

# 2019 shaping up to be a banner year for CU-bank M&A

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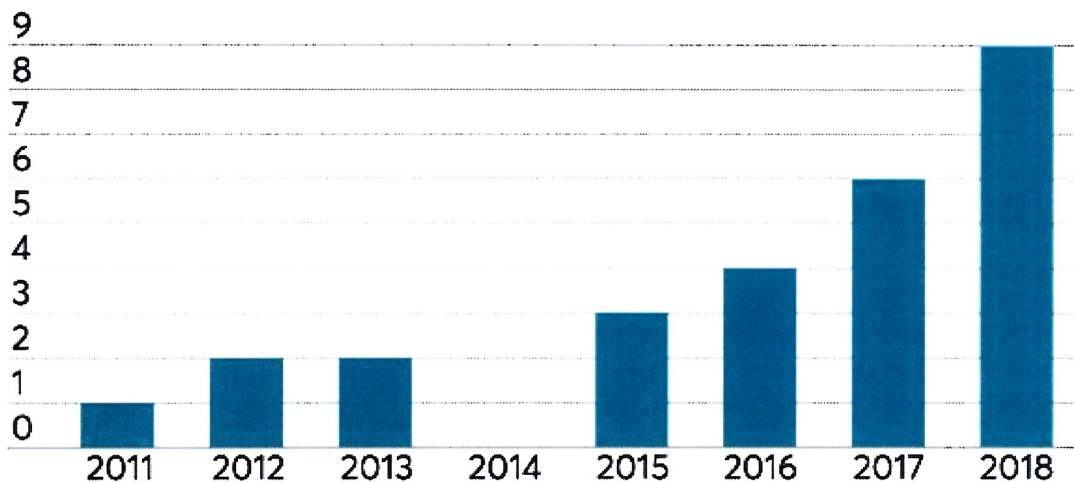
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The number of deals involving credit unions buying whole banks has been on the rise, and 2019 could see double last year's total.

Nine whole-bank acquisitions were disclosed in 2018, and another two deals have already been announced this year, with another one potentially on the horizon in Arkansas.

## Strange bedfellows no more

As more credit unions buy banks, some analysts predict 2019 could see twice as many deals as last year



Source: KBW and S&P Global Market Intelligence

Rodney Showmar, CEO of Arkansas Federal Credit Union in Jacksonville, Ark., has made no secret of his desire to buy a bank. The credit union has been looking at

deals for about two years, and Showmar said it has been in negotiations with banks a handful of times.

With credit union growth starting to slow after several strong years, many CUs are turning to bank purchases as a way to grow quickly rather than relying on organic growth or mergers with other credit unions, many of which might be smaller and not provide a significant boost in assets or members.

Arkansas FCU hasn't yet been able to reach an agreement with sellers, but Showmar said he anticipates at least one bank acquisition being announced this year and possibly another in 2020.

The credit union is primarily focused on targets in Arkansas, but Showmar said management is not opposed to buying banks in surrounding states, although managing resources from a distance can be challenging. "It makes it more difficult, but it doesn't make it impossible," he said. "If the right opportunity came along in Memphis, Tenn., we'd be all over it."

Arkansas FCU would also be open to growing through a merger with another credit union, but Showmar believes there are more opportunities in the bank space. "Banks have more urgency and propensity to sell than credit unions do to merge," he said.

Six credit unions announced deals to buy banks in 2017, though one of those was ultimately called off. That number jumped by 50% last year and could increase even more in 2019.

"My best estimate is that there could be double the number of deal announcements when compared to 2018," said Dennis Holthaus, managing director at Skyway Capital Markets. The firm has advised several credit unions on bank acquisitions.

Both deals announced this year involved Florida sellers and Holthaus, who is based in the state, said the Sunshine State is a long-term growth market with a reasonably

large number of community banks. Its current economic strength makes it a good time for banks to sell as well.

Michael Bell, a lawyer at Howard & Howard in Royal Oak, Mich., who has assisted in several bank purchase deals, said he also expects Florida to be a major spot for CU-bank purchases.

"There are plenty of great banks for sale or that will be for sale," he said. "There is a lot of runway left."

Bell also said he expects some very large credit unions to become more active with such deals.

The largest credit union to buy a community bank thus far is \$8 billion-asset VyStar CU in Jacksonville, Fla., which announced in January that it was buying Citizens State Bank in Perry, Fla.

According to Holthaus, roughly the same amount of work goes putting together a \$100 million transaction as does a \$1 billion transaction, which means larger credit unions looking for growth opportunities are often more likely to target larger banks.

"It takes a larger deal to have a noticeable impact on the buyer's net income," he said. "The large buyers are looking for membership growth, which is not going to come from a small transaction."

But not everyone is aiming that high.

Eric Mangham, CFO at Arkansas FCU, said the credit union's ideal bank target would be one with \$300 million or less in assets and with a complementary balance sheet and risk profile. He said it would also be a positive if the acquired bank offered a product the credit union does not, such as agricultural or Small Business Administration lending.

Core deposits are becoming more valuable as interest rates rise, so the value of banks with those relationships is rising too, Mangham said. But he stopped short of saying bank pricing has risen lately.

And even as more CUs acquire banks, one observer said the tables could also turn.

Blaine Jackson, CEO of NewDominion Bank, a division of Park National, said some banks might attempt to acquire a credit union to remove a competitor from the market. That could be a tougher sell, however, since a credit union's membership would have to vote to approve the deal.

Holthaus said he, too, can envision such deals because community banks want to grow their assets, their customer bases and their branch footprints just like credit unions do.

But the bank would have to be in a position to pay the market value for a credit union in cash.

"It would be difficult, if it could be done at all, to use stock as their currency in a transaction," he said.

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