Latest credit union-bank deal in Florida

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Yet another Florida credit union is buying a bank.

After the market closed on Wednesday, the $655 million-asset Power Financial Credit Union in Pembroke Pines announced that it had agreed to buy the $204 million-asset TransCapital Bank in Sunrise.

Under the terms of the agreement, Power Financial will purchase all of the issued and outstanding shares of TransCapital Bank. The deal is expected to close in the third quarter. A purchase price was not disclosed.

Power Financial has six branches and 32,000 members, while the bank has 2,500 customers.

This marks the fourth deal announced this year where a credit union is acquiring a bank. In each case, the seller was based in Florida. In February, the $2.2 billion-asset Fairwinds Credit Union in Orlando said it would buy the $95 million-asset Friends Bank in New Smyrna Beach.

Two of the nine credit union-bank deals announced last year were also in the Sunshine State.

Dennis Holthaus, managing director at Skyway Capital Markets, which advised Power Financial on the deal, said he is confident there are plenty more credit union-bank deals to come with some potentially outside of Florida.

The benefits of expanded markets and branch footprints, additional members, enhanced earnings and capital and the ability to introduce the credit union mission to more people are providing a powerful incentive to buy a bank.

"More and more credit union boards are evaluating the strategic implications of acquiring a bank and more and more boards are developing plans to do so," Holthaus said.

Holthaus said it is also interesting to note that some banks are starting to evaluate opportunities to acquire a credit union. Such a deal has not been completed for more than 10 years when Nationwide Bank in Ohio bought Nationwide Credit Union.

But bank sales to credit unions have become more popular in part because smaller bank sellers struggle to generate interest from larger bank buyers, said Richard Garabedian, an attorney with Hunton Andrews Kurth. He said credit unions are willing to pay more than a comparably-sized bank because they have no shareholders to answer to and do not have to deduct goodwill from their capital compliance requirements.

How most of the transactions are structured typically generates a double tax – one at the corporate level and one at the shareholder level. Because of that, credit unions often have to overcome the corporate tax impact with their bids to ensure the shareholders would receive the highest consideration for their shares, Garabedian said.

The downside to the bank's shareholders in a sale to a credit union is that they have to recognize income from the sale of their shares. In a bank-to-bank merger where stock is used, there is no immediate recognition of a gain. That only occurs when the shares are actually sold by the shareholder, Garabedian said.

Research developed by Prof. David Walker and his colleagues at Georgetown University's McDonough School of Business found that credit unions have exhibited strong performance after acquiring banks and thrifts – even those banks that were in relatively weak financial positions. In numerous cases, the acquisitions broadened the scope of activities and services for the acquiring credit union, he said.

The Georgetown analysis found that the acquiring credit unions have larger returns on capital and assets than similar credit unions that have not acquired a bank. And since the acquisitions, the buyers have become less risky and are lending a larger share of their deposits.

The acquiring credit unions have an expanded list of traditional bank products that they did not offer before the deal or that made up only a small part of their asset portfolios, Walker said. He added that it would not be surprising if as many as seven or eight more credit union-bank deals were announced in 2019.

Since 2012, five credit unions, including Five Star Credit Union in Dothan, Al., have acquired more than one bank.

Bob Steensma, president and CEO of Five Star, said that since purchasing its second bank in 2015, the credit union has been approached about other acquisitions, but it has found that the pricing was too high.

"One of the strategic moves we are seeing right now is to buy a bank for the deposits," he said. "But that's not something Five Star needs at the moment."

Five Star is interested in future bank purchases, but deals have to be at the right price, location and situation.

"That hasn't presented itself to us since 2015," Steensma added.

For Power Financial, Igler Pearlman was legal counsel and Skyway Capital Markets was its financial advisor. TransCapital retained Smith Mackinnon as legal counsel and Hovde Group as financial advisor.

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