



Office of the President

22 January 2019

Mr. Gerard Poliquin  
Secretary of the Board  
National Credit Union Association  
1775 Duke Street  
Alexandria, VA 22314-3428

Re: RIN 3133-AE87  
Fidelity Bonds

Dear Mr. Poliquin:

Navy Federal Credit Union (Navy Federal) appreciates the opportunity to respond to the National Credit Union Administration's (NCUA) request for information regarding its proposal to amend its regulations regarding fidelity bonds. Navy Federal is the nation's largest natural person credit union with more than \$95 billion in assets and eight million members, and is resolutely committed to serving the needs and improving the financial condition of our members. In response to the NCUA's request for information, Navy Federal provides the following comments.

### ***Overview***

Navy Federal shares the NCUA's views on the importance of management oversight regarding fidelity bond coverage. However, we believe that the proposed rule's increased reliance on a credit union's board of directors and supervisory committee to review all applications for purchase or renewal of fidelity bond coverage would unnecessarily increase the burden on these volunteers without providing any measurable additional benefit.

### ***I. Oversight by the Board of Directors***

Currently, a credit union's board of directors must only review its fidelity bond coverage annually to ensure it is adequate.<sup>1</sup> The proposed rule would expand the board of directors' role by requiring it to directly review all applications for purchase or renewal of bond coverage. Current regulations covering a credit union's operations and procedures allow a director to rely on officers or employees of the credit union who he or she reasonably believes to be reliable and competent in the functions performed.<sup>2</sup>

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<sup>1</sup> 12 C.F.R. § 713.2

<sup>2</sup> 12 C.F.R. § 701.4(d)

The proposed rule justifies this increased responsibility as a way to mitigate possible rescission of coverage due to the signatory of bond coverage having knowledge of potentially fraudulent activity. Navy Federal appreciates the significance of ensuring appropriate coverage and preventing possible rescissions of coverage. That is why we have established and maintained robust procedures for reviewing applications for fidelity bond coverage. Our board of directors, consistent with current requirements, reviews and approves insurance coverage annually. In doing so, our board relies on experienced and trusted management officials to manage the day-to-day requirements, including reviewing applications.

In addition to relying on experienced management, Navy Federal has developed internal controls that provide for the segregation of duties that prevent any one employee at Navy Federal from controlling the entire process. With strong internal controls already in place, there is no evidence of increased risk or vulnerability that would justify these proposed changes. Importantly, we believe that the proposal would detract from a credit union's ability to determine what form of management and internal controls works best.

## ***II. Oversight by the Supervisory Committee***

Beyond increasing the role of a credit union's board of directors in determining fidelity bond coverage, the proposal also calls for a credit union's supervisory committee to conduct a separate review. NCUA justifies this proposed change by stating that it believes a separate review is a function that would fall under the responsibilities of a credit union's supervisory committee. Navy Federal disagrees with this view and believes that requiring a supervisory committee to conduct an independent review of insurance coverage is beyond the committee's scope as set by regulation.<sup>3</sup>

The role of a supervisory committee is to ensure that the board of directors and management of the credit union meet required financial reporting objectives and establish practices and procedures sufficient to safeguard members' assets.<sup>4</sup> In doing so, the supervisory committee must periodically perform an audit that determines if proper internal controls are in place. Part of that audit includes reviewing relevant policies and procedures established by the board of directors and ensuring that they are sufficient to safeguard against error, conflict of interest, self-dealing, or fraud.<sup>5</sup>

Navy Federal has consistently worked to manage and update its internal controls to adequately address potential risks, looking directly at potential conflicts of interest that could conceivably lead to self-dealing and fraud. We believe that a supervisory committee should remain focused on ensuring the adequacy of the credit union's management and should not be bogged down with a review that should reasonably be left to management that hold the requisite knowledge and experience required for such a technical matter.

## ***Conclusion***

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<sup>3</sup> 12 C.F.R. § 715.3

<sup>4</sup> 12 C.F.R. § 715.3(a)

<sup>5</sup> 12 U.S.C. § 1716d; *See Also* 12 C.F.R. § 715.3(b) and (c)

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Navy Federal believes that existing rules and guidance already adequately address issues that might arise when reviewing applications for the purchase and renewal of fidelity bond coverage. Requiring both the board of directors and supervisory committee to review each application would unnecessarily increase regulatory burden without a corresponding benefit. We recommend that the NCUA reconsider this portion of the proposal, and more carefully weigh its possible impact on the credit union volunteers who would be required to take on these additional duties.

Should you or a member of your staff have additional questions about our comments, please contact me, or my point of contact, Robert Carlisle, Chief Security Officer, at (703) 255-8398.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mary McDuffie", with a long horizontal flourish extending to the right.

Mary McDuffie  
President/CEO

MM/mc