



January 22, 2019

Mr. Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: *Comments on Notice of Proposed Rulemaking (Fidelity Bonds)*

Dear Mr. Poliquin:

The Pennsylvania Credit Union Association (PCUA) appreciates this opportunity to comment on the National Credit Union Administration Board's (Board) recent proposed rule to amend the regulations regarding fidelity bonds under Part 713 for natural person credit unions. PCUA is a state-wide advocacy organization that represents a majority of the nearly 400 credit unions located in the Commonwealth of Pennsylvania.

We had the opportunity to receive comments from some of our credit union members and those commenting oppose many of the proposed changes for the reasons below.

Part 713.2 – Board of Director Responsibilities

Currently, Part 713.2 requires the credit union's board of directors to annually review its fidelity insurance coverage for adequacy in relation to the potential risks facing the credit union and the minimum requirements set by the Board.

The proposed rule maintains the current requirement for annual review by the credit union's board of directors and adds additional requirements for the board of directors. The proposed rule requires the credit union's board and, if applicable, its supervisory committee to review all applications for purchase or renewal of its fidelity bond coverage. After the review, if approved, the board must pass a resolution approving the purchase or renewal and delegate one member of the board who is not an employee of the credit union to sign the agreement and all attachments. The signatory must rotate so that a board member is not signing consecutive purchase or renewal agreements for the same policy.

We are supportive of the board's existing general oversight of the bond coverage; however, the proposed changes create a burdensome process without the benefit that the Board is attempting to achieve. Our credit unions commented that this process would be difficult and onerous for the credit unions to handle. Currently, the process for many credit unions is that management handles the application process for the fidelity bond coverage and then presents the coverage to the board of directors for the adequacy review as required by current Part 713.2. If the board of directors was involved in reviewing the applications for coverage, the process could be slowed down significantly.

Additionally, the selection of the bond insurer is a duty that is best left to management. The board of directors of a credit union is generally concerned with overall policy, strategic planning, and direction of the credit union. To have the board of directors potentially making the selection of a bond insurer confuses the separation between board and management. It is also unclear in the proposed rule if the supervisory committee is also to be reviewing the applications for the bond insurer along with the board of directors or if one or the other is to be reviewing the applications. If the Board moves forward with this rule, we would request clarification of the supervisory committee's role in the selection of the bond insurer.

We understand the Board's concern with the potential for a voided insurance policy if the signatory of the policy were to be knowledgeable of fraudulent activity; however, the rotation of the signatories would not necessarily resolve the issues that the Board is trying to fix. If fraudulent activity is ongoing at a credit union, the insurer may impute knowledge to the signatory anyway.

Part 713.3 – Required Bond Coverage

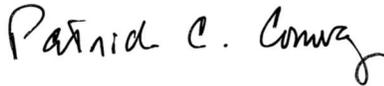
The Board proposes to amend this part to require fidelity bond coverage to include an option for the liquidating agent to purchase coverage that extends the discovery period, the period to discover and file a claim, for at least two years after liquidation. In the commentary to the proposed rule, the Board notes that it does not expect this proposed requirement to result in any additional cost or burden on federally insured credit unions.

Our credit unions do not oppose this requirement and do understand that the extended discovery period is necessary to uncover certain claims; however, they do believe adding the option for the liquidating agent to extend the discovery period would cost the credit union more. In speaking with one of the bond insurance companies, we were informed that this option would eventually add additional cost to the policy. Several of our credit unions suggested that the Board consider a rule that would include a tiered option for coverage, for example, an option for the Board to extend the discovery period for 1 year or 2 years as needed. This might reduce the expense to the credit union if the option was not always for a 2-year discovery period.

Conclusion

PCUA and its member credit unions urge the Board to reconsider the changes to Part 713.2 as the current role of the credit union board of directors in the review of the fidelity insurance coverage should provide sufficient oversight of the coverage. We generally support the Board's changes to Part 713.3 but would ask the Board to consider the potential increased costs to credit unions when finalizing this rule and explore options that could keep increases to a minimum.

With best regards,



Patrick C. Conway
President & CEO

cc: PCUA Board
PCUA Government Relations Committee
PCUA Regulatory Review Committee