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We Are Your Credit Union Legal Department

To Merge or Not to Merge, that is the Question

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"Mergers and takeovers and profits, oh my! Mergers and takeovers and profits, oh my! Mergers and . . . "

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BACKGROUND

- Representing credit unions since 1983;
- Have completed 111 mergers;
- Range in size from $300,000 to over 1 billion;
- Types of mergers:
  - Acquisition/takeover;
  - Partnership;
  - Reverse merger;
  - Multiple party mergers.

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Stakeholder Value

- A merger should strive to achieve value to the key stakeholders.
- Key stakeholders;
  - Members;
  - Officials;
  - Employees;
  - Sponsors;
  - Communities;
  - Regulators;
  - Business Partners.

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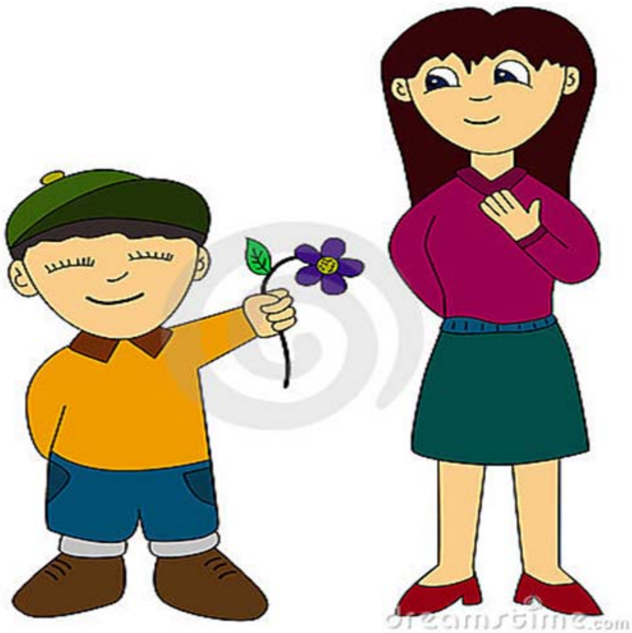
ANATOMY OF A MERGER



Love at first sight!

Anatomy of a Merger

- Merger begin as a courtship;
- Initial impression and initial appearance appear attractive;
- Learn core values and character of the potential partner;
  - Discussion of key issues;
  - Performance of due dilligence;
- Initial impression either gets better or doesn't;
- Love at first sight wears off as you learn what's behind surface.

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Anatomy of a Merger

- Difference between a merger and a marriage;

- There's no divorce in a merger!

WHY MERGE?

- Because we have to; financial, regulatory or operational issues can't be overcome.
- Are we sustainable?
- To better serve our members.
  - What do our members want and need?
  - How do we know what they want and need?
  - When was the last time we asked?
  - When was the last time we measured?
- For strategic reasons, to expand into new markets or build market share.
- To prevent others from expanding into our market.

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WHY MERGE?

- Because the merger partner has something we need:
  - Financial resources;
  - Management resources;
  - Succession planning;
  - Operational resources;
  - New technology;
  - Compliance.
- How do the two organizations compliment each other?
- Partnering can provide benefits to both the merging and surviving credit union.

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Why merge?

- To achieve economies of scale.
  - Spread fixed costs of more members, employees and resources;
  - Additional purchasing power;
  - Improvement in key ratios.
- Is bigger better?

IS BIGGER BETTER?

SUMMARY OF TRENDS						
December 31, 2015	Under $2,000,000	$2,000,000-$10,000,000	$10,000,000-$50,000,000	$50,000,000-$100,000,000	$100,000,000-$500,000,000	Over $500,000,000
Number of Credit Unions	578	1,238	1,959	725	1,040	481
Total Assets	$512,662,668	$6,872,446,529	$48,600,346,820	$51,846,158,617	$228,995,291,819	$867,512,709,868
Average Assets	$886,960	$5,551,248	$24,808,799	$71,511,942	$220,187,780	$1,803,560,727
Net Worth/Total Assets	17.67%	14.86%	12.33%	11.46%	10.93%	10.77%
Net Worth Growth	-11.11%	-6.98%	-4.52%	-1.13%	-0.21%	10.75%
Return on Average Assets (ROA)	-0.27%	0.06%	0.28%	0.40%	0.55%	0.86%
Total Loans/Total Shares	58.70%	57.44%	57.35%	63.03%	72.41%	81.12%
Delinquent Loans/Total Loans	3.14%	1.80%	1.24%	1.06%	0.93%	0.75%
Share Growth	-12.36%	-8.80%	-4.63%	-1.17%	-0.31%	10.56%
Loan Growth	-12.17%	-8.38%	-4.43%	-0.13%	2.04%	14.30%
Asset Growth	-11.96%	-8.57%	-4.72%	-1.22%	-0.29%	11.10%
Membership Growth	-12.20%	-10.86%	-8.36%	-4.10%	-2.29%	8.24%

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How big do you need to be to be sustainable?

- There is no magic number.
- Serve members and achieve reasonable growth.
- There are large credit unions that are not sustainable.
- There are small credit unions that are sustainable.
- Need to be able to serve members.
- Must be able to distinguish from other competitors.
- Pay attention to loan/share ratio.
- Credit unions that put 75% + of shares in the hands of members through quality loans seem to do best.

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Types of Mergers

- Take Over:
  - Merging credit union is absorbed into the surviving credit union;
  - No or minimal change in governance and control.
- Partnership:
  - Merging credit union and surviving credit union each add value to the whole;
  - No such thing as merger of equals;
  - Shared governance and control – not equal governance and control.

TAKEOVER

- Service to members
- Financial strength and sustainability;
- Employees;
- Facilities;
- Governance.

Partnership

- How do the cultures align?
- Numbers are not important. Don’t focus on:
  - Assets;
  - Members;
  - Facilities;
  - Board members.
- Focus on what each does best, maximize strengths and minimize weakness.

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Merger considerations

- Identify sacred cows – name, board, CEO.
  - Are they reasonable?
  - Can others accept them?
- Board representation:
  - Need the best and the brightest;
  - Who can provide value to the combined organization?
  - Need to ensure sustainability for the next generation;
  - May be time for some to step aside;
- There is room for everyone that brings value and serves for the right reasons.

Merger considerations

- Organizational structure:
  - Merging credit union versus surviving credit union
  - Horizontal – management team(s);
  - Vertical – reporting.
- Governance.
- Key employees.
- Other employees:
  - Is there really room for everyone?
  - Protection and safety net.
- Facilities.

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Merger process

- Confidentiality Agreement
- Letter of Intent – Identify outstanding issues and cost allocation.
- Negotiate Merger Agreement;
- Regulatory approval:
  - Hart Scott Rodino Anti Trust Improvement Act.
- Due diligence;
- Membership vote;
- Effective date;
- Technological and operational integration.

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Final thought

- How can we best serve the interests of the members?

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Questions

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