



STRENGTHENING FINANCIAL INSTITUTIONS

NCUA 5300 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. 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 credit unions that sell loans under credit risk sharing products with limited recourse for the credit enhancement income receivable and obligation liability. Furthermore, credit unions 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 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 for credit unions on the proper call report treatment of servicing rights under the fair value or amortization method, as well as reporting requirements for the credit-enhanced loan sales under the FHLB MPF™ Program.

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 asset (and/or liability) 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 the most recent call report instructions and forms available. As of June 2026, the most recent call report instructions were released September 2025, and the most recent call report forms are as of March 2025.

<u>Item</u>	<u>Location to Report</u>	<u>Account</u>
	<i>Statement of Financial Condition</i>	
Mortgage servicing assets	Other Assets, page 2, item 23 b.	779
	<i>Statement of Income and Expense</i>	
Servicing fee income ¹	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 ²	Equity, page 3, item 9	940
	<i>Schedule A, Section 6 – Loans Sold</i>	
Loans Sold ³	Page 10, item 3, Year-to-date (number)	SL0022
	Year-to-date (amount)	SL0023
First mortgage loans sold on the secondary market	Page 10, item 3 a., Year-to-date (number)	SL0024
	Year-to-date (amount)	736
Real estate loans sold with servicing retained	Page 10, item 3 c., Year-to-date (number)	SL0028
	Year-to-date (amount)	SL0029
	Page 10, item 3 c., Outstanding (number)	SL0030
	Outstanding (amount)	779A

CALL REPORT DISCLOSURES

Credit unions 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

¹ Reported through Fee Income.

² Reported through Undivided Earnings.

³ Report any loan sold in whole or in part where the credit union has no continuing contraction obligation other than servicing the loan. Participation loans should not be reported in these accounts.

December 31, 2025, and 2024, 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, 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

Credit unions sell loans under the FHLBs MPF program, which offers both credit risk sharing and non-credit risk sharing products. Credit unions that sell loans under credit risk sharing products are required to provide additional call report disclosures. Credit unions classified as complex—those with more than \$500 million in total assets—must comply with the NCUA risk-based capital rule unless they qualify for and elect the Complex Credit Union Leverage Ratio (“CCULR”) framework.

CALL REPORT REFERENCES

The following references are based on the most recent call report instructions and forms available. As of June 2026, the most recent call report instructions were released September 2025, and the most recent call report forms are as of March 2025.

<u>Item</u>	<u>Location to Report</u>	<u>Account</u>
	<i>Statement of Financial Condition</i>	
Credit Enhancement Income Receivable ⁴	Other Assets, Page 2, item 23 f.	009C
	<i>Schedule A, Section 6 – Loans Sold</i>	
Loans transferred with limited recourse qualifying for sales accounting	Page 10, item 3b., Year-to-date (number) 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 recourse obligation is less than 6 percent, complex credit unions could benefit by calculating the capital charge under CCULR, discussed in greater detail below.

For credit unions with more than \$500 million in total assets and that have loans sold under the FHLB MPF program with limited recourse, 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:

<u>Item</u>	<u>Location to Report</u>	<u>Account</u>
	<i>Schedule C, Section 2 Off-balance sheet exposures</i>	
Loans Transferred under the FHLB MPF program	Page 17, item 4	LQ0021

Under the new rule, effective 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.

⁴ Reported through All Other Assets.

Complex Credit Union Leverage Ratio and the MPF® Program

ELIGIBILITY

A credit union is “complex” if its quarter-end total assets exceed \$500 million, based on its most recent call report. If it meets the qualifying criteria, it may opt into the CCULR framework. Those that do not opt in or qualify must complete Schedule I for the RBC calculation. Credit unions with \$500 million or less in total assets are not required to calculate RBC or CCULR and instead use the standard net worth ratio.

Qualifying Criteria:

- CCULR of 9% or greater;
 - If a credit union’s CCULR is less than 9% for the current reporting period after initially opting into the CCULR framework and meeting all the qualifications previously, the credit union is then subject to the provisions of the grace period (as described below).
 - If a credit union’s CCULR is less than 7%, it is not considered to have met the capital ratio requirements to be considered “Well Capitalized” and its capital classification is determined by its net worth ratio. The credit union is also subject to any applicable prompt corrective action requirements for its capital category.
- Off-balance sheet exposures of 25% or less of total assets;
- Trading assets and trading liabilities of 5% or less of total assets; and
- Goodwill and other intangible assets (less the outstanding balance of any goodwill originating from a supervisory merger or combination completed on or before December 28, 2015) of 2% or less of total assets.

If a credit union opted into the CCULR framework in the previous quarter and continues to be eligible with assets greater than \$500 million but fails to meet any of the qualifying criteria above, the credit union may opt into the CCULR framework under the grace period provision for up to two consecutive quarters. Subsequently, if the credit union continues to fail to meet one of the qualifying criteria, the credit union may not continue to opt into the CCULR framework, as the grace period provision has expired. The credit union must complete the RBC schedule.

CALCULATION OF THE CCULR

The CCULR is calculated as the total net worth (sum of undivided earnings, appropriations for non-conforming investments, other reserves, subordinated debt included in net worth, net income, and total adjusted retained earnings acquired through business combinations) divided by the sum of total assets (excluding SBA PPP loans pledged as collateral to the Federal Reserve Board’s PPP lending facility). At its discretion, a credit union may elect a different measure of total assets for its net worth ratio, as appropriate, including the average of daily assets over the calendar quarter, the average of the three month-end balances of the calendar quarter, or the average of the current and three preceding calendar quarter-end balances.

OFF-BALANCE SHEET EXPOSURES

While most of the qualifying criteria are relatively straightforward, off-balance sheet exposures require further explanation. Under the framework, 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);
- For loans transferred with limited recourse, or other seller-provided credit enhancements, and that qualify for true sale accounting, the maximum contractual amount the credit union is exposed to according to the agreement, net of any related valuation allowance;
- For loans transferred under the Federal Home Loan Bank (FHLB) mortgage partnership finance (MPF) program, the outstanding loan balance as of the reporting date, net of any related valuation allowance;
- Financial Standby Letters of credit;
- Forward agreements that are not derivative contracts;
- Sold credit protection through Guaranties and Credit Derivatives
- Off-balance sheet securitization exposures; and
- Securities lent and borrowed, calculated in accordance with reporting instructions to the Call Report.

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

For credit union's looking to adopt the CCULR, it must report the outstanding loan balance amount as an off-balance sheet securitization. Total combined off-balance sheet exposures cannot exceed 25 percent of total assets.

The following table shows a call report example assuming the credit union has \$340 million of off-balance sheet exposures totaling 9.42% of total assets.

Complex Credit Union Leverage Ratio (CCULR)					
ELECTION			Election	Account	
1. Does your credit union have a CCULR framework election in effect as of the quarter-end report date?			Yes	LR0001	
2. If 'Yes' to question 1, is your credit union continuing to elect the CCULR framework under the grace period?			No	LR0008	
ELIGIBILITY			Eligibility	Account	
3. Total Assets (Credit unions with total assets greater than \$500,000,000)			3,610,066,339	010	
QUALIFYING CRITERIA		Input	Account	Ratio	Account
4. CCULR (net worth ratio) of 9% or greater				10.34%	998
5. Total Off-Balance sheet exposures of 25 percent or less of Total Assets		340,041,957	LR0002	9.42%	LR0003
6. Sum of Trading Assets and Trading Liabilities of 5 percent or less of Total Assets		-	LR0004	0.00%	LR0005
7. Sum of Goodwill and Other Intangible Assets of 2 percent or less of Total Assets		1,904,313	LR0006	0.05%	LR0007

CCULR LESS THAN 9%

If a credit union elects the CCULR and then falls below the 9% threshold, because of growth in total assets and/or declines in total net worth, it could revert to use of the existing risk-based capital rules. If a credit union elects to remain in the CCULR framework during the grace period, the credit union continues to be treated as a qualifying complex credit union for the purpose of this part and must continue calculating and reporting its CCULR. If the CCULR falls below 7%, the credit union may continue to opt into the CCULR framework within the grace period, but it is not considered to have met the capital ratio requirements to be classified “Well Capitalized” and its capital classification is determined by its net worth ratio. The credit union is also subject to any applicable prompt corrective action requirements for its capital category. A qualifying complex credit union that ceases to meet the qualifying criteria as a result of a merger or acquisition that is not a supervisory merger or combination has no grace period and must comply with the risk-based capital ratio in the quarter it ceases to be a qualifying complex credit union.

BEFORE ADOPTING THE RULE

At 9 percent, the CCULR capital threshold is below the 10 percent considered to be well-capitalized under the risk-based capital rules. Wilary Winn therefore strongly encourages PFIs to evaluate how adopting the CCULR framework would affect the amount of capital required to be held. If the amount of capital restricted under the CCULR is substantially greater than the amount required under the existing rules, and the PFI has plans or needs to deploy it, we recommend the PFI consider reporting under the existing regulations.

Other Loan Servicing

Additionally, credit unions 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 the most recent call report instructions and forms available. As of June 2026, the most recent call report instructions were released September 2025, and the most recent call report forms are as of March 2025.

<u>Item</u>	<u>Location to Report</u>	<u>Account</u>
	<i>Statement of Financial Condition</i>	
Other intangible assets	Other Assets, Page 2, item 23 c.	AS0032
Other liabilities ⁵	Liabilities, Page 3, item 1	825
All other loans sold with servicing retained	Page 10, item 3 b., Year-to-date (number)	SL0032
	Year-to-date (amount)	SL0033
	Outstanding (number)	SL0034
	Outstanding (amount)	SL0035

Selling loan participations of other loan types and retaining the servicing rights is a growing trend among credit unions. The amounts for selling loan participations are reported as follows:

<u>Item</u>	<u>Location to Report</u>	<u>Account</u>
	<i>Schedule A, Section 6 - Loans Participations</i>	
Vehicle - Non-commercial	Page 10, Item 4, Retained Balance Outstanding	SL0038
	Amount sold Year-To-Date	SL0039
Non-Federally Guaranteed Student Loans	Page 10, Item 4, Retained Balance Outstanding	691N7
	Amount sold Year-To-Date	SL0043
1- to 4-Family Residential Property	Page 10, Item 4, Retained Balance Outstanding	691N2
	Amount sold Year-To-Date	SL0047
Commercial Loans excluding Construction & Development	Page 10, Item 4, retained balance outstanding	691N8
	amount sold year-to-date	SL0051
Commercial Construction & Development	Page 10, Item 4, retained balance outstanding	691N9
	amount sold year-to-date	SL0055
All Other	Page 10, Item 4, retained balance outstanding	SL0058
	amount sold year-to-date	SL0059

⁵ Reported through Accounts Payable, Accrued Interest on Borrowings, and Other Liabilities

Conclusion

This document provides a detailed guide on the proper reporting for servicing rights and associated balance sheet, income, and expense items on 5300 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 credit unions, including those engaging in sales of credit-enhanced loans under the FHLB MPF™ Program. Overall, this comprehensive guide ensures accurate and detailed reporting to comply with regulatory requirements.