Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-111-2008
October 24, 2008

DEPOSIT INSURANCE COVERAGE

Mortgage Servicing Accounts

Summary: The FDIC Board of Directors has adopted the attached interim rule to simplify the deposit insurance rules for accounts held at FDIC-insured institutions by mortgage servicers. Under the interim rule, the FDIC will be able to make deposit insurance determinations on mortgage servicing accounts – as well as pay deposit insurance – more quickly. Comments on the interim rule, which took effect on October 10, 2008, are due by December 16, 2008.

Distribution:
All FDIC-insured Institutions

Suggested Routing:
Chief Executive Officer
Head of Deposit & branch Operations
Compliance Officer
Training Officer

Attachment:
Interim rule

Contact:
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Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2008/index.html.

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Highlights:

- Under the interim rule, the insurance coverage provided in connection with a mortgage servicing account is based on the borrowers' payments of *principal and interest* into the mortgage servicing account, up to the standard deposit insurance amount (currently $250,000) per borrower. In effect, coverage is provided to the lenders/investors, as a collective group, based on the cumulative amount of the borrowers' payments of principal and interest into the account.

- Because servicers are able to identify *borrowers* more quickly than *investors*, the per-borrower calculation of coverage under the interim rule would enable the FDIC to make deposit insurance determinations on mortgage servicing accounts more quickly and to pay deposit insurance more quickly.

- The coverage provided in connection with *principal and interest* in mortgage servicing accounts will not be aggregated with or otherwise affect the coverage provided to borrowers for other deposit accounts that the borrowers may maintain at the same insured depository institution.

- As under the former rules, under the interim rule amounts in a mortgage servicing account constituting payments of *taxes and insurance* premiums are insured on a pass-through basis as the funds of each respective borrower. These funds are added to other individually owned funds held by each borrower at the same institution and insured to the applicable limit.

DEPOSIT INSURANCE
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Under the FDIC's former deposit insurance rules, accounts maintained by a mortgage servicer comprised of principal and interest payments made by borrowers were insured based on the ownership interest of each lender/investor in those accounts. Over the past several years, securitization methods and vehicles for mortgages have become more layered and complex. Thus, it has become much more difficult and time-consuming for a servicer to identify and determine the share of any investor in a securitization and in the principal and interest funds on deposit at an insured depository institution.

In the event of the failure of an FDIC-insured depository institution, the FDIC is concerned that there could be unexpected loss to securitization investors of principal and interest payments deposited at the institution by a securitization servicer. These accounts may involve multi-layered securitization structures, and it may prove difficult for the servicer holding a deposit account in the institution to identify every security holder in the securitization and determine his or her share. In addition, some investor holdings may far exceed the current $250,000 per-depositor/investor insurance limit. Application of the former insurance rules under these circumstances could result in delays in the servicer receiving the insured amounts and in losses for amounts that, because of the complexity of the securitization agreements, cannot be attributed to the particular investors to whom the funds belong. This outcome could increase losses to otherwise insured depositors, lead to withdrawal of deposits for principal and interest payments from depository institutions, and unnecessarily reduce liquidity for such institutions.

Under the interim rule, the coverage afforded in connection with a mortgage servicing account is based on the borrowers' payments of principal and interest into the mortgage servicing account, up to the standard deposit insurance amount (currently $250,000) per borrower. In effect, coverage will be provided to the lenders/investors, as a collective group, based on the cumulative amount of the borrowers' payments of principal and interest into the account. This insurance coverage afforded for principal and interest payments in mortgage servicing accounts will not be aggregated with or otherwise affect the coverage provided to borrowers for other accounts that the borrowers may maintain at the same insured depository institution. As under the former insurance rules, under the interim rule amounts in a mortgage servicing account constituting payments of taxes and insurance premiums will be insured on a *pass-through* basis as the funds of each respective borrower. Such funds will be added to other individually owned funds held by each borrower at the same institution and insured to the applicable limit.

The FDIC welcomes comments on the interim rule until December 16, 2008.

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