



TO: NCUA Board

DATE: November 16, 2020

FROM: Office of Examination and Insurance

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

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

DATE ACTION REQUESTED: November 19, 2020.

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: D. Scott Neat, Associate 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, Staff Attorneys, Office of General Counsel.

SUMMARY: The NCUA Board (Board) seeks public comment on a proposed rule to amend its regulations by removing the prohibition on the capitalization of interest in connection with loan workouts and modifications. The Board has determined that the current prohibition on authorizing additional advances to finance unpaid interest may be overly burdensome and, in some cases, hamper a federally insured credit union's good-faith efforts to engage in loan workouts with borrowers facing difficulty because of the economic disruption that the COVID-19 event has caused. Advancing interest may avert the need for alternative actions that would be more harmful to borrowers. The proposed rule would establish 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 proposed change would apply to workouts of all types of member loans, including commercial and business loans. The Board has also taken this opportunity to make several technical changes to the Appendix to improve its clarity and update certain references.

RECOMMENDED ACTION: The NCUA Board approve the attached proposed rule for publication in the *Federal Register* with a 60-day public comment period.

ATTACHMENT: Proposed rule.