



The Auditor's Report

Capitalization Of Unpaid Interest

On June 24, 2021, the National Credit Union Administration (NCUA) Board unanimously voted to lift the prohibition of capitalization of interest in connection with loan workouts and modifications from part 741, Appendix B. The rule became effective July 30, 2021, and applies to loan workouts and modifications on or after this date. The rule establishes documentation requirements to help ensure that the addition of unpaid interest to the principal balance of a loan does not hinder the borrower's ability to repay the loan.

For borrowers experiencing financial hardship, a prudently underwritten and appropriately managed loan modification, consistent with safe and sound lending practices, is generally in the long-term best interest of both the borrower and the credit union. Modification options include lowering of loan payments or the interest rate, extending the maturity date, partial principal or interest forgiveness, and capitalization of interest. Such modifications may allow a borrower to repay the loan, which helps the borrower and the credit union avoid the costs of default and foreclosure.

The final rule continues to prohibit credit unions from financing credit union fees and commissions. Credit unions will be permitted to continue to make advances to cover third-party fees to protect loan collateral, such as force-placed insurance or property taxes. Maintaining the prohibition on the capitalization of credit union fees is an important consumer protection feature of the rule for member borrowers.

Consumer Protection Considerations

The final rule requires credit unions to adopt policies and procedures to ensure that loan modifications are in the long-term best interest of the borrowers. All documentation, including required disclosures, must be accurate, clear and conspicuous, and consistent with applicable federal and state laws and regulations. Any adverse credit reporting must be accurate and comply with the requirements of the Fair Credit Reporting Act, and, when applicable, state law.

Credit Risk Considerations

NCUA regulation part 741, Appendix B, applies to all consumer and commercial loans. Credit unions should document why capitalizing interest is the best course of action when determining the terms of the modification. Further, the rule requires the credit union's policy ensure that a credit union makes loan workout decisions based on a borrower's renewed willingness and ability to repay the loan.

NCUA Letter To Credit Unions #21-CU-07

[Capitalization of Unpaid Interest | National Credit Union Administration \(ncua.gov\)](https://www.ncua.gov/capitalization-of-unpaid-interest)



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ABOUT US

Since 1979, Nearman, Maynard, Vallez, CPAs has provided auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to the credit union industry has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals through our experience, service, and commitment. If your Supervisory/Audit Committee, Management, or Board of Directors is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

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Nearman
Maynard • Vallez
Certified Public Accountants

Website: www.nearman.com

E-mail: info@nearman.com

Toll-free: 800.288.0293



We've Moved!
Our Miami office has moved. Please make note of our new address:

**10661 N Kendall Drive
#201
Miami, FL 33176**

Accounting Standards Update

On November 23, 2021, the Financial Accounting Standard Board (FASB) issued a Proposed Accounting Standards Update on "Troubled Debt Restructurings (TDRs)."

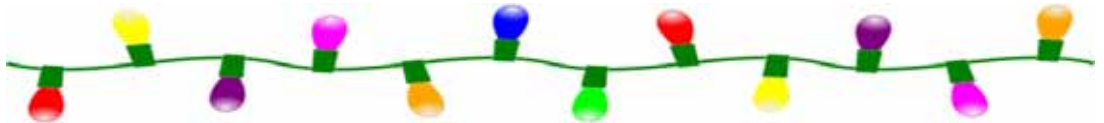
The amendments in this proposed Update would eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity would apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.

The Board invites comments on all matters in this Exposure Draft until December 23, 2021. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2021-006
- Sending a letter to "Technical Director, File Reference No. 2021-006, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.



Compliance Reminder

Don't forget the due dates for the following required annual compliance audits are fast approaching. If you haven't planned for these audits, be sure to contact your auditor now to get your reviews scheduled.

- **ACH Audit:** Due date December 31st of each year.
- **Safe Act Review:** Due annually. (NCUA defines "annual" as within a calendar year)
- **BSA Audit:** Due every 12-18 months.

Happy Holidays!!

Wishing you and yours the happiest of holidays and much prosperity in the new year.

Please take note our offices will be closed December 24th through December 31st for the holidays.

