



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

GC/JT:sg  
4650

October 1, 1987

Office of General Counsel

James R. Brown, III, Esq.  
Brown and Brown  
8501 LaSalle Road  
Towson, Maryland 21204-5980

Dear Mr. Brown:

This is in response to your letter dated August 4, 1987,  
regarding **prepayment penalties**.

You stated in your letter that you represent several credit unions that offer mortgage loans to their members. To encourage members to take out mortgage loans, the credit unions have paid all settlement costs in conjunction with the mortgage loans. Many of these members have repaid their loans in full within a two-year period. The credit unions would like to put a provision in the loan agreement stating that if the loan is repaid within a period of two years from the date the loan is made, the borrower must agree to pay the actual settlement costs incurred by the credit union. Although not expressly stated in your letter, for purposes of our response, we are assuming that the credit unions involved are Federal credit unions. You asked whether this provision would violate Section 107(5)(A)(viii) of the Federal Credit Union Act and Section 701.21(c)(6) of the NCUA Rules and Regulations, which provide that a borrower may repay his loan prior to maturity without penalty.

It is the opinion of this Office that the above-described provision does not constitute a prepayment penalty. When a credit union pays the mortgage loan settlement costs it is conferring a benefit on the borrower. The fact that the borrower will be required to reimburse the credit union for the settlement

FOIA I.C. 8. Prepayment penalties

James R. Brown, III, Esq.  
Page Two

costs if he repays his loan within a two-year period results in a loss of a benefit rather than the imposition of a prepayment penalty.

We trust this has been of assistance.

Sincerely,



STEVEN R. BISKER  
Assistant General Counsel

JT:sg