LEARNINGS FOR YOUR NEXT MERGER: MASTERING THE PROCESS FROM INTENT TO AGREEMENT

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Avoiding distractions and remaining focused on the strategic intent of the merger can help executives unwind from analysis paralysis as they move beyond the initial letter of intent and draft a definitive agreement. Leverage these key themes to stay on a straight path and assign the proper value to the overall merger vision.

When organizations decide to pursue a merger, the process is a complex one, so nailing down as many of the details as possible in the Letter of Intent (LOI) phase is key. Whether it's protecting members' interests, ensuring legal and regulatory compliance, clarifying governance, understanding staffing and culture (including a detailed internal & external communication plan), or just developing the needed plans for short- and long-term integration, it is critical that credit unions make key decisions around several different areas.

Nailing down more detail at the LOI phase will make the process of putting together the Definitive/Supplemental Merger Agreement (DMA/SMA) much easier for all involved.

Let's explore several themes critical to preparing leaders for well-intended LOI and SMA conversations.

1. Protecting Members' Interests

Credit unions exist for their members, not shareholders. A merger impacts members' accounts, services, rates, fees, and even branch access. A thorough agreement ensures the new entity continues to serve the members' best interests and clearly spells out what changes (or stays the same).

2. Legal and Regulatory Compliance

Credit union mergers must meet strict guidelines set by the National Credit Union Administration (NCUA) and possibly state regulators. The merger agreement needs to address everything those bodies require to avoid legal headaches or delays. These guidelines typically encompass transparency in member communications, adherence to financial soundness standards, and operational readiness. By carefully aligning the merger agreement with these regulatory expectations, credit unions can safeguard the integrity of the merger while expediently moving through the review and approval stages.

3. Clarifying Governance

Who's going to be in charge after the merger? Will both boards combine, or will one take the lead? Determining governance ahead of time avoids power struggles and ensures a smooth leadership transition. In addition, this clarity not only prevents confusion but also fosters confidence among stakeholders and employees, setting the tone for a unified vision for the future.

4. Financial Transparency

You're combining two financial institutions. That means aligning balance sheets, assessing risks, and understanding how each organization's assets and liabilities will be managed. The agreement must clearly define how the finances will be merged and managed going forward.

5. Staffing and Culture

Employee retention, role changes, benefits, and organizational culture all need to be considered. A vague agreement can lead to uncertainty, low morale, or high turnover — things that can really hurt the new credit union's performance. By addressing these aspects proactively – and in writing - credit unions can foster a smooth transition that prioritizes employee well-being and productivity.

6. Technology Integration

Merging core systems, mobile banking, and cybersecurity protocols are complex and expensive processes. Laying out how and when systems will be integrated (and who pays for what) helps avoid massive disruptions for members and staff. While this effort requires deep expertise, we caution involving too many hands-on keyboard [pun intended] participants.

ALM First's internal liquidity stress testing model, called Liquidity OnDemand, coupled with its professional services, have enabled many institutions to navigate liquidity risk management. Contact us to learn more about how your depository may benefit from our Liquidity OnDemand stress test tool or other solutions.

7. Future Planning

The merger agreement often includes long-term goals or exit clauses. What happens if the merger doesn't go as planned? What if one party wants to unwind it? Setting expectations early is better than scrambling later. These plans should address unforeseen challenges, such as economic downturns, regulatory changes, or operational inefficiencies. Establishing clear benchmarks for success and mechanisms for regularly reviewing progress can provide both organizations with the flexibility to adapt.

Why are these merger steps so important? Because details matter. Furthermore, the DMA/SMA legally binds the two credit unions and outlines the specific details of the merger, ensuring that all parties agree with the final terms. It's also critical in setting the foundation for the merger application and future, combined credit union. After all, communication and transparency are key ingredients in the secret sauce of success.

And it's never wrong to do the right thing today to set up stakeholders for success in a future, united organization.

Want to discuss in more detail?

Contact ALM First's team of experts to learn how we partner with institutions nationwide to provide support.

Contact Steve Balian @SW&M to learn more about the merger process, LOI, SMA as well as charter/FOM and merger application requirements and best practices. https://swmllp.com

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