home Loan Bank (“FHLB”) Mortgage Partnership Finance™ (“MPF”) Program offers both credit risk sharing and non-credit risk sharing products; credit risk sharing products require additional call report disclosures for the credit enhancement income receivable and obligation liability.

Financial institutions also sell whole loans and participations, servicing retained, across other loan types — including but not limited to the guaranteed (and less frequently the unguaranteed) portion of SBA 7(a) loans, commercial real estate and non-real estate loans, vehicle loans, and agricultural loans.

This guide details the necessary call report references for the FFIEC 051, which applies to eligible small banks with less than \$5 billion in total assets and no foreign offices. Wilary Winn believes mortgage banking activities under the MPF program for credit-enhanced products constitute complex or specialized activities best reported under the FFIEC 041.

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 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 MSR's 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 March 2026.

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:

<u>Item</u>	<u>Location to Report</u>
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:

<u>Item</u>	<u>Location to Report</u>
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.

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, 2025, and 2024, respectively. The fair value of servicing rights was determined using a discount rate of 10.000% and 9.375% and a weighted-average constant prepayment rate of 6.512% and 6.850% for December 31, 2025, and 2024, respectively.

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

	Year Ended	
	December 31, 2025	December 31, 2024
Loan servicing rights capitalized	\$1,002	\$535
Loan servicing rights amortized	\$1,152	\$1,110

Example 2 – Fair Value

Fair value at year-end 2025 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 2024 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:

	12/31/2023	12/31/2024
	12/31/2024	12/31/2025
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).”

COMMUNITY BANK LEVERAGE RATIO

Under BASEL III, the CE Obligation amount is treated as a securitization. The Banking Agencies believe that exposures that tranche credit risk meet the definition of a synthetic securitization and that the risk of such exposures would be appropriately captured under the securitization framework. Although Basel III establishes detailed risk-based capital and securitization standards, the Community Bank Leverage Ratio (“CBLR”) framework offers a streamlined approach, provided that securitization activities and retained exposures remain within regulatory thresholds.

The CBLR final rule was adopted by the federal banking agencies and became effective on January 1, 2020. The rule is optional and designed to simplify the calculation of regulatory capital. It allows community banks to calculate a leverage ratio based on total assets. Qualifying banks would thus no longer have to calculate risk-weighted assets. The CBLR is calculated as the ratio of Tier 1 Equity to average total consolidated assets.

We note that the final rule was modified April 6, 2020, by two interim final rules under Section 4012 of the Coronavirus Aid, Relief and Economic Security Act. Furthermore, beginning July 1, 2026, revised rule changes to the CBLR framework take effect. The modifications are included below.

Qualifying Community Banking Organization

Beginning July 1, 2026, a qualifying community banking organization is defined as a depository institution or depository institution holding company that is not an advanced approaches banking organization and that meets the following criteria:

- CBLR greater than 8 percent;
- Total consolidated assets of less than \$10 billion;
- Total off-balance sheet exposures (excluding derivatives other than credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets;
- Total trading assets and trading liabilities of 5 percent or less of total consolidated assets.

If a community bank falls below the required minimum CBLR threshold because of growth in total assets and/or declines in Tier One equity, it could revert to use of the existing rules. If a community bank elects to remain in the CBLR framework, the rule provides a four-quarter grace period to restore the ratio, subject to a maximum of eight out of the prior twenty quarters. During the grace period, the bank’s capital ratio must not fall below 8 percent.

When the FDIC originally released the CBLR framework in 2020:

- The CBLR requirement was 9 percent, not 8 percent.
- The grace period was two quarters, not four quarters.

Off-Balance Sheet Exposures

While most of the qualifying criteria are relatively straightforward, off-balance sheet exposures require further explanation. Under the proposal, total off-balance sheet exposures would be calculated as the sum of the notional amounts of certain off-balance sheet items as of the end of the most recent calendar quarter. Total off-balance sheet exposures would include:

- The unused portions of commitments (except for unconditionally cancellable commitments);
- Self-liquidating, trade-related contingent items that arise from the movement of goods;
- Transaction-related contingent items including performance bonds, bid bonds, warranties and performance standby letters of credit;
- Sold credit protection through:
 - Guaranties
 - Credit derivatives
 - Credit enhancing representations and warranties
- Securities lent and borrowed, calculated in accordance with reporting instructions to the Call Report;
- Financial Standby Letters of credit;
- Forward agreements that are not derivative contracts; and
- Off-balance sheet securitization exposures.

Total off-balance sheet exposures would not include derivatives (such as foreign exchange swaps and interest rate swaps) but would include credit derivatives.

The off-balance sheet exposure limitation has a direct effect on the FHLBank MPF participating financial institutions. PFIs opting into the CBLR would no longer have to calculate the risk-weighted assets arising from the CE Obligation amount in accordance with BASEL III. It simply reports the total net CE Obligation amount under Tier I leverage ratio calculation as an off-balance sheet securitization exposure. The total net CE Obligation amount, combined with other off-balance sheet exposures, cannot exceed 25 percent of total assets.

The table below shows a simplified example assuming the PFI has \$7,000 of net CE Obligations and no other off-balance sheet exposures.

Current Tier 1 Leverage Ratio		9.38%
Qualifying Criteria for Using the CBLR Framework:		
Total Consolidated Assets < \$10 billion		\$ 450,000
Trading Assets and Trading Liabilities as a % of Total Consolidated Assets (5% limit)	0.00%	\$ -
Off-Balance Sheet Exposures:		
Unused Portion of Conditionally Cancellable Commitments	\$ -	
Securities Lent or Borrowed	\$ -	
Other Off-Balance Sheet Exposures	\$ 7,000	
Total Off-Balance Sheet Exposures as a % of Total Consolidated Assets (25% limit)	1.56%	\$ 7,000

CALL REPORT REFERENCES

The following references are based on call report instructions and forms as of March 2026.

The call report references are as follows:

<u>Item</u>	<u>Location to Report</u>
CE Income Receivable	Schedule RC-F, item 3
CE Obligation 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:

<u>Item</u>	<u>Location to Report</u>
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:

<u>Item</u>	<u>Location to Report</u>
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.

<u>Item: Off-balance sheet securitization exposures</u>	<u>Location to Report: RC-R, Part II, Item 10</u>
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.

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 March 2026.

The call report references are as follows:

<u>Item</u>	<u>Location to Report</u>
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.

Conclusion

This document provides a detailed guide on the proper reporting for servicing rights and associated balance sheet, income, and expense items on the FFIEC 051 call report. 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, 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.