



February 1, 2021

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

*Submitted electronically
to Regulations.gov*

RE: RIN 3133- AF26; Comments on Proposed Rule: Mortgage Servicing Rights

Dear Ms. Conyers-Ausbrooks,

The Dakota Credit Union Association (DakCU), which represents state and federally chartered credit unions in the states of North Dakota and South Dakota, appreciates the opportunity to provide comment to the National Credit Union Administration (NCUA) regarding its proposed rulemaking concerning mortgage servicing rights (MSR).

Currently, 12 CFR 703.16(a) provides, “A Federal credit union may not purchase mortgage servicing rights as an investment but may perform mortgage servicing functions as a financial service for a member as long as the mortgage loan is owned by a member.” The NCUA is proposing to remove this restriction and amend 12 CFR 703.14, which relates to permissible investments, to provide that “A Federal credit union may purchase mortgage servicing rights from other federally insured credit unions as an investment if all of the following conditions are met: (1) The underlying mortgage loans of the mortgage servicing rights are loans the Federal credit union is empowered to grant; (2) the Federal credit union purchases the mortgage servicing rights within the limitations of its board of directors’ written purchase policies; and (3) the board of directors or investment committee approves the purchase.” *85 FR 86871* As explained in the discussion of the proposed rule, “The phrase “empowered to grant” refers to an FCU’s authority to make the type of loans permitted by the FCU Act, NCUA regulations, FCU Bylaws, and an FCU’s own internal policies.” *85 FR 86869*

12 CFR 721.3(h) currently lists the preapproved activities that are incidental powers necessary or requisite to carry on a credit union’s business and provides, “ Loan-related products are the products, activities or services you provide to your members in a lending transaction that protect you against credit-related risks or are otherwise incidental to your lending authority. These



products or activities may include debt cancellation agreements, debt suspension agreements, letters of credit and leases.” The proposed rule would amend the last sentence of this provision to provide, “These products or activities may include debt cancellation agreements, debt suspension agreements, letters of credit, leases, and mortgage loan servicing functions for a member as long as the loan is owned by a member.” 85 FR 86871

While the purpose of MSRs may be complex and may expose credit union servicers to liquidity risk, compliance and reputational risks, DakCU supports the NCUA’s proposal which would allow credit unions opportunities to generate additional revenue while also diversifying their portfolio. It would also allow a credit union attempting to build or expand a servicing department to purchase servicing rights from other credit unions thereby creating a quicker return on the investments made.

Allowing a credit union to purchase mortgage servicing rights would furthermore allow credit unions to “work together” from a servicing perspective and utilize local resources. This could keep credit union originated loans/members from being “cross sold” by the big banks that normally end up with the servicing rights, such as Wells Fargo, Chase etc. This could also allow smaller credit unions to sell loans servicing retained and then transfer/sell the servicing to a credit union in the local area instead of some national servicer.

This may also permit a credit union to sell loans servicing retained, then sell servicing rights to another CU with the right to repurchase. When their servicing portfolio reaches a level that it would be profitable to consider buying the servicing rights back they could potentially have a profitable servicing portfolio right from the beginning. DakCU believes these potential benefits outweigh the risk. The risk can be mitigated and managed through proper board of directors’ written purchase policies and board of directors or investment committee approval of the purchase.

Thank you for this opportunity to share our comments.

Respectfully,

A handwritten signature in black ink that reads "Jeffrey Olson".

Jeffrey Olson
CEO/President

A handwritten signature in black ink that reads "Amy Kleinschmit".

Amy Kleinschmit
Chief Compliance Officer