
CREDIT UNION DIGEST

10 to 15 CU-buying-bank deals in 2018 not 'crazy at all'

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By Ken McCarthy and Syed Fariq Javaid

U.S. credit unions in 2018 have been buying banks at a pace that could ultimately more than double the total number of such deals announced last year.

Ferndale, Mich.-based Credit Union ONE in May agreed to buy Southfield, Mich.-based Hantz Bank, which marked the sixth deal announced in 2018 in which a credit union is buying a bank. There were six credit union-buying-bank deals announced in 2017, although one of those was later terminated.

"I don't think ten to 15 deal announcements [of this kind] this year is crazy at all," said Dennis Holthaus, managing director at Skyway Capital Markets. "Strategically, credit unions want to grow, but organic growth is difficult to achieve at a reasonable cost."

US credit unions buying banks since 2012

Buyer	Target	Target state	Announcement date	Deal status	Total assets announcement (\$M)	
					Buyer	Target
CU ONE	Hantz Bank	MI	05/04/18	Pending	1,173.5	228.6
Mid Oregon FCU	Certain assets and liabilities	OR	03/28/18	Pending	273.3	20.5
LGE Community CU	Georgia Heritage Bank	GA	03/22/18	Pending	1,243.9	94.7
Evansville Teachers FCU	American Founders Bank Inc.	KY	03/12/18	Pending	1,456.3	113.4
Superior Choice CU	Dairyland State Bank	WI	02/20/18	Pending	413.7	79.1
Achieva CU	Preferred Community Bank	FL	02/14/18	Pending	1,524.4	117.6
SRP FCU	Southern Bank	GA	11/29/17	Pending	851.1	80.3
Georgia's Own CU	State Bank of Georgia	GA	11/10/17	Pending	2,267.1	95.7
Lake Michigan CU	Encore Bank	FL	08/07/17	Completed on 04/20/18	5,180.3	396.8
Honor CU	Citizens State Bank of Ontonagon	MI	05/05/17	Terminated on 01/31/18	734.9	56.1
Trona Valley Community FCU	State Bank	WY	05/04/17	Pending	189.1	37.0
Advia CU	Peoples Bank	WI	01/09/17	Completed on 09/01/17	1,342.1	232.8
IBM Southeast Employees' CU	Mackinac Savings Bank FSB	FL	11/15/16	Completed on 05/31/17	946.7	109.5
Family Security CU	Bank of Pine Hill	AL	08/26/16	Completed on 03/03/17	577.1	24.8
Royal CU	Capital Bank	MN	04/27/16	Completed on 08/26/16	1,788.7	35.9
Advia CU	Mid America Bank	WI	02/18/16	Completed on 08/01/16	1,184.1	83.4
Avadian CU	American Bank of Huntsville	AL	08/24/15	Completed on 04/30/16	607.0	123.1
Achieva CU	Calusa Financial Corp. Inc.	FL	05/05/15	Completed on 11/30/15	1,125.7	166.1
Five Star CU	Farmers State Bank	GA	02/18/15	Completed on 11/01/15	317.7	47.2
Five Star CU	Flint River National Bank	GA	09/03/13	Completed on 06/01/14	255.9	22.8
Municipal Employees CU of Baltimore Inc.	Advance Bank	MD	04/04/13	Completed on 12/12/13	1,224.7	60.8
Landmark CU	Hartford Savings Bank	WI	09/25/12	Completed on 02/28/14	1,979.9	194.0
GFA FCU	Monadnock Community Bank	NH	03/01/12	Completed on 12/28/12	345.1	82.6

Data compiled June 8, 2018.

Analysis includes U.S. bank and thrift whole-company deal announcements from Jan. 1, 2012, to June 8, 2018, where the buyer is a U.S. credit union.

Total assets as of most recent quarter available at deal announcement date.

Source S&P Global Market Intelligence

In an interview, Holthaus said there are a number of factors resulting in the increase in frequency of those deals, including community banks of \$300 million in assets and less looking to sell but failing to show up on the radar of bigger banks that have a liquid stock to offer.

And more small banks are actually seeking out credit union buyers because credit unions pay cash and are often in a financial position to pay competitive multiples for a community bank. Additionally, community bank boards and management teams know that a credit union buyer will treat the bank's customers and staff in the same way that they treat them themselves, Holthaus said.

Another factor is that credit union mergers between same-size partners looking for growth are tricky. The social issues in a credit union/credit union merger – board composition, post-merger CEO, operating name, corporate headquarters location etc. – are often difficult to overcome.

Dothan, Ala.-based Five Star Credit Union has closed two bank deals. The company acquired Camilla, Ga.-based Flint River National Bank in 2014 and then Lumpkin, Ga.-based Farmers State Bank the following year.

President and CEO Robert Steensma said in an interview more credit unions have realized that bank purchases are possible.

"We live in a fairly narrow box most of the time – or at least the regulators want us to – and we just didn't know it was possible that we could do that," Steensma said.

The integration involved with buying a bank was not that different from merging with another credit union, Steensma said. But one difference was that some education with the acquired banks' customers was required to explain not just who Five Star is but in many cases also what a credit union is.

There is some runoff of accounts but for the most part people were receptive once they understood that Five Star was not that different from the banks they were used to.

"We're speaking the same language but maybe with a different accent," Steensma said.

Five Star looked at three credit union mergers and two bank acquisitions in 2017 and has examined one potential bank purchase so far this year, but has not found a good fit yet. "But we still have the appetite to do it," he said. An ideal bank target would be less than \$100 million in assets, according to Steensma.

Holthaus said branch expansion is expensive and it takes years for a de novo branch to get to a breakeven point much less make an acceptable return on investment. So credit unions are increasingly asking themselves why not acquire a bank instead.

"I really believe over the next few years, as credit unions evaluate their capital management plans, bank acquisitions will work their way into more credit union strategic plans," he said.

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