10/13/2008

FDIC simplifies its rules

The Federal Deposit Insurance Corp. (FDIC) and its board of directors have made some changes to deposit insurance rules, effective immediately, that effects accounts placed in the custody of FDIC insured institutions by mortgage servicers.

Currently the FDIC's rules state that any account maintained by a mortgage servicer consisting both principal and interest payments by borrowers is insured based on the interest of its ownership of each lender (or investor) in those accounts.

The mortgage process has become very involved over the past few years with securitization methods for mortgages becoming more and more layered and complex. In turn, it is becoming more and more necessary for mortgage servicers to put extreme effort into identifying and determining the share of any investor in a securitization and in the principal and interest funds on deposit at an insured depository institution, according to the FDIC.

The new FDIC interim rule will offer coverage to lenders and or investors, "as a collective group, based on the cumulative amount of the borrowers' payments of principal and interest into the account" according to Mortgage Orb.

Mortgage servicers have the ability to recognize borrowers more quickly than investors. Because of this the amount of coverage provided on a per-borrower basis under the interim rule the FDIC would be able to make prompt deposit insurance decisions on mortgage servicing accounts and therefore pay deposit insurance at a more rapid rate.