FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-15-90 (1-31-90)

FDIC ISSUES PROPOSAL ON MORTGAGE SERVICING RIGHTS

The Board of Directors of the Federal Deposit Insurance Corporation has proposed to limit the amount of "purchased mortgage servicing rights" that banks and savings associations could use to meet capital requirements. Purchased mortgage servicing rights are intangible assets that represent the right to service mortgage loans owned by others.

FDIC Chairman L. William Seidman said: "This plan is under consideration due to the risks that are associated with purchased mortgage servicing rights. The proposal is part of ongoing FDIC efforts to ensure that capital levels at banks and thrifts are adequate to cover activities that may involve more risks. Any final action in this area will be taken only after full and thorough consideration of the views of all affected parties."

Under the FDIC proposal, which is being issued for public comment, purchased mortgage servicing rights in excess of 25 percent of "core capital" at an FDIC-supervised state-chartered bank would be deducted from the bank's regulatory capital. Core capital is comprised primarily of common equity capital and is considered the most permanent form of capital. Such a restriction, if adopted, would require the Office of Thrift Supervision (OTS) to prescribe limits for FDIC-insured savings associations that are at least as stringent as the limits for FDIC-supervised banks.

In addition, the FDIC proposal would limit purchased mortgage servicing rights to no more than 50 percent of an insured savings association's "tangible capital," which typically is comprised of core capital minus qualifying

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supervisory goodwill. This 50 percent limitation would apply for purposes of calculating tangible capital under the capital regulations issued by the OTS.

Certain grandfathering and transition provisions are allowed for mortgage servicing rights that exceed core capital and tangible capital limits if the servicing rights were purchased on or before August 9, 1989. In addition, purchased mortgage servicing rights held by a separately capitalized mortgage banking subsidiary are exempt from the limitations under the following conditions: the parent institution's investments in and extensions of credit must be deducted from equity capital when calculating the amount of regulatory capital, and all transactions with the subsidiary must be conducted on an arms-length basis.

A copy of the proposed amendments to Part 325 is available from the FDIC's Office of Corporate Communications.

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