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COMMUNITY BANKING ADVISOR



Cryptocurrency fraud
LEARN TO SPOT THE RED FLAGS

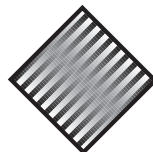
SOUND FINANCIAL ANALYSIS LEADS TO SOUND LOANS

AUTO LOAN INTEREST: ARE YOU READY
FOR THE NEW REPORTING REQUIREMENTS?

BANK WIRE



ANDREWS HOOPER PAVLIK PLC



COMMUNITY BANKING
ADVISORY NETWORK

Cryptocurrency fraud

LEARN TO SPOT THE RED FLAGS

Cryptocurrency investment fraud continues to surge. The Federal Bureau of Investigation's *2025 Internet Crime Report* identified these schemes as the leading source of financial losses to Americans, with reported losses totaling \$7.2 billion last year. Criminals favor cryptocurrency because it enables rapid cross-border transfers, offers limited options for reversing transactions, and can be paired with fraudulent trading platforms or apps that make profits easy to falsify.

Community banks are in a strong position to help protect their customers against cryptocurrency fraud. That's because their employees, who typically know the bank's customers, may recognize transactions or behaviors that depart from a customer's usual activity.

ANATOMY OF A CRYPTOCURRENCY SCHEME

Although various methods are used to commit cryptocurrency fraud, a typical scheme goes something like this: A scammer initiates contact with a potential victim via text message or direct message on social media. The perpetrator also might send a message through a professional networking site, a dating application or some other communication tool. In some cases, the scammer feigns an attempt to reconnect with an old friend.

Once a relationship has been established, the conversation shifts to investment opportunities. The scammer (typically posing as an investor or

money manager) entices the victim to acquire cryptocurrency (often through wire transfers to overseas accounts or virtual currency kiosks) to "invest" through legitimate-looking virtual currency trading platforms or apps that display fake profits.

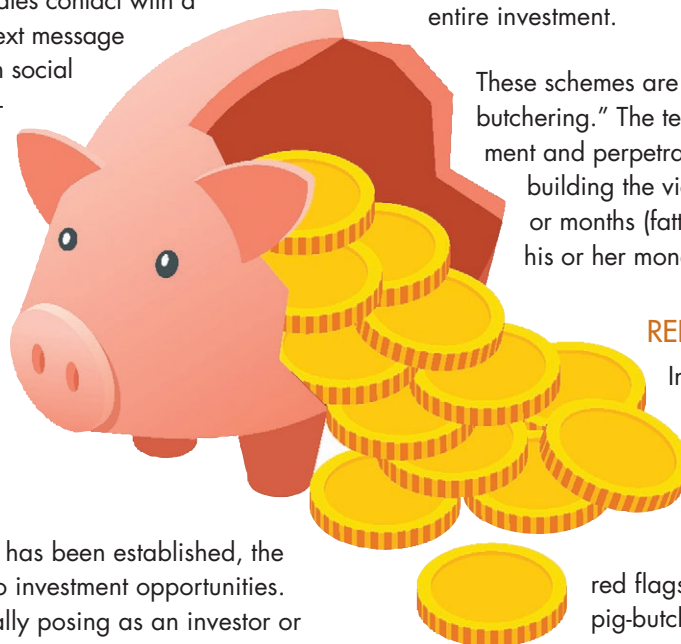
The scammer may apply high-pressure sales tactics to encourage additional investment. For example, the victim might be shown extraordinary (but fabricated) returns on the investment, even allowing the victim to withdraw a small amount to maintain the victim's confidence.

If the victim's interest wanes, the scammer may use more aggressive tactics, such as presenting fictitious losses and urging the victim to make up the difference with additional investments. If the victim seeks to withdraw the investment, the scammer may demand payment of taxes or early withdrawal fees. When the victim is no longer willing or able to invest more, the scammer ceases communication and pockets the entire investment.

These schemes are commonly known as "pig butchering." The term, used by the federal government and perpetrators, refers to the practice of building the victim's trust over several weeks or months (fattening a pig) and then stealing his or her money (butchering it).

RED FLAGS TO WATCH FOR

In a 2023 alert, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) described how cryptocurrency scams work and outlined red flags that may reflect potential pig-butchering activity. The red flags



are classified as behavioral, financial or technical. Examples include:

Behavioral. A customer with no history of cryptocurrency activity attempts to convert a large amount of conventional currency to cryptocurrency or initiate high-value transfers to virtual asset service providers. The customer also may mention an investment promising significant returns that was recommended by a new online contact.

Financial. A customer unexpectedly liquidates savings or a certificate of deposit and transfers the proceeds to a virtual asset service provider. Other warning signs include multiple transfers for purported taxes, fees or penalties.

Technical. A customer's account is accessed from IP addresses, devices or locations that are inconsistent with previous activity.

Additional red flags can be found on the FinCEN website. No single item is determinative, so when evaluating suspicious behaviors or transactions, banks should consider a customer's past financial activity, whether transactions are in line with prevailing business practices, whether the customer exhibits multiple red flags, and other relevant facts and circumstances.

HOW TO REPORT CRYPTOCURRENCY FRAUD

Banks that uncover suspected cryptocurrency fraud should file suspicious activity reports (SARs) with the Financial Crimes Enforcement Network (FinCEN). Use the term "FIN-2023-PIGBUTCHERING" in Field 2, and select "Fraud-Other" in Field 34(z) with the description "Pig Butchering." Banks should also include this key term in the SAR narrative.

Banks should urge customers who are potential victims of cryptocurrency investment fraud to report it to the Federal Bureau of Investigation's Internet Crime Complaint Center at ic3.gov. Customers may also report their allegations to the U.S. Securities and Exchange Commission's Tips, Complaints, and Referrals system at sec.gov/tcr.

STEPS TO TAKE

Detecting cryptocurrency fraud can be challenging because customers usually initiate the transactions voluntarily. To identify and prevent these scams, banks should have monitoring systems that flag suspicious behaviors or transactions and educate customers about cryptocurrency fraud (including warning prompts before initiating overseas wires or other risky transactions). It's also important to establish procedures for front-line staff to refer suspicious activities for further review. ■

SOUND FINANCIAL ANALYSIS LEADS TO SOUND LOANS

In today's uncertain economic conditions, comprehensive due diligence becomes increasingly important. Examining financial statements and using specific risk assessment ratios will help ensure your loans are well-supported and carry an acceptable level of risk. Here are a few

basic steps to consider when evaluating your existing portfolio and vetting new applicants.

TAKE A RISK-BASED APPROACH

Start the process as an auditor would. That is, before you open a borrower's financial statements, consider



documenting the risks in the industry, applicable economic conditions, and the borrower's business operations and collateral sources.

This risk assessment identifies what's most relevant, where your greatest exposure lies, what trends you expect in this year's financials and which bank products the customer might need. Risk assessments save time because you're targeting due diligence on high-risk areas.

LOOK AT FINANCIAL STATEMENTS TO ASSESS RISK

Now tackle the financial statements, keeping in mind your risk assessment. First evaluate the reliability of the financial information. For statements prepared by an in-house bookkeeper or accountant, consider that individual's skill level and whether the statements conform to U.S. Generally Accepted Accounting Principles. For CPA-prepared statements, consider the level of assurance: compilation, review or audit.

Comprehensive statements include a balance sheet, income statement, statement of cash flows and footnote disclosures. Make sure the balance sheet "balances" — that is, assets equal liabilities plus equity. You'd be surprised how often internally prepared financial statements are out of balance.

Statements that compare two (or more) years of financial performance are ideal. If they're not comparative, look at last year's statements. Then, note any major swings in assets, liabilities or capital. Better yet, enter the data into

a spreadsheet and highlight significant or unexpected changes based on the borrower's size, industry and risk profile. For example, a common "materiality" threshold that accountants use for many private companies is changes greater than 10% and \$10,000.

Now ask yourself whether the changes from the previous year make sense based on your preliminary risk assessment. Brainstorm possible explanations *before* asking the borrower. This allows you to apply professional skepticism when you hear the borrower's explanations.

KEEP SCORE WITH RISK ASSESSMENT RATIOS

Use your risk assessment to create a scorecard for each borrower. It often helps to discuss your risk assessment with co-workers and to specialize in an industry niche.

One ratio that belongs on every scorecard is *profit margin* ($\text{net income} / \text{revenue}$). But your profitability analysis shouldn't stop at the top and bottom of the income statement. It's also useful to look at individual line items, such as returns, rent, payroll, owners' compensation, travel and entertainment, interest, and depreciation expense. This data can provide additional insight into the borrower's financial health.

Another useful metric to gauge short-term liquidity is the *current ratio* ($\text{current assets} / \text{current liabilities}$). It indicates whether a business's current assets (including cash, receivables and inventory) are sufficient to cover its current obligations (accrued expenses, payables and current debt maturities). High liquidity provides breathing room in volatile markets.

In addition, *total asset turnover* ($\text{annual revenue} / \text{total average assets}$) is an efficiency metric that tells how many dollars in revenue a borrower generates from each dollar invested in assets. Again, more in-depth analysis — for example, receivables aging or inventory turnover — is necessary to better understand potential weaknesses and risks.

Finally, calculating the *interest coverage ratio* (*earnings before interest and taxes / interest expense*) provides a snapshot of a business's ability to pay interest charges. The higher a borrower's interest coverage ratio is, the better positioned it is to weather financial storms.

When applying these metrics, compare a business to itself over time and benchmark it against competitors, if possible. If a customer's explanations don't make sense, consider requesting supporting documentation or recommending that they hire a CPA to perform agreed-upon procedures, targeting specific high-risk areas.

KEEP DECISIONS GROUNDED IN FACTS

Of course, there's always pressure to approve loans, even questionable ones, when your bank is trying to stay competitive. But saying yes without proper vetting can be a losing strategy in the long run. Consistent financial analysis can also help you identify emerging problems with existing loans before they become more serious. Maintaining robust due diligence will help you make sound lending decisions. ■

AUTO LOAN INTEREST: ARE YOU READY FOR THE NEW REPORTING REQUIREMENTS?

The One Big Beautiful Bill Act (OBBBA), enacted in the summer of 2025, created a temporary tax deduction for qualifying passenger vehicle loan interest that's available regardless of whether eligible taxpayers itemize on their tax returns. The recent law also imposed information-reporting obligations on banks and other lenders. Although these new rules took effect last year, transitional guidance for 2025 minimized the burden on lenders. This year, however, lenders must fully comply with the reporting requirements. If your bank makes or services auto loans, now's the time to get up to speed.

WHAT'S DEDUCTIBLE?

An annual deduction is available for up to \$10,000 per year of qualified passenger vehicle loan interest for the 2025 through 2028 tax years on debt incurred after December 31, 2024. The deduction begins to phase out when modified adjusted gross income (MAGI) exceeds \$100,000 for single filers (\$200,000 for married couples filing jointly). The deduction is fully phased out when

MAGI reaches \$150,000 for single filers (\$250,000 for joint filers). The \$10,000 limit applies per tax return, so joint filers can't claim a \$20,000 deduction.

Qualified loans must be secured by a first lien on a vehicle that:

- ▶ Is purchased for personal use,
- ▶ Has at least two wheels and is manufactured primarily for public road use,
- ▶ Is classified as a car, van, SUV, pickup truck or motorcycle under the Clean Air Act, and
- ▶ Has a gross vehicle weight rating of less than 14,000 pounds.

In addition, the borrower must be the vehicle's original user, and final assembly of the vehicle must have taken place in the United States. Final regulations issued in September 2026 provide additional guidance on which loans qualify and clarify key eligibility requirements.

WHAT MUST LENDERS REPORT?

The OBBBA requires lenders that receive \$600 or more in interest from a borrower in a calendar year on a qualifying loan to file an information return with the IRS and provide an annual statement to the borrower. Under transitional guidance, lenders could meet their 2025 reporting obligations simply by providing borrowers with a statement — through an online portal, regular monthly statement, annual statement or similar means — showing the total amount of interest received.



Starting in 2026, however, for each qualifying loan, the lender must file IRS Form 1098-VLI, “Vehicle Loan Interest Statement,” and furnish the borrower with a written statement that includes:

- ▶ The borrower’s name and address,
- ▶ Total interest received during the year,
- ▶ Outstanding principal at the beginning of the year,
- ▶ The loan origination date,
- ▶ The loan acquisition date (if applicable),
- ▶ The vehicle’s year, make, model and vehicle identification number (VIN), and
- ▶ Any additional information the IRS may require by regulation.

Most banks are required to file electronic 1098-VLI forms, generally due by March 31 of the following year. Borrower statements must be delivered by January 31 of the following year (February 1 in 2027, because January 31 falls on a Sunday).

WHAT SHOULD LENDERS DO NOW?

To ensure that you meet your auto interest reporting obligations, now’s a good time for a readiness review. Start by identifying all potentially qualifying loans

originated after December 31, 2024. Be sure to have a system in place for capturing each vehicle’s year, make, model and VIN, as well as the loan’s origination date, any applicable acquisition date and beginning principal. Your system also should be able to distinguish new vehicles from used vehicles and verify a vehicle’s final assembly point. An easy way to determine whether a vehicle was assembled in the United States is the National Highway Traffic Safety Administration’s VIN Decoder tool on the [nhtsa.gov](https://www.nhtsa.gov) website.

Note that the deduction is available only for interest on loans used to finance the purchase of a vehicle and specific related items (for example, registration fees or sales tax). If loans finance negative equity or unrelated costs, such as insurance or nonvehicle personal property, you’ll need a system for allocating interest among qualified and nonqualified items.

REVIEW YOUR REPORTING PROCEDURES

When reviewing your systems for reporting auto loan interest received in 2026, be sure to follow the final regulations issued by the IRS. The IRS has also released a draft of Form 1098-VLI. Keep an eye on updates to the form and its instructions, and review your reporting procedures to ensure you’re prepared to meet the requirements. ■

BANK WIRE

PREPARE YOUR BANK FOR A PENNY-FREE FUTURE

In late 2025, the United States officially ceased production of pennies for general circulation. This decision was driven primarily by the rising cost of producing pennies, which had reached 3.69 cents each. This doesn't mean pennies will disappear any time soon; an estimated 300 billion remain in circulation. But as pennies become scarcer, community banks will need to develop policies to deal with the shortage.

In particular, banks will need to address rounding policies for cash transactions. Suppose a customer cashes a check for \$125.42. If the bank gives the customer \$125.40 because it doesn't have two pennies, the customer may feel (literally) shortchanged (plus, a policy of rounding down may create legal headaches). Rounding up to \$125.45 seems like the obvious answer — after all, it only costs the bank three cents. But multiply that amount by hundreds or thousands of cash transactions per month, and the cost quickly adds up.

One potential solution is “symmetric” rounding. Under this system, cash payments ending in one or two cents are rounded down to zero; payments ending in three or four cents are rounded up to five cents; payments ending in six or seven cents are rounded down to five cents; and payments ending in eight or nine cents are rounded up to 10 cents. A recent study by the Atlanta



Federal Reserve found that this approach has a negligible financial impact, concluding that “the cash inflationary impact is not statistically different from zero under symmetric rounding.”

As of this writing, the federal Common Cents Act, which would permit the use of symmetric rounding, has been passed by both the House of Representatives and the Senate. It awaits a final procedural vote in the House before it goes to the president for signing. Several states have already passed similar laws. ■

HANDLING HIGHLY SENSITIVE INFORMATION IN BANK EXAMINATIONS

Recognizing the sensitivity of bank data handled during examinations, the federal banking agencies recently outlined enhanced security procedures for reviewing this information. The agencies identified certain “highly sensitive information” that presents heightened risks from disclosure. Examples include technology/network diagrams and schematics, detailed penetration test results, technical details of specific information technology control weaknesses and succession planning information.

UNDER THE NEW GUIDANCE, THE AGENCIES WILL RELY ON BANK MANAGEMENT TO IDENTIFY DATA AND DOCUMENTS THEY BELIEVE SHOULD BE CONSIDERED HIGHLY SENSITIVE.

Under the new guidance, the agencies will rely on bank management to identify data and documents they believe should be considered highly sensitive. The agencies will then evaluate whether additional security protocols, such as onsite review, direct digital review from the bank's systems or redacted/summarized versions of documents, should be invoked during examination. ■

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Community Banks

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- Trust Administration Internal Audit

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- Tax Research
- Tax Return Preparation

