



**CUNA & Affiliates**  
A Member of the Credit Union System

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Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Via E-mail: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

Re: Fidelity Bond and Insurance Coverage

Dear Ms. Rupp:

On behalf of the Credit Union National Association, I appreciate the opportunity to comment on NCUA's proposed amendments that would update its regulations regarding fidelity bond and insurance coverage for credit unions. By way of background, CUNA is the largest national credit union trade association, representing approximately 90% of the nearly 9,100 state and federal credit unions in this country, which serve more than 87 million members.

### **Summary of CUNA's Position**

- CUNA generally supports the proposed changes that would increase the maximum deductible to \$1 million for credit unions that are qualified under the agency's RegFlex Program and have assets of over \$200 million.
- We also think the agency could use net worth standards under prompt corrective action to permit, for example, well-capitalized credit unions to qualify for the higher deductible. This approach could be advantageous, given the requirement under the agency's newly issued proposal on RegFlex that qualifying credit unions would have to maintain 7% net worth for six consecutive quarters in order to qualify for RegFlex status.
- CUNA supports a waiver process under which credit unions that no longer qualify for the higher deductible could have more than the 30 days NCUA is proposing to obtain the required coverage.
- The proposal would also increase the minimum bond coverage for credit unions with assets over \$500 million and for credit union with assets of less than \$4 million. While CUNA does not oppose these changes, we believe there should also be a process



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under which credit unions on a case-by-case basis could apply for and receive an exemption from the requirement for additional coverage or receive more time to meet the new coverage requirements.

## **Discussion**

### **Higher Deductible for Larger Credit Unions**

The current rule on fidelity bond and insurance coverage limits the maximum deductible to \$2,000 plus one one-thousandth of total assets, up to a total of \$200,000. The effect of this approach is that credit unions that have assets of just under \$200 million are limited to a deductible of \$200,000. The Board recognizes that larger, well-run credit unions which are well-capitalized and able to manage risk should be permitted a higher deductible. Thus, the agency is proposing to retain the basic formula for determining the maximum deductible but allow credit unions that have assets of over \$200 million, and that meet the requirements of RegFlex, to have a maximum deductible of \$1 million.

This is a positive regulatory change, and we support it. We would also support a simpler approach and that is, to base eligibility for the higher deductible on whether a credit union meeting the asset criterion is well-capitalized under prompt corrective action. The proposed changes to the RegFlex program recently issued for comment will require a credit union to have 7% net worth for six consecutive quarters to be eligible for the program. Credit unions that are well-capitalized and have assets of over \$200 million should be able to qualify for the higher deductible even if they are not in the RegFlex program.

The proposal would require a credit union that has been eligible for the higher deductible but that no longer meets the requirements must notify its NCUA regional office and obtain higher required coverage within 30 days. While this approach sounds reasonable, we recommend that NCUA allow waivers or a process under which credit unions could work with their regional offices on a case-by-case basis to receive more time to obtain the additional coverage.

### **Increased Minimum Coverage for Larger and Smallest Credit Unions**

NCUA is proposing to increase the maximum coverage required for credit unions with assets of more than \$500 million. Currently the maximum coverage is \$5 million, set in 1977, and the agency would raise that level to \$9 million, citing several reasons for the increase such as safety and soundness. NCUA would also increase the coverage requirement for smaller credit unions. Under the proposal, credit unions with assets of less than \$4 million would be required to have coverage equal to \$250,000 or total assets, whichever is less. The Board said that most of the 2,500 credit unions with assets of under \$4 million already have bond coverage of \$250,000 or higher.

CUNA does not oppose the higher coverage but encourages NCUA to permit credit unions, large or small, to obtain additional time to comply or even be exempt from the higher coverage level. For example, a very well-run credit union may be able to demonstrate why it does not need the additional coverage. In any event, particularly for

the smaller credit unions, we urge NCUA to provide ample time for them to meet any new minimum coverage requirements and to monitor whether the new required coverage requirements are burdensome.

### **Additional Coverage**

NCUA is seeking comments on factors that might require insurance coverage in excess of what NCUA requires. We believe this is a business judgment for every credit union and that NCUA should work with leagues, insurance companies and credit unions to develop best practices that identify activities and circumstances under which additional coverage might be warranted.

Thank you for the opportunity to express our views on the proposed changes on fidelity bond and insurance coverage.

Sincerely,

Mary Mitchell Dunn  
CUNA Senior Vice President and  
Associate General Counsel