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National Association of Federal Credit Unions
3138 10th Street North ● Arlington, VA 22201-2149
(703) 522-4770 ● (800) 336-4644 ● Fax (703) 524-1082
www.nafcu.org ● nafcu@nafcu.org

July 25, 2005

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Comments on Proposed Rule 713, Fidelity Bonds

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am responding to the National Credit Union Administration's (NCUA) request for comment on proposed amendments to NCUA's fidelity bond rules, 12 C.F.R. Parts 713 and 741. Among other things, the proposed rule would: (1) increase the maximum allowable deductible, currently $200,000; (2) alter the minimum required coverage; and (3) withdraw NCUA approval of Blanket Bond Form 23. In response to the proposed rule, NAFCU offers the following comments as outlined below.

Increase in Allowable Deductible

The proposed rule would keep the current method of basing the deductible on asset size but raise the maximum deductible to $1,000,000 for those credit unions that qualify under NCUA's Regulatory Flexibility Program. The proposed maximum deductible of $1,000,000 would be reached when a qualifying credit union has assets over $998 million. NAFCU supports increasing the deductible but believes that there are other factors in addition to asset size that should be considered when determining the deductible. These factors include the credit union's level of capitalization, net worth and loss history. NAFCU believes that proper consideration of these additional factors would render a clearer picture of the appropriate maximum deductible that should be allowed for an individual credit union.

Changes in Coverage Amounts

The Board is proposing that for credit unions with assets in excess of $500 million, the required fidelity bond coverage must equal one percent of the credit union's assets, rounded to the nearest $100 million, with the maximum required bond coverage set at $9 million. For smaller credit unions with assets of less than $4 million, the Board proposes required bond coverage of at least $250,000 or their total assets, whichever is less. NAFCU agrees that given the current economic climate, as well as increases in the incidence of fraud and identity theft, contemporary conditions necessitate an increase in fidelity bond coverage for both smaller and larger credit unions. This increase would better prepare credit unions to perform in the current risk environment.

Further, when considering whether to raise bond coverage above the required amount, NAFCU believes that there are additional factors that should be evaluated. These factors include the credit union's level of capitalization and portfolio structure, with particular emphasis being placed on consideration of the credit union's loss history. NAFCU also notes that it is impossible to mitigate all risk out of a credit union's balance sheet by increasing bond coverage, and a well run credit union provides for risk in a number of ways.

Rescission of Approval of Blanket Bond Form 23

The proposed rule would rescind NCUA approval of this bond form and remove it from the list of approved fidelity bonds as the Board believes it is outdated. NAFCU agrees that, due to the industry changes that have occurred in the fifty years since this form was last revised, the form is no longer relevant. Therefore, NAFCU supports NCUA's proposal to rescind approval of this bond form.

NAFCU would like to thank you for this opportunity to share its views on this proposed rule. Should you have any questions or require additional information please call me or Carrie Hunt, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 234.

Sincerely,

Fred R. Becker, Jr.
President/CEO

FRB/crh