OHIO CREDIT UNION LEAGUE

January 18, 2019

Gerard 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 Ohio Credit Union League (OCUL) welcomes the opportunity to submit comments regarding the National Credit Union Administration's (NCUA) proposed rule on fidelity bonds affecting corporate credit unions and federally-insured natural person credit unions.

OCUL represents Ohio's 267 credit unions and their 3 million members. Of those 267 credit unions, 145 are federally-chartered; 73 state-chartered, federally-insured; and, 49 state-chartered, privately-insured. Thus, a supermajority of Ohio's credit unions are directly impacted by the proposed rule which seeks to transfer a complex, internal operational item from credit union management to the credit union board of directors. As such, we write to the agency to articulate our concerns with the proposed changes to the fidelity bond regulations.

Corporate Credit Unions Already Have Adequate Regulation Regarding Fidelity Bonds

First, we wish to acknowledge the tremendous value corporates (especially Corporate One FCU) have brought to Ohio credit unions historically, bring to them today, and will bring to them in the future. Of course, the corporates are built on the same motivational foundation as credit unions: the cooperative business model. Corporates, along with their natural person credit union employees who serve as board members, work to create unique value for credit unions in essential business spaces.

Because we recognize the high value of corporates, we are concerned that the agency's proposed rule would unnecessarily interfere with operations and greatly impede the ability to purchase bond insurance. Our fundamental concerns with the proposed rule as it relates to corporates are:

- Requiring the supervisory committee to review all applications for the purchase or renewal of bond coverage is redundant (as the board is already providing oversight). Additionally, not all supervisory committees meet as frequently as the board of directors making it challenging to facilitate duplicative reviews;
- Mandating a non-employee board member sign the application may potentially impact the number of bond insurers who are interested in providing fidelity bonds to credit unions, as these insurers may take issue with a signatory who is not a credit union employee without the more intimate knowledge of a corporate operation; and,
- Reacting to losses to the share insurance fund by proposing overly restrictive regulations is not necessary or prudent.

Natural Person Credit Unions Are Best Equipped to Execute Bond Agreements at Staff Level

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Because of the complexities surrounding bond insurance, OCUL maintains that expert credit union staff are the best equipped to research, execute, and manage the credit union's bond insurance. Currently, the agency proposes to significantly increase the board of directors' oversight responsibility of bond coverage. Whereas the board of directors were previously required to annually review the coverage, moving forward, the board of directors would be intimately involved in the bond coverage process under the current proposal. The board of directors would be required to do the following: review all applications for purchase or renewal, pass a resolution approving the purchase, delegate one board, non-credit union employee, member to sign the purchase or renewal agreement and all attachments, and review the bond application every ten years.

Anecdotally, our credit unions report that each institution can spend up to one year shopping for bond coverage. This one year process requires the point person to be well versed in the financial industry, internal credit union operations, the insurance industry, and manage multiple expectations. Further, renewal can typically occur every three years. OCUL does not believe it is appropriate to delegate this process to a board member.

Credit unions seek to attract board members who are sophisticated and who each bring their own perspective and value to the credit union. Despite the challenge in attracting credit union board members, the agency proposes to add additional responsibilities to these board members who may be insufficiently equipped to deal with the comprehensive bond review process.

Finally, under the current rule proposal, federally-insured credit unions with supervisory committees will have an additional layer of controls. Supervisory committees would be required to review all applications for purchase or renewal of fidelity bond coverage. For credit unions who do not have supervisory committees, those credit unions would be required to implement controls or establish procedures for conducting an analysis of the fidelity bond coverage. While the agency is charged with maintaining the safety and soundness of the share insurance fund, not all reactive regulations are necessary; this being one example. Essentially, the agency is creating significant added work for internal credit union staff, as the staff will be responsible for managing the board of directors' and supervisory committee members' involvement in a variety of bond management processes, the benefits of which are unclear.

Conclusion

In summary, OCUL stresses the need for the agency to further refine the current rule proposal related to fidelity bonds. As with all other items that have stemmed from the Regulatory Reform Task Force, OCUL looks forward to further collaborating with the agency. We highly value NCUA's efforts to serve as a progressive regulator and its commitment to being a transparent agency, which includes adjusting rules and current proposal when necessary. If you have further questions or would like to discuss OCUL's comments in more detail, please feel free to contact us at 800-486-2917.

Respectfully,

Paul L. Mercer	Miriah Lee
President	Regulatory Counsel

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