



# Mergers, Acquisitions, Charters & Other Tools to Solve Strategic Challenges

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# Roadmap

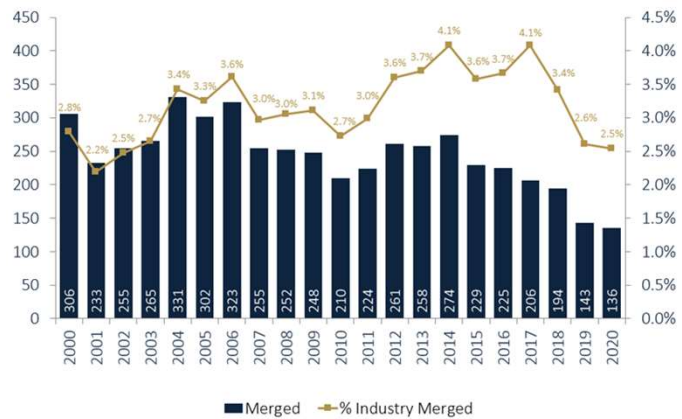


Strategic Growth Through:

- Mergers
- Field of Membership Growth (apart from a merger)
- Acquisition of branch and/or bank assets
- Secondary Capital

## Mergers are Common Events

- 1969 = 23,866 Credit Unions
- 2018 = 5,600 Credit Unions
  - More than 75% decrease
  - 2020 = Just above 5,000
  - We've gone from a peak of 23,866 credit unions in 1969 to about 4,990 today.
- 200 to 300 mergers per year
- 2021 as of Q4, 161 consolidations



## How Many Mergers Can We Have?



- Need to consider
  - Strategy
  - Audience – where do our new members really come from?
  - Charter viability
  - Regulatory views
- But
  - Sophistication of Credit Unions and financial institutions
  - FinTech space is growing at exponential rate

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## What is in the best interests of the Members?



- Fiduciary duties
- Due diligence
- Value proposition [quantitative v. qualitative]
  - Staying Relevant
  - How will the combined entity reflect your membership?
  - What is your comfortable with/Why is it a good “good fit”?
  - Future Combined entity (post-merger 1-5 & 5-10 years)
  - Is your CU willing to “give” something to “get” something?

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## Merger as Succession Plan?



- Proposed Rule
  - Follow on from:
    - Fiduciary Duty
    - Merger Related Financial Arrangements
- Public Scrutiny

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## Models to Consider



- Merger of Peers? Filene's "Network Credit Union"
  - Letter to CUs 99-CU-17
  - <https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/guidance-credit-unions-use-more-one-name>
- Concepts: "Acquisition" vs proportionate "Merger of Equals"
- Fundamental change in any event
- Looking through multiple lenses
  - MCU: Do they have other suitors?
  - Look to FOM and requisite rules.

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## Key Question: The Board Combination Challenge

- Size/Balance: Combine then reduce?
- Table Officers
- Co-Chair format is disfavored
- Core competencies of a Board
- Are there succession planning opportunities?
  - CUSO Board?
  - Advisory Board?
  - Associate volunteer positions?
  - Supervisory Committee?

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- Offer/Acceptance/Letter of Intent (LOI)
- Supplemental Merger Agreement (“SMA”)
- Merger Application (SSA/NCUA)
  - Special Rules for Large Mergers
  - 24 months of Board Minutes
  - MRFA (Merger Related Financial Arrangement) and the Notice
- Member Vote (75+ days)
- FTC Application
- Legal Day (LD) 1 versus Operational Day (OD) 1

**Reminder:  
Process is Longer!**

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## Strategic Alternatives

- Why do we talk about mergers so much?
  - Easier?
  - Faster?
  - Better?

## Back to Basics

Field of membership  
& Your institution's audience

# Gardening Your Charter



- Keeping up with what you have
  - Tracking & updates
- Deciding what is right for your strategy
  - One state?
  - An industry?
  - Other paths
- Shoe-leather to get something new
  - All expansions take work

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## FOM Flexibility



- Associational Common Bond
  - Easy does not necessarily mean safe
  - Your mission vs your FOM's mission
  - Form your own?
    - With a time machine

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# Communities



- California state charter (& others) vs Federal
- Federal Community Limitations
  - You get ONE!
  - “well defined local community”
  - Geographic differences in appeal
- Underserved?
  - Multiple common bond FCU
  - Its own challenges – qualifying areas

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# More Audience Through Eyeballs



- Sponsorship Deals
  - Paying for an ad
  - Or a true opportunity to engage?
- Influencers
  - What are you getting?
- Employers
  - Old fundamentals
  - But harder with large institutions

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# Market Concentration – Branch Acquisition

Get more of the audience you already have

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## Branch Acquisition

- Membership & Memberization
  - Low Income Credit Union?
  - Eligible obligations
- Economics
  - Premiums (2 to 6%?)
  - “balance sheet neutral”?
- Are bank branches different?
  - Needs approval

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# Fueling Growth – Secondary Capital

“But my net worth ratio!”

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## Opportunities Come with Cost

- Costs
  - Growth dilutes ratios, Growth costs income
- Economics of Subordinated Debt
  - 10 year note, 4.5% to 5%, repaid years 6 through 10
    - INFLATION!
  - Liability, but counted toward net worth ratio
- Available to:
  - Low-income credit unions
  - Complex = over \$500 million in assets
- Limits

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# Use Cases



## LOAN GROWTH

- Cash in, use to fund loans
- Income from loans offsets increased cost of funds
- Replacement for capital in place by payoff

## DEPOSIT RELATIONSHIPS

- Equity in, use to invest in:
  - People
  - Infrastructure
- Equity offsets (some) growth in deposits
- Use new relationships to develop loans & later income

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# Dealing with Growth

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# Derivatives & Balance Sheet Management



- Growth Leading Toward \$10 billion
  - Are you ready?
  - Throttling “opportunity” for time
- Larger Balance Sheet = Larger IRR Issues
  - Hedging → Derivatives
  - NCUA Rules
  - State Regulatory Permission

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## Secondary Market



- Participations
- Fannie, Freddie, etc.
- Securitization?
  - Coming attractions

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# Questions?

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