RBFCU

January 17, 2019

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

RE: Fidelity Bonds (RIN: 3313-AE87)

Dear Mr. Poliquin:

On behalf of Randolph-Brooks Federal Credit Union ("RBFCU"), this letter is being submitted in response to the National Credit Union Administration's ("NCUA") proposed rule regarding fidelity bonds. We greatly appreciate the opportunity to comment.

Introduction

On November 23, 2018, the National Credit Union Administration ("NCUA") published a notice of proposed rulemaking to amend Parts 704 and 713 of NCUA's regulation covering fidelity bonds. Parts 704 and 713 implement the requirements of the FCU Act and establish the requirements for a fidelity bond, the acceptable bond forms, and the minimum permissible coverage. Both parts require a credit union's board of directors ("Board") to annually review its fidelity bond coverage.

NCUA Losses and Rescission of Bond Coverage

The purpose of fidelity bonds is to protect a credit union against losses caused by fraud, dishonesty, theft, and other similar activities by certain credit union employees, appointed officials, and elected officials. When such activities occur, a credit union's financial loss can be great and can ultimately affect the safety and soundness of the National Credit Union Share Insurance Fund ("NCUSIF") if a bond carrier refuses to make payment or if the activities are not covered by the bond policy.

In recent years, the NCUSIF has sustained losses due to voided fidelity bond coverage. Specifically, the NCUA has had at least three claims denied due to rescinded fidelity bond coverage and is concerned that the frequency of rescinded coverage will continue to increase. As of June 2018, the NCUSIF has lost in excess of $10 million from fidelity bonds that were voided due to the signatory being aware of the fraudulent activities. Additionally, litigation related to denied claims is ongoing and may result in additional expenses.

Proposed Changes

Currently, the Board of each federal credit union must annually review its fidelity bond coverage to ensure that it is adequate in relation to the potential risks facing the credit union and the requirements set by the NCUA Board. The proposed rule would increase a Board's oversight by requiring the Board to review all applications for purchase or renewal of bond coverage and pass a resolution approving the purchase or renewal. Additionally, each year the Board must delegate a different Board member, who is not an employee of the credit union, to sign the attestation for purchase or renewal.

Maintaining the Current Regulation

While RBFCU understands that the NCUA is concerned about the recent losses due to rescinded fidelity bond coverage, we believe the NCUA should maintain the current regulation because: 1) risk posed to the NCUSIF is better mitigated through NCUA's review of a credit union's required internal controls; 2) the proposed rule creates an unnecessary administrative burden for the Board; and 3) NCUSIF losses can be attributed to a few bad actors and are not indicative of a systemic issue within the credit union industry.

As stated above, fidelity bond coverage protects a credit union against losses caused by activities such as fraud, dishonesty, and theft by certain credit union employees and officials. Such activity can be prevented and monitored through the establishment and integration of adequate internal controls by the credit union. Then, through the examination process, the NCUA has the opportunity to flag a credit union's lack of internal controls and identify credit unions who are prone to fraudulent activity by senior employees and/or officials.

This process effectively mitigates the risk posed to the NCUSIF and is a more appropriate safeguard than requiring the Board of a credit union to review every application or renewal for fidelity bond coverage. Accordingly, we believe the examination process which reviews a credit union's internal controls is a superior tool to mitigate risk posed to the NCUSIF rather than increased Board oversight. As written, we believe the proposed rule not only creates an undue

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administrative burden to the Board but it also does not properly address the root cause of the issue which is the fact that credit unions were not establishing required internal controls.

RBFCU would also like to note that the NCUSIF losses were caused by a very small group of credit unions. Amending the regulation to create a significant regulatory burden on the entire industry is not an appropriate solution and does not properly address the root cause at hand. More emphasis should be placed on NCUA identifying a credit union's lack of internal controls through the examination process. Accordingly, we request that NCUA maintain the current regulation.

Conclusion

In closing, we would like to once again thank you for the opportunity to comment on this proposed rule on fidelity bonds which we feel is very important to our credit union and the credit union industry.

Sincerely,

Mark A Sekula

Mark Sekula
Chief Financial Officer, EVP
Randolph-Brooks Federal Credit Union