



# The Auditor's Report

## Capitalization Of Unpaid Interest

The NCUA Board unanimously voted to lift the ban on 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. However, documentation will be required to help ensure that the addition of unpaid interest to the principal balance of a loan does not deter the borrower's ability to repay the loan.


The final rule will continue to prohibit credit unions from financing credit union fees and commissions. However, 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 ban on the capitalization of credit union fees is an important consumer protection feature of the rule for borrowers.

### Considerations for Consumer Protection

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

### Considerations of Credit Risk


NCUA regulations part 741, Appendix B, applies to all consumer and commercial loans. Credit unions need to document why capitalizing interest is the best solution when defining the terms of the modification. In addition, the credit union's policy must ensure that the modifications are based on a borrower's renewed willingness and ability to repay the loan.

Established limits also need to be placed on the number of modifications permitted for an individual loan. If a credit union modifies an individual loan more than once a year or twice in five years, the examiners will want the documentation to show the borrower's continued willingness and ability to repay the loan. The NCUA encourages credit unions to work with their members who are experiencing financial difficulties due to the COVID-19 pandemic by using safe and sound approaches. The NCUA will not object to previous loan modifications, including interest capitalization, prior to the effective date of this rule change as long as efforts are conducted sensibly with proper controls and management oversight. 

## Scam Warning For Credit Unions

According to the security awareness training platform, KnowBe4, the National Credit Union Administration (NCUA) has warned of an increase in cyber-attacks targeting credit unions. Since credit unions have a very loyal member base, this makes them the perfect target for cybercriminals.

Cybercriminals will send fake emails that appear to be from a credit union. The phishing emails may vary from signature requests to incoming payment notifications. The email will direct the recipient to click a link for more information. The link will take the member to a fake login page for their credit union. If the member tries to log in on this page, their username and password will be sent to the cybercriminals. Once the criminals have access, they can wreak havoc on your members' accounts. Remind your members to keep their funds safe by following the tips below:

- Never click on an unexpected link.
- Question any notifications received, such as: Did they sign up for email notifications? Have they received alerts like this before?
- Whenever they're asked to log in to their account, go to the official website and log in. Do not log in from an email. 



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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, CPAs is now a member of the AICPA Employees Benefit Audit Quality Center (EBPAQC)

The Center is a voluntary membership organization for firms that perform Employee Retirement Income Security Act (ERISA) employee benefit plan audits. Our firm's employee benefit plan audits include pension and 401(k) plans subject to the ERISA under the regulatory authority of the U.S. Department of Labor (DOL). The Center was established to promote the quality of employee benefit plan audits.

The Center has created a community of firms that demonstrate a commitment to employee benefit audit quality. The members receive support from the center by:

- Timely communication of regulatory developments, best practices guidance, and technical updates.
- Maintaining relationships with, and acting as a liaison to, the DOL on behalf of member firms.
- Providing information about the Center's activities to other employee benefit plan stakeholders.

The Center is governed by an Executive Committee that establishes general policies of the Center and oversees its activities. It also establishes the requirements for membership in the Center as necessary, subject to American Institute of Certified Public Accountants (AICPA) Board of Director's approval.

Employee benefit plan auditing is becoming more complex and is increasingly scrutinized by the DOL. This has resulted in a significant number of changes and issues for auditing firms. With the assistance of the Center as a resource, Nearman, Maynard, Vallez, CPAs will continue to offer quality employee benefit plan audits for our clients. If your Credit union is in need of an audit of your pension plan, please contact us at [info@nearman.com](mailto:info@nearman.com).



## Associate Spotlight!

The Credit Union Cherry Blossom 10 Mile Run and 5K Run-Walk serves as a fundraiser for Children's Miracle Network hospitals. Various Credit Union and Credit Union industry providers are major sponsors and contributors of the race. Our own Ellen Vargo, Partner flew up to Washington DC to participate in this year's 10 Mile Run.

The Run is known as the "rite of spring" in the Washington DC area and after a two-year wait due to the pandemic the race was back in full force this year with over 16,000 running the 10-mile run and 5K Run-Walk. The race draws elite runners from across the United States as well as foreign countries. The morning was perfect for running with a start temperature of around 47 degrees and hardly any wind. It was great to see so many Credit Union's sponsoring water stations as well as Credit Union employees volunteering at the race. It was an honor to be able to represent the firm and contribute to a worthy cause as part of the credit union industry and hope to win a lottery entrance in the 2023 Credit Union Cherry Blossom 10 mile run which will be the 50<sup>th</sup> anniversary of this race.

