

## Credit unions continue buying banks as need for deposits grows

From: S&P Global Market Intelligence  
Sep-25-2018 2:44 PM

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With the latest transaction in the Pacific Northwest, 2018 is on pace to eclipse the number of credit union-buying-bank deals from the previous two years combined.

Tacoma, Wash.-based Sound CU on Sept. 21 announced that it agreed to acquire substantially all the assets and assume substantially all the liabilities of Lynnwood, Wash.-based Bank of Washington.

It was the eighth deal announced in the first three quarters of 2018 in which a credit union is buying a bank. There were six such deals announced in 2017 — although one of those was later terminated — and four agreed to in 2016.

Sound CU President and CEO Donald Clark Jr. said in an interview that the organization has completed a number of mergers with credit unions, but this time around it was presented with the opportunity to acquire a bank and thus expand its branch footprint from Everett to Tumwater.

"Sound did not choose a bank instead of a credit union, but evaluated and determined that this particular partnership made sense for both organizations," he said.

Clark also touted the cultural similarities between the organizations. He said they share a commitment to serving employees and members/customers with an emphasis on developing relationships. Additionally, Sound and Bank of Washington's lending teams are experienced in serving the markets in Snohomish and King counties, he said.

Almost 95% of the bank's loan portfolio is in real estate, so Sound will be able to expand business offerings to its current members while extending consumer opportunities to Bank of Washington clients. Sound has more than \$1.5 billion in assets and 120,000 members while Bank of Washington has over \$200 million in assets and 2,300 clients.

Sound also acquired all of Bank of Washington's \$200 million in deposits, but Clark said the appeal of the deal was more than just deposits. He said the overall value of the bank's customers, loans, branches, employees, products and services made it too good for Sound to ignore.

Dennis Holthaus, managing director at Skyway Capital Markets, told S&P Global Market Intelligence that credit union acquisitions of banks are strategic by their very nature. And while he would not characterize the credit union strategy as being the pursuit of deposits only, he said core deposits are certainly one of several areas of great interest to an acquirer and can result in a higher multiple being paid for a bank.

"However, not all community banks are created equal in regards to their deposit mix," he said. "That's why core deposits are only one area of interest."

Skyway, which advises credit unions on bank purchases, has found that deposit retention post-merger is "extremely important" to an acquirer. For the most part, the more significant depositor relationships tend to be with businesses, and the stickiness of the deposit relationship is typically the result of an attentive relationship manager at the bank, Holthaus said. And while the acquiring credit union can try to replace the bank relationship manager with its own team member, the trust that is necessary in a relationship takes time to develop and, in a lot of cases, may not occur with a change of personnel.

As a result, the retention of the bank relationship manager becomes more important, he said. Sound said it has no plans to lay off any Bank of Washington employees.

With the cultural similarities between credit unions and community banks often being so great, retention of key executives should not be difficult as long as the credit union recognizes the importance of the bank relationship manager, Holthaus said. Because buyers are almost always larger than the acquired bank — and in many cases substantially so — the pay packages the credit union offers are often more than competitive compared to that of the bank, Holthaus said.

Bank of Washington President and CEO Martin Steele said the deal rewards Washington Bancorp Inc.'s long-term shareholders, who will receive approximately \$6.40 in cash per share, based on the outstanding shares as of the date of the purchase agreement. Steele will join Sound as market executive.

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Sound was advised in the deal by Howard & Howard as legal counsel. Michael Bell, a lawyer with Howard & Howard, said the deal marks the first credit union purchase of a whole bank in Washington state. "This serves as additional proof that this is a viable option for [credit unions] and banks nationwide," he said. Bell expects to see two more announcements soon involving credit unions buying bank branches.

In terms of future deals for Sound, Clark said the company is always evaluating opportunities to improve service to its members as well as opportunities for strategic growth and expanded employee experience.