

July 25, 2019

Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear NCUA Board of Directors:

Re: Comments on NCUA's Public Unit and Nonmember Shares Proposal

On behalf of First Source Federal Credit Union (First Source), I would like to provide the following comment letter regarding the National Credit Union Administration's proposed public unit and nonmember shares rule, as revised, that was recently approved and submitted for public comment by the NCUA Board. We appreciate the opportunity to express our support regarding the positive impact of the proposed rule, if finalized as proposed, on the asset-liability management options of credit unions as they grow to serve their members better.

Regulatory Landscape

The current rule was implemented 30 years ago largely as a result of asset/liability management issues that occurred at certain credit unions. In the view of First Source, it has not kept pace with the ever-changing credit union industry. Thirty years ago, the majority of members were much more savings minded. Today financial institutions are in the midst of what many have labeled a "savings crisis" in the United States; and in low-income designated areas such as the two county community charter served by First Source, loan growth is outpacing organic member deposit growth by about two to one. As a result, the Credit Union has a growing need for additional sources of liquidity so that it can continue to effectively serve the underserved.

The recent trends at First Source project the Credit Union to reaching the current 20% nonmember shares regulatory limit within the next several years. The implementation of this proposed change will allow a buffer for First Source in the likely event that the current projections that significant loan growth will continue for the foreseeable future, along with the projections that the growth and retention of deposits (although it will remain the primary focus of any successful credit union in meeting both its members deposit and loan needs) also seems likely to remain uncertain. Furthermore, as more financial institutions inevitably face the same liquidity concerns, the demand for core

deposits will almost certainly increase, further impacting their availability. It should be noted that while First Source Federal Credit Union is a federally chartered credit union, we operate in the State of New York which prohibits the Credit Union from accepting municipal share deposits. Therefore, the Credit Union's asset-liability mix for future liquidity needs must incorporate non-member deposits other than municipal deposits.

Municipal share deposits and nonmember shares are the functional equivalent of borrowings; therefore, in our view, they should be treated as such from a risk perspective and subject to the same limit as established in the FCU Act. The proposed 50 percent (of paid-in and unimpaired capital and surplus less any public unit and nonmember shares) regulatory limit will enable us to more adequately leverage our asset-liability management needs and seek more reasonably priced funding options. From the First Source perspective, nonmember shares can be a more stable and cost-effective source of funding than borrowing.

Deposit Trends

Despite the Credit Union's efforts to increase organic member deposits, First Source continues to face challenges in this area as a low-income designated credit union. First Source, like many others in the industry, face challenges with both deposit retention and growth. This supports the need for greater capabilities in nonmember shares. First Source's primary liquidity strategy has been to use nonmember shares as longer-term deposits, and to use borrowings for more short-term (and seasonal) needs. This strategy has worked well, as the credit union has utilized borrowing as a secondary liquidity strategy – or a solid backstop, if you will - because borrowings can generally be obtained the same day or within one business day as the need arises.

First Source remains fully committed to further enhancing its deposit strategy, which is a key focus area for 2019 and beyond. The new regulatory limit would provide an enhanced contingency plan for potential external events that remain out of the control of the Credit Union, for example shocks to the local and national economy.

Serving the Underserved

First Source Federal Credit Union, as a low-income designated credit union, is committed to serving underserved residents within Oneida and Herkimer counties. The Credit Union is well positioned to serve underserved residents with its current product offerings. Many residents in underserved areas within the community require basic low-cost financial services that are at the very core of the First Source product lines. The Credit Union has a long history of reaching out to its low-income and underserved members, and of serving a diverse membership base that includes many low-to-moderate income individuals. First Source is proud of its record, having doubled lending to members with challenging credit histories over the last five years. In addition,

the Credit Union has also provided valuable services to various small to medium sized businesses.

First Source Federal Credit Union identifies organizations and groups that the Credit Union can adopt, support and partner with to impact the community in a positive way. First Source Federal Credit Union's community relations goals include:

- Continuing to serve as a key corporate citizen in the community;
- Maximizing efforts to reinforce the Credit Union's brand;
- Enhancing our presence in the underserved markets; and
- Increasing overall awareness for the affordable products and services offered by First Source Federal Credit Union.

Conclusion

As a result of this proposed change, it is expected the credit unions such as First Source will have additional asset-liability management options necessary to continue to serve current and future members through the Credit Union's various lending products. It will also assist the Credit Union in extending affordable lower-cost financial products and services to the underserved residents of the communities in which it has been chartered to serve. Many of the residents of the community First Source serves do not currently have access to such services. Additionally, this increased ability to make a difference in the lives of its members will enable First Source to preserve its spirit of community giveback, both through funding and employee involvement with our community partners.

We applaud NCUA for taking this proactive approach to positive regulatory change. Thank you for the opportunity to comment on this proposed regulation. Again, we support the efforts of the NCUA to further enable low income designated credit unions, such as First Source, to better serve the underserved. First Source FCU urges NCUA to finalize the proposed rule to expand the public unit and nonmember shares limit to 50 percent.

Very truly yours,



Thomas Neumann
President/CEO