

Notice of Proposed Rulemaking for Deposit Insurance Simplification

Last Updated: July 20, 2021

In 2008, IndyMac Federal Bank failed with 34,206 trust accounts, affecting \$2.6 billion in deposits. Following the bank's failure, FDIC claims personnel contacted more than 10,500 IndyMac depositors to obtain the trust documentation necessary to complete deposit insurance determinations. This process took several months to complete, during which time a large number of insured depositors could not access insured funds.

The last time the FDIC simplified its deposit insurance rules was in 2008. Since then, more than **half** of the approximately 20,000 insurance inquiries the FDIC receives per year are related to trust accounts. Stated differently, the FDIC receives more than **10,000** questions per year from people trying to understand the deposit insurance rules for trust accounts, exceeding the number of inquiries on all other topics combined.

The proposed rule before us today seeks to address both of these issues. The proposal would simplify and rationalize the deposit insurance rules for trust accounts. The proposal's intent is (1) to facilitate a quicker and less burdensome resolution in the event a bank with a large number of trust accounts fails, so that depositors can have access to their insured deposits, and (2) to make the deposit insurance rules for trust accounts more straightforward and easier to understand for depositors, bankers, and others interested in our trust rules.

Specifically, the proposal would merge the revocable and irrevocable trust categories into one uniform trust accounts category with one set of rules; establish a simple formula for calculating deposit insurance based on the number of beneficiaries; and eliminate the ability for a trust account to be structured to obtain unlimited deposit insurance at a bank, which is the case today, and certainly contrary to the spirit of the Federal Deposit Insurance Act.

The proposed rule would also amend the deposit insurance coverage for mortgage servicing accounts. The proposal would provide the same treatment for principal and interest payments made on behalf of a borrower by a third party such as a mortgage servicer as is currently provided for payments made by the borrower. When the current rules for mortgage principal and interest were implemented in 2008, the rules did not take into account the possibility that such funds might be paid by someone other than the borrower. The proposal today would provide consistent treatment regardless of the source of funds.

When I became Chairman three years ago, I asked staff to explore ways to simplify the deposit insurance rules so that bankers and depositors could better understand them and to allow the FDIC to more quickly complete insurance determinations in the event of a complex resolution. Today's proposal is a key part of this endeavor.

One related area that is not part of this rulemaking but that we have spent a significant amount of time working on is prepaid card accounts. Currently, if a bank where a prepaid card program maintains a deposit account fails, conducting an insurance determination could be challenging. Given the increasing popularity of prepaid card products, particularly among lower-income households, the FDIC has been actively exploring policy options to mitigate this potential issue.

I want to thank the staff for all their hard work on the proposal before us today and on the broader deposit insurance simplification effort.