Freddie Mac
We make home possible®

Corporate Headquarters
8200 Jones Branch Drive
McLean, VA 22102

Tel: (703) 903-2000
www.FreddieMac.com

December 16, 2008

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Deposit Insurance Regulations: Temporary Increase in Standard Coverage Amount; Mortgage Servicing Accounts; RIN 3064-AD36
73 Federal Register 61658 (October 17, 2008)

Dear Mr. Feldman:

Freddie Mac welcomes the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) interim rule[1] that amends the deposit insurance regulations to insure mortgage servicing accounts based on each borrower's cumulative principal and interest payment into an account, up to the standard maximum deposit insurance amount (currently $250,000 through December 31, 2009).[2]

Freddie Mac supports the FDIC's efforts to provide additional certainty regarding the deposit insurance coverage of mortgage servicing accounts during this time of turmoil in the financial markets. By amending the deposit insurance rules to calculate deposit insurance based on each borrower's cumulative principal and interest payments into a mortgage servicing account, the interim rule significantly reduces the risk that Freddie Mac would lose single family loan payments that are pooled in a mortgage servicing account at a bank that fails.

Despite these changes to the deposit insurance rules, Freddie Mac remains concerned that several types of mortgage servicing deposits will not be adequately insured and we urge the FDIC to amend the interim deposit insurance rules to provide additional coverage for these accounts. We recommend that the FDIC:

- Specify that pass-through deposit insurance coverage extends to all mortgage servicing accounts, including repair escrows, replacement reserve escrows, and other escrow accounts that Freddie Mac may use from time to time, such as bond-related escrow accounts, rental achievement escrows, and debt service escrows;

---

[1] 73 Fed. Reg. 61658 (Oct. 17, 2008).
[2] The Emergency Economic Stabilization Act of 2008 increased the standard maximum deposit insurance amount from $100,000 to $250,000 through 12/31/09. Public Law 110-343 (October 3, 2008).

- Insure all types of escrow accounts separately, up to the standard deposit insurance amount; and

- Clarify that pass-through deposit insurance coverage extends to mortgage payoff accounts.

These revisions would encourage servicers and investors to hold all types of mortgage servicing funds (not just payments of principal and interest) on deposit at insured depository institutions. Such a regulation would reduce deposit outflows and preserve liquidity, thereby helping banks to meet the credit needs of businesses and consumers. By making credit available to their communities, banks will promote economic stability in the short term and encourage economic growth in the long term.

Each of our recommendations is explained in more detail below.

Freddie Mac Mortgage Servicing Deposits

At any one time, Freddie Mac servicers hold billions of dollars in principal and interest funds on deposit at insured depository institutions. Typically, Freddie Mac servicers place funds collected from borrowers into deposit accounts prior to remitting them to Freddie Mac.

While the FDIC's interim rule reduces Freddie Mac's exposure to uninsured deposits, the company still faces risk because some types of mortgage servicing deposits commonly exceed the FDIC's deposit insurance limit. These deposits include, but are not limited to:

- Payoffs for single family homes;
- Payoffs for multifamily properties;
- Principal and interest payments for multifamily properties;
- Repair escrow and replacement reserve escrow accounts for multifamily properties;
- Tax and insurance escrow accounts for multifamily properties; and
- Bond-related escrow accounts, rental achievement escrows, and debt service escrows for multifamily properties.

Multifamily servicing accounts, in particular, present unique challenges for purposes of deposit insurance because multifamily loans typically involve large dollar amounts and include several types of escrow accounts, each of which frequently exceeds the deposit insurance limit. Due to these continuing risks, Freddie Mac is evaluating how to structure its mortgage servicing operations and is working with our servicers to minimize the risk that the company will be exposed to uninsured deposits that are tied to multifamily loans.

Specific Comments

Deposit Insurance Coverage of Escrow Accounts. Freddie Mac recommends that the FDIC specify that the deposit insurance rules provide pass-through insurance coverage on a per borrower basis to all mortgage servicing escrow accounts, including repair escrow and replacement reserve escrow accounts, bond related escrow accounts, rental achievement escrows, and debt service escrows. We also request that the FDIC separately insure these types of accounts, as well as escrows for taxes and insurance, up to the standard deposit insurance amount.

Repair escrow and replacement reserve escrow accounts for multifamily properties illustrate the need for clarity regarding the insurance coverage of escrow accounts. Freddie Mac requires multifamily borrowers to pay into repair escrow and replacement reserve escrow accounts as needed in order to fund repairs on multifamily properties. These accounts are held in trust for Freddie Mac and servicers return excess funds to the borrowers after the repairs are completed. Under section 330.7(d) of the interim rule, "accounts…which are comprised of payments by mortgagors of *taxes and insurance premiums* shall be added together and insured" on a pass-through basis as the funds of each respective mortgagor. The interim rule for mortgage servicing accounts does not specifically address how the FDIC will treat escrow accounts that a servicer establishes for purposes other than taxes and insurance (e.g., repair and reserve escrow accounts).

It appears that, under 12 C.F.R. 330.7(a), the FDIC would aggregate the various kinds of escrow accounts for multifamily loans with funds in other accounts that the borrower has at the same depository institution. This aggregation of accounts would expose Freddie Mac to loss because each of these types of escrow accounts commonly exceeds the deposit insurance limit. These accounts frequently hold millions of dollars in escrow for just one multifamily property. However, our exposure would be reduced if the FDIC were to separately insure each of these accounts on a per-borrower basis.

Pass-through Coverage of Payoff Accounts. We also recommend that the FDIC clarify that it will provide deposit insurance coverage on a per borrower basis for funds that a servicer holds in a payoff servicing account. Payoff accounts are analogous to servicing accounts holding principal and interest payments, but payoff accounts hold funds from the sale of a property, a refinancing, or other large payments used to payoff a mortgage.

Virtually all multifamily loans will exceed the $250,000 deposit insurance limit, and there is a substantial risk that payoffs of single family loans would also exceed the $250,000 deposit insurance limit. If the coverage for payoff accounts remains ambiguous, mortgagees may require servicers to promptly transfer funds out of payoff accounts immediately after deposit, thereby increasing the rate of deposit outflows from depository institutions.

Conclusion

Adopting the interim rule with the modifications described above would help the FDIC to provide additional confidence to the financial system and would preserve needed liquidity for insured depository institutions.

Thank you for considering Freddie Mac's views on this rulemaking. If you have any questions, please contact the undersigned at 571-382-3441.

Sincerely,

Ronald L. Ratcliffe
VP Counterparty Credit Risk Management