



TO: NCUA Board

DATE: May 27, 2021

FROM: Office of Examination and Insurance

SUBJ: Final Rule: Capitalization of Interest in Connection with Loan Workouts and Modifications

ACTION REQUESTED: NCUA Board approval to issue the attached final rule.

DATE ACTION REQUESTED: June 24, 2021.

OTHER OFFICES CONSULTED: OGC, OCFP.

VIEWS OF OTHER OFFICES CONSULTED: Concur.

BUDGET IMPACT, IF ANY: None.

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes.

RESPONSIBLE STAFF MEMBERS: Alison L. Clark, Chief Accountant, and Timothy C. Segerson, Deputy Director, Office of Examination and Insurance; Joseph K. Goldberg, Director, Consumer Compliance Policy and Outreach Division, Office of Consumer Financial Protection; Gira Bose and Ariel Pereira, Senior Staff Attorneys, Office of General Counsel.

SUMMARY: The NCUA Board (Board) is amending its regulations to remove the prohibition on the capitalization of interest in connection with loan workouts and modifications. The final rule also establishes documentation requirements to help ensure that the addition of unpaid interest to the principal balance of a mortgage loan does not hinder the borrower's ability to become current on the loan. The Board has also taken the opportunity afforded by the rulemaking to make several technical changes to the regulations to improve their clarity and update certain references. The final rule follows publication of the December 4, 2020, proposed rule and takes into consideration the public comments on the proposed rule. After careful consideration, the Board has decided to adopt the proposed rule without change.

The proposed rule provided for a 60-day public comment period, which closed on February 2, 2021. The NCUA received 26 comments in response to the proposed rule. These came from credit unions, individuals, and credit union leagues and trade associations. In general, the commenters expressed support for lifting the prohibition on interest capitalization as a helpful tool to assist financially distressed borrowers.

RECOMMENDED ACTION: The NCUA Board approve the attached final rule for publication in the *Federal Register* with an effective date 30 days following publication.

ATTACHMENT: Final rule.