# NEWS RELEASE

FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

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FDIC BOARD APPROVES CHANGES TO RULES ON DEPOSIT INSURANCE COVERAGE

The Board of Directors of the Federal Deposit Insurance Corporation has approved final amendments to the FDIC's deposit insurance regulations largely intended to reconcile differences between the rules for banks and for savings associations.

FDIC Chairman L. William Seidman said: "These new rules are the result of many months of analysis by the FDIC, including a public hearing. We believe they fairly balance competing interests in several complex areas."

Chairman Seidman stressed that most depositors at banks and thrift institutions are unaffected by the revisions and continue to be covered up to the statutory insurance limit of $100,000. Still, he said, depositors should review an official notice that will be mailed to them in the coming weeks to find out which, if any, of the rule changes affect them.

The changes were agreed to at a Board meeting yesterday. The most significant changes would affect accounts at savings associations formerly insured by the Federal Savings and Loan Insurance Corporation (FSLIC) and now insured by the FDIC. Accounts at thrifts where the insurance rules are being changed, and when, include:

- o Deposits of so-called "457 Plan" employee benefit programs made by employers for state or local government workers or employees of tax-exempt organizations. Effective date: S&Ls will continue receiving their current coverage until January 29, 1992, or in the case of a time deposit, the first maturity date thereafter;

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- Testamentary accounts, also known as revocable trust accounts, where a couple lists each other as the sole beneficiary of the funds upon the death of one of the owners. Effective date: July 29, 1990; and

- Certain custodial accounts owned by mortgage loan servicers that consist of principal and interest payments collected from borrowers. Effective date: October 27, 1990.

The action was taken primarily because the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) mandated uniform rules for insured banks as well as thrifts previously insured by the FSLIC. In addition, the FDIC codified certain long-standing staff interpretations and broadened the scope of the regulations to encompass new or increasingly complex deposit accounts. This marks the first time that the FDIC has done a complete revision of the insurance rules since 1967.

Unless otherwise specified, the rules are scheduled to go into effect July 29. Existing insurance rules will continue in effect for any time deposit issued before July 29 until the first maturity date after July 29.

457 Plans: Existing FDIC rules for insured banks provide for coverage of a 457 Plan's accounts up to $100,000 in the aggregate, while the FSLIC, in contrast, insured 457 Plan deposits in savings associations for up to $100,000 per each participant. The FDIC Board voted to apply to thrifts the more restrictive 457 Plan rules for banks, beginning January 29, 1992.

The FDIC's legal staff advised the Board that while the agency lacks the statutory authority to provide the higher coverage formerly granted to 457 Plans by the FSLIC, it could temporarily continue the existing rules in the interest of maintaining stable funding for thrift institutions affected.

The Board decided to extend the existing rules for thrifts until January 1992 — for both current and new participants — to maintain liquidity at the institutions and to give Congress time to consider whether to allow the FDIC to provide the higher coverage. There are approximately $4-$5 billion of 457 Plan deposits at savings institutions.

Testamentary (Revocable Trust) Accounts: Existing FDIC rules provide that when a husband and wife establish a revocable trust account and name each other as sole beneficiaries, the account is added to any other joint accounts of the couple and is insured up to $100,000. FSLIC rules, though, treated the account as two separate accounts each insured up to $100,000, for a total of up to $200,000. The FDIC voted to apply the FDIC's rule for banks to thrifts.

Although this represents a change for thrift depositors, they can obtain the same amount of insurance simply by opening two accounts — one a revocable trust established by the husband for the benefit of his wife, and the other a revocable trust account established by the wife for the benefit of the husband.

Mortgage Servicing Accounts: Under previous FSLIC rules, accounts consisting of mortgage principal and interest payments maintained at thrifts by loan servicers were insured for up to $100,000 per borrower. The FDIC, though, has insured these accounts for up to $100,000 per owner (mortgagee, investor or security holder), not per each borrower. The FDIC Board voted to bring the rules for thrifts under the more limited coverage for banks.

Because certain thrifts involved in the mortgage servicing business might experience an outflow of deposits as a result of the more restrictive rule, the FDIC will continue the existing rules until October 27, 1990.

The FDIC is notifying depositors of the new rules in several ways, such as requiring institutions to mail a special notice to all account holders. Consumers who want additional information can contact their bank or thrift, or the FDIC's Office of Consumer Affairs, 550 17th Street, N.W., Washington, D.C. 20429. A fact sheet with additional information and guidance is attached.

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