



NEWS RELEASE

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FDIC ISSUES FINAL RULE ON MORTGAGE SERVICING RIGHTS

The FDIC Board of Directors today adopted a final rule restricting the amount of "purchased mortgage servicing rights" that the nation's approximately 7,400 FDIC-supervised banks and 2,500 savings associations can use to meet capital requirements.

Purchased mortgage servicing rights are intangible assets that represent the right to service mortgage loans owned by others and to receive service fee income. The final rule was adopted in order to implement certain provisions of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and to restrict concentrations in these intangible assets.

FDIC Chairman L. William Seidman said: "In view of the risks of excessive concentration of purchased mortgage servicing rights, we believe that prudent limits are required. This is in keeping with the FDIC's ongoing efforts to ensure safe and sound operating policies at banks and thrifts."

The agency's previous capital standards did not specifically indicate what percentage of capital would be viewed as excessive because FDIC-supervised banks historically did not have significant concentrations in the mortgage servicing business. Although thrifts have been active in mortgage servicing for years, the Office of Thrift Supervision (OTS) last year first imposed specific limits on purchased mortgage servicing rights in connection with the capital standards prescribed by FIRREA. The FDIC rule adopted today will strengthen the existing limits on savings associations and bring FDIC-supervised banks under explicit restrictions for the first time.

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The new rule will become effective 30 days after it is published in the Federal Register. It states that purchased mortgage servicing rights in excess of 50 percent of "core capital" will be deducted from assets and capital when calculating the bank's regulatory capital. Core capital is comprised primarily of common equity capital.

The 50 percent limit applies directly to FDIC-supervised banks and indirectly to thrifts supervised by the OTS since FIRREA requires that agency to prescribe limits on purchased mortgage servicing rights that are at least as stringent as those applied to FDIC-supervised banks. In addition, the FDIC rule directly limits purchased mortgage servicing rights for savings associations to no more than 100 percent of the thrift's "tangible capital," which typically is comprised of core capital minus qualifying supervisory goodwill.

The final rule contains a grandfather provision that permits mortgage servicing rights in excess of the capital limitations if those servicing rights were purchased on or before February 9, 1990. Also, purchased mortgage servicing rights held by a separately capitalized mortgage banking subsidiary are exempt from the limitations under certain conditions. In addition, a savings association that is in the process of establishing a separately capitalized mortgage banking subsidiary and that the OTS deems to be in sound condition and well-run may be given up to one year to establish the subsidiary, provided the FDIC concurs with this case-by-case exemption.

The limitations in the final rule are less restrictive than a January proposal that, for example, would have limited purchased mortgage servicing rights to a maximum of 25 percent of core capital instead of the 50 percent in the final rule. The FDIC modified the final rule partly to give additional flexibility to well-run institutions taking steps to control risks.