PRESS RELEASE
Federal Deposit Insurance Corporation

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FDIC ADOPTS INTERIM CAPITAL RULE FOR ORIGINATED MORTGAGE SERVICING RIGHTS

FOR IMMEDIATE RELEASE

The FDIC Board of Directors has announced the adoption of an interim rule placing regulatory capital limits on "originated mortgage servicing rights" (OMSRs) at FDIC-supervised banks.

In general, mortgage servicing rights are the contractual obligations undertaken by an institution to provide servicing for mortgage loans owned by others, typically for a fee. OMSRs generally represent the servicing rights acquired when an institution originates mortgage loans and subsequently sells the loans but retains the servicing rights. This differs from "purchased mortgage servicing rights" (PMSRs), which are mortgage servicing rights that have been purchased from other parties.

Under the interim rule, which also is being adopted by the three other federal regulators of banks and thrifts, the capital adequacy standards the FDIC applies to OMSRs would be the same as those for PMSRs. This means that some institutions that are actively involved in mortgage servicing may need to increase their capital in the future.

Specifically, when determining an institution's risk-based and leverage capital ratios, the total amount of its mortgage servicing rights (including PMSRs and OMSRs) and "purchased credit card relationships" that may be included in regulatory capital is limited to 50 percent of Tier 1 capital. In addition, when calculating Tier 1 capital, all mortgage servicing rights are valued -- as PMSRs previously were -- at the lesser of 90 percent of fair value or 100 percent of book value. The agencies previously limited the amount of PMSRs that an institution could include in regulatory capital because of the subjectivity and uncertainty surrounding the valuation of these assets and the risks resulting from a high concentration of them. The four agencies now are adopting the interim rule to treat

OMSRs the same as PMSRs because of their belief that the risk characteristics are similar.

The interim rule will become effective when it is published in the Federal Register. However, written comments will be accepted for 60 days after the interim rule is published. Based on the comments received, the agencies will consider whether to alter the policy as part of a final rule.

The interim capital rule was developed in response to the Financial Accounting Standards Board's Statement No. 122, "Accounting for Mortgage Servicing Rights" (FAS 122), issued in May of 1995. Starting in 1996, FAS 122 will eliminate the accounting distinction between OMSRs and PMSRs by requiring OMSRs to be capitalized as balance sheet assets, a treatment previously required only for PMSRs. The interagency Federal Financial Institutions Examination Council announced on June 21, 1995, that all insured banks and savings associations must adopt FAS 122 in 1996, with earlier implementation permitted. The actions of the FDIC and the other regulators provides early guidance on the regulatory capital treatment of OMSRs for those institutions considering whether to implement FAS 122 before its 1996 effective date.