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REPORT

Credit Unions' Acquisitions of Banks and Thrifts

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Foreword

by Hayagreeva Rao
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It is with pleasure that I invite you to read David A. Walker's report, *Credit Unions' Acquisitions of Banks and Thrifts*. Credit unions, like other organizations, can scale through organic growth or inorganic growth through acquisitions. This report looks at how credit unions acquire commercial banks and thrifts and speaks to senior executives contemplating acquisitions to increase the scale and scope of their activities. It is timely given a wave of credit union mergers and the demise of many smaller banks, community banks, and savings and loans.

The report stands out for marrying rigorous quantitative analyses and simulations with field visits to various credit unions and interviews with a number of credit union CEOs about their experiences in bank acquisitions. Hence, it can be a seen as a report from the frontlines of merger activity.

On a personal note, the report raises the important question of whether it is essential to slow down in order to scale better, and whether cultural due diligence is as critical as financial and legal due diligence. After all, the true test of a merger lies in the depth and quality of cultural and structural integration. My hope is that readers will appreciate the insights generated in the report and, in turn, develop foresight as they seek to scale up excellence through mergers.

Executive Summary

Overview

Credit unions buying banks is a relatively recent practice. This report explores the motivation for acquiring banks and thrifts and the associated benefits and risks involved for credit unions pursuing this type of growth.

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As credit union mergers expand horizontally, they have an opportunity to reduce costs and increase fields of membership. These enterprises typically succeed well for the newly merged organizations and their members. But rarely do we hear of credit unions acquiring commercial banks and thrift institutions. Over the past six years credit unions are choosing to purchase smaller banks and savings institutions. How does this work? What conditions need to be established for these types of acquisitions to be successful? And what benefits do credit unions and their members see as a result of the acquisition?

What Is the Research About?

Following US financial deregulation that began in 1980 and the recovery from the financial crisis, 14 credit unions have acquired 16 banks and savings institutions and five acquisitions are in progress. This study summarizes interviews and financial analysis—focusing on ratios that simulate the CAMEL system (*c*apital adequacy, *a*sset quality, *m*anagement, *e*arnings, *l*iquidity)—that delineate the credit unions' success managing the integrated institutions. These institutions have higher capital ratios, greater returns on both assets and equity, and lower loan net charge-off ratios than comparable-size credit unions.

Credit union executives interviewed for this study are enthusiastic about their acquisitions because they may extend services to current and future members. Loans that are traditional products of the acquired banks and savings institutions became available to members, particularly in underserved economic areas. The executives expect to pursue additional acquisitions. The average total assets of the acquiring credit unions are approximately $1.4 billion, 16 times the average size of the acquired institutions.

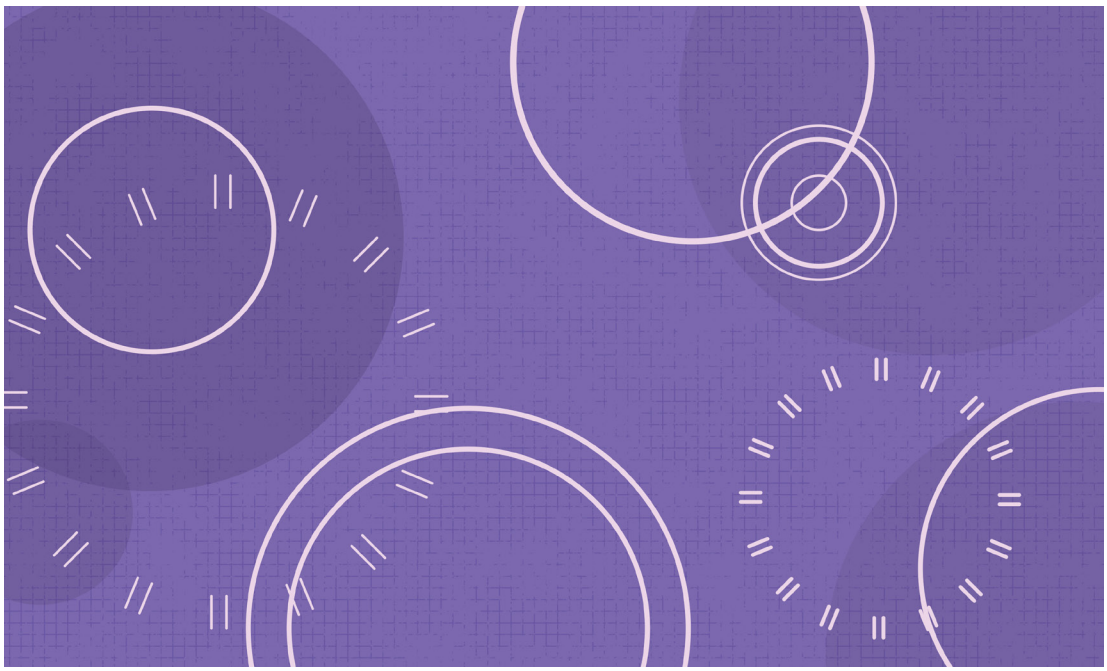
There is no apparent basis to discourage credit unions from acquiring banks and savings institutions. These acquisitions are not unusually risky for the National Credit Union Administration's Share Insurance Fund or the credit union environment.

What Are the Credit Union Implications?

- Acquisitions of commercial banks by credit unions are comparable to vertical mergers of banks and credit unions. They hold the potential to increase both economies of scope and scale and to be profitable within a relatively short period of time.
- Recent low interest rates and the Federal Reserve policy blueprint since 2016 have made it easier for credit unions to acquire banks, and regulatory bodies have been receptive to credit unions acquiring banks.
- Often this type of merger provides a means for credit unions to move into previously underserved areas of their communities, providing benefits not only to members but further promoting financial sustainability among new and struggling populations.

As credit unions consider the various means of growth available, the acquisition of commercial banks by credit unions joins a list of possible strategies that deserve consideration.

Credit Unions' Acquisitions of Banks and Thrifts



CHAPTER 1

Background

Credit union mergers and acquisitions have increased dramatically as the National Credit Union Administration (NCUA) broadened its definition of a credit union affinity group, expanding the common bond of membership, and as creative advisers discovered there are not impediments to expansion across product and geographic barriers in numerous states (see Appendix 3). The Federal Credit Union Act of 1934 defined a federal credit union as a group related by a single common bond of occupation, association, or residence within a geographic area. In 1982, the NCUA began permitting credit unions to include unrelated employer groups. The US Supreme Court ruled, in 1997, that the NCUA could no longer expand credit union membership beyond original common bonds. The following year the US Congress enacted and the president signed the Credit Union Membership Access Act, expanding eligible membership to include family and household members as part of the common bond. Otherwise, many of the recent acquisitions and consolidations might not have been permitted. The federal courts continue to hear and adjudicate membership

cases, such as the current one on whether local metropolitan area populations may be an affinity group (see Passman and Reosti 2018).

Regulatory Environment for Acquired Depositories

This study focuses on a new perspective of credit union activity: credit unions acquiring commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC). All three federal financial bank regulators have been regulators of institutions acquired by credit unions. Figure 1 lists the 14 credit union acquirers and the 16 acquired institutions that are expected to be finalized by July 1, 2018, with their assets sizes, locations, and federal financial regulators. The average total assets of the acquiring credit union are approximately $1.4 billion (B), 16 times the average size of the institution being acquired. In each case, the credit union is at least five times the size of the bank acquired. The acquirers' asset sizes range from $377 million (M) to $5.2B, while the acquired institutions' assets ranged from $19M to $400M.

The FDIC was the primary federal financial regulator for nine of the 16 acquired institutions (seven state chartered nonmember banks and two state chartered savings banks).

FIGURE 1

CREDIT UNIONS ACQUIRING BANKS AND THRIFT INSTITUTIONS

Year	Acquirer	Location	Size ($M)	Acquired	Location	Size ($M)	Type
2018	Georgia's Own	Atlanta, GA	2,300	State Bank of Georgia	Fayetteville, GA	96	SNM-FDIC
2018	Lake Michigan	Grand Rapids, MI	5,200	Encore Bank	Naples, FL	400	SNM-FDIC
2017	IBM Southeast	Delray Beach, FL	1,090	Mackinac Savings	Boynton Beach, FL	110	FSB-OCC
2017	Advia	Parchment, MI	1,100	Peoples Bank	Elkhorn, WI	227	SNM-FDIC
2017	Family Security	Decatur, AL	652	Bank of Pine Hill	Pine Hill, AL	20	SNM-FDIC
2016	Royal	Eau Clare, WI	1,700	Capital Bank	St. Paul, MN	35	SNM-FDIC
2016	Advia	Parchment, MI	1,100	Mid America Bank	Janesville, WI	81	SNM-FDIC
2016	Avadian	Birmingham, AL	645	American Bank	Huntsville, AL	107	FSB-OCC
2015	Five Star	Dothan, AL	377	Farmers State Bank	Lumpkin, GA	45	SNM-FDIC
2015	Achieva	Dunedin, FL	1,400	Calusa Bank	Punta Gorda, FL	167	SM-FED
2014	Five Star	Dothan, AL	377	Flint River National	Camilla, GA	19	N-OCC
2014	Landmark	New Berlin, WI	3,000	Hartford Savings	Hartford, WI	175	SSB-FDIC
2013	Self-Help Federal	Durham, NC	637	Second Federal S&L	Chicago, IL	191	S&L-OCC
2013	Municipal	Baltimore, MD	1,100	Advance Mutual Savings	Baltimore, MD	54	FSB-OCC
2012	GFA Federal	Gardner, MA	465	Monadnock Community Bank	Peterborough, NH	83	FSB-OCC
2012	United Federal	St. Joseph, MI	2,000	Griffith Savings	Griffith, IN	85	SSB-FDIC

Note: SNM = state chartered nonmember; FSB = federal savings bank; SM = state chartered member; N = national bank; SSB = state chartered savings bank; S&L = savings and loan association. Year = year deal closed.

The Office of the Comptroller of the Currency (OCC) regulated six institutions (four federally chartered savings banks, one savings and loan association, and one national bank). The OCC became the federal regulator for state savings institutions when the Dodd-Frank Act merged the Office of Thrift Supervision into the OCC. The Federal Reserve regulated the state member bank that was acquired by a credit union. Throughout this study, the acquired institutions will often be referred to as banks.

These tabulations do not include the five acquisitions that are in process and likely to be completed *after* July 1, 2018:

1. SRP Federal Credit Union to acquire Southern Bank, announced November 29, 2017.
2. Achieva Credit Union to acquire Preferred Community Bank, announced February 14, 2018.
3. Superior Choice Credit Union to acquire Dairyland State Bank, announced February 20, 2018.
4. Evansville Teachers Federal Credit Union to acquire American Founders Bank, announced March 12, 2018.
5. LGE Community Credit Union to acquire Georgia Heritage Bank, announced March 22, 2018.

Potential Economies from Acquisitions

These acquisitions are opportunities for credit unions to pursue both potential economies of scope, as credit unions extend new product lines to existing and prospective members, and economies of scale, to increase their range of services. Some studies that focused on commercial banks, particularly large banks, suggest that the largest institutions do not benefit from either of the potential economies as a result of mergers and acquisitions. This is not necessarily the case for credit unions and banks that are smaller than $10B in assets. The experiences for credit unions that have acquired small banks to expand their services, product lines, and fields of membership are the focus of this study.

Wilcox (2005) found increasing returns to scale (economies) for credit unions. Larger credit unions exhibited lower average costs, lower interest expenses, and higher returns on assets, contrasting groups of credit unions with assets of $10M, $100M, and $1B and above. Wheelock and Wilson (2011) estimate a sophisticated log-linear model to examine potential credit union economies of scale for 1989 through 2006.

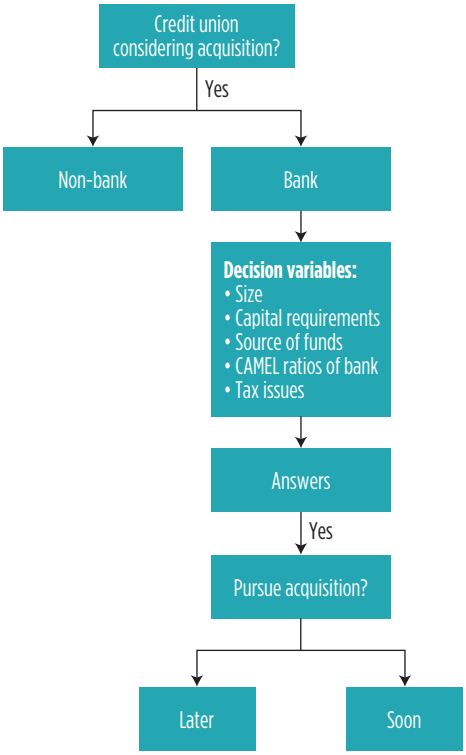
For small and medium-size depository institutions, early studies by Bell and Murphy (1968), Benston (1972), Flannery (1974), and Benston, Hanweck, and Humphrey (1982), through studies by Wheelock and Wilson (2011) and Hughes and Mester (2013), show that economies

of scale are pervasive for most banking products, regardless of the sophisticated or elementary cost or production model that is tested. Goldstein, McNulty, and Verbrugge (1987) and Gropper (1995) found economies of scale for savings and loan associations several decades ago.

Acquisitions have changed the structure and competitive environment among credit unions, banks, and savings institutions over the past three decades. The strategic process for a credit union to acquire a retail financial service firm is portrayed in Figure 2. Lussier (2017) presents a detailed plan by which a credit union acquires another while satisfying the broad range of affected stakeholders. Many of the issues that Lussier discusses are integral to credit unions' plans to acquire banks.

FIGURE 2

ACQUISITION STRATEGY



The experiences for credit unions converting to banks and banks acquiring non-banks before the financial crisis have been explored in earlier studies. Wilcox (2006) studied 27 credit unions that converted to or merged with mutual thrift institutions between 1995 and 2004. These conversions allowed the possibility of issuing stock and transferring members' retained earnings to stock purchases and ownership. In contrast to comparable credit unions that did not convert, the converting credit unions did not grow more rapidly and did not have higher net worth ratios; however, they did have higher loan ratios and higher net loan charge-off ratios to assets. Harjoto, Yi, and Chotigeat (2012) found that banks that acquired credit unions were more risky, their returns declined, and their executives' compensation increased. These results, based on 1992–2005 data, are different from many of the results delineated in this study, based on impacts on credit unions' acquisitions since 2012.

Outline of the Study

This study provides an analysis of the population of 16 credit union acquisitions of banks since 2012. Five bank acquisitions, listed above, are in process but are not expected to be completed by July 1, 2018. The data for this study are somewhat limited by how recently many of the acquisitions have occurred, but site visits and CEO interviews mitigate some of the data limitations.

Chapter 2 discusses consolidations among insured depository institutions. The potential economies of scale and scope from acquisitions are discussed in Chapter 3. The approach to analyzing acquired and acquiring institutions is delineated in Chapter 4. Chapter 5 provides a simulated CAMEL analysis for acquired institutions. Characteristics of credit unions that acquired other depository institutions are delineated in Chapter 6. The conclusions, policy implications, and limitations follow in Chapter 7.

Appendix 3, "Statutes regarding Credit Unions' Authority to Purchase Bank Assets and Liabilities," was obtained from State Government Affairs of the Credit Union National Association (CUNA).

CHAPTER 2

Consolidations among Insured Depository Institutions

Economic Environment for Credit Union Acquisitions

The US economy has been volatile and unpredictable since the beginning of the twenty-first century. Figures 3–6 show the US economic recovery from the financial crisis when credit unions began acquiring banks and thrift institutions in 2012.

Quarterly data are shown for US unemployment (Figure 3), inflation (Figure 4), GDP growth (Figure 5), and the federal funds rates (Figure 6). Unemployment has declined from nearly double digits to what many economists claim is near full employment. Inflation has remained below the Federal Reserve's target of 2% most of the time since the financial crisis ended, but rising wages and prices are expected to lead to rising inflation in the near future. Short-term real interest rates were nearly zero when the early credit union acquisitions began, but rates have increased as the Federal Reserve Open Market Committee ended quantitative easing in October 2014, began raising target interest rates in 2016, and recently began selling US government securities from its portfolio of $4.5 trillion (T).

FIGURE 3

US UNEMPLOYMENT, 2000–2017

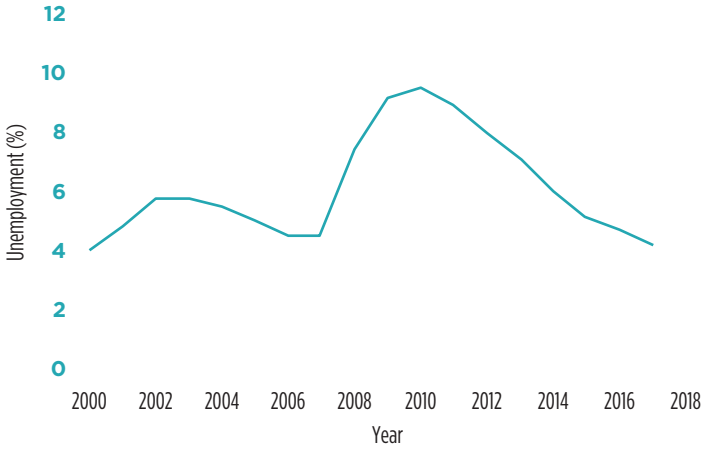


FIGURE 4

US INFLATION, 2000–2017

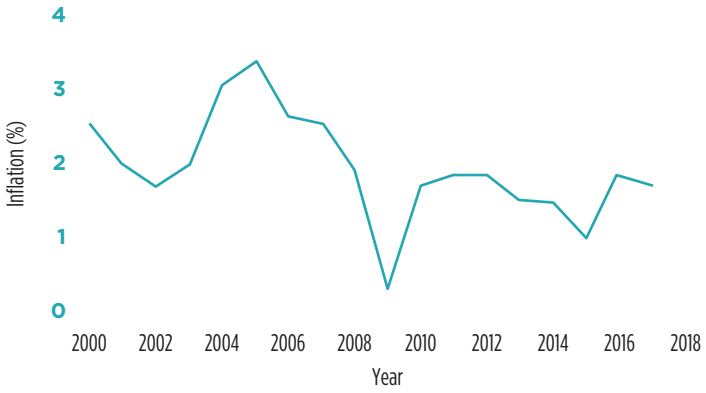


Figure 7 provides contrasts between the period *before* the credit union acquisitions began (2000–2011) and *afterward* (2012–2017) for US employment, inflation, GDP growth rates, and the federal funds rate. For the acquisition years following the financial crisis, unemployment has declined to near 4%, with weak economic growth and low short-term interest rates. Inflation declined considerably below the Federal Reserve target of 2.0. In the aggregate, by 2012 the economic climate had become somewhat favorable for credit unions to begin acquiring other institutions. The US economy has performed well during most quarters since 2012.

Credit Union, Bank, and Savings Institution Consolidations

Dopico and Wilcox (2009) studied credit union mergers and acquisitions between 1979 and 2008. They reported that assets were being acquired by the "better performing" credit unions. Approximately 2.5% of credit unions were being acquired annually as the number of credit unions

FIGURE 5

US GDP GROWTH, 2000–2017

FIGURE 6

US FEDERAL FUNDS RATE, 2000–2017

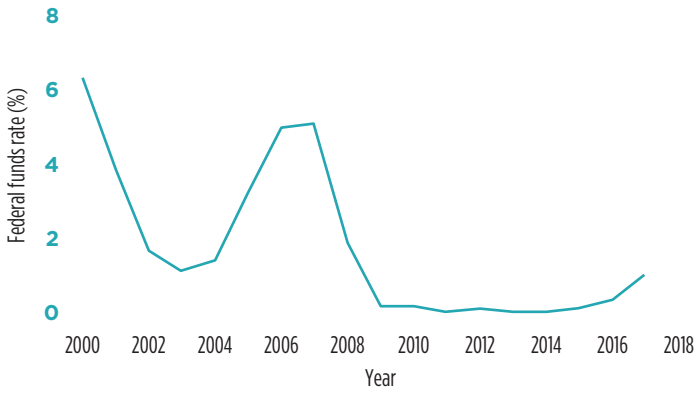


FIGURE 7

MACROECONOMIC CHARACTERISTICS, 2000–2017

	Inflation (%)	GDP growth (%)	Unemployment (%)	Federal funds rate (%)
Mean				
2000–2011	2.18	1.93	6.18	2.48
2012–2017	1.58	2.18	5.98	0.32
Standard deviation				
2000–2011	0.77	2.02	1.97	2.10
2012–2017	0.29	0.56	1.45	0.35
Maximum				
2000–2011	3.40	4.40	9.62	6.52
2012–2017	1.93	2.73	8.10	1.29
Minimum				
2000–2011	0.35	−2.70	3.97	0.07
2012–2017	1.08	1.30	4.33	0.07

declined from a "peak of 23,866 in 1969 to 8,147 in 2008" (Dopico and Wilcox, 2009, 48). The number of credit unions has continued to decline as their aggregate total assets and total membership have continued to grow. At the end of 2017, there were 5,684 credit unions with 112.6 million members and total assets of $1,395B.

The number of credit unions and banks has declined steadily over the past two decades as shown in Figures 8 and 9. Since 2000, the number of credit unions declined by 47% while the number of banks declined by 41%.

Credit unions merged to take advantage of potential economies of scale and to capitalize on the expansive NCUA definitions of an affinity group. Much of the commercial bank consolidation capitalized on the Riegle-Neal Interstate Banking Act of 1994 that allowed banks to acquire others across state lines without the previous requirement to acquire only weak institutions (permitted since 1982 by the Garn-St. Germain Act).

FIGURE 8

NUMBER OF CREDIT UNIONS, 2000–2017

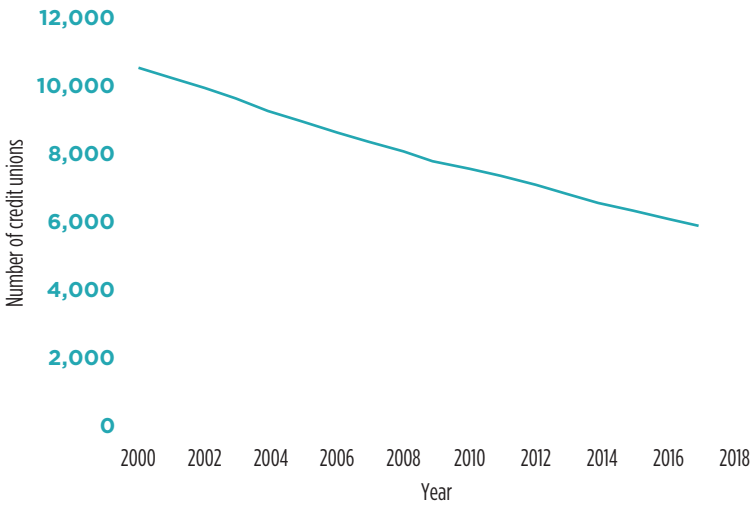
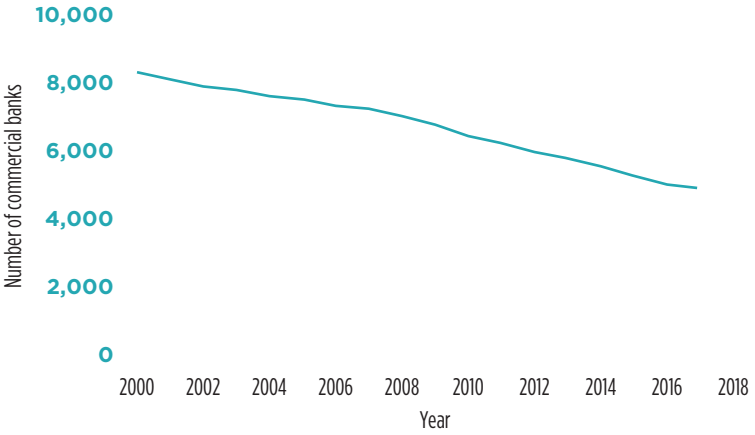


FIGURE 9

NUMBER OF COMMERCIAL BANKS, 2000–2017



The aggregate assets of credit unions and banks have increased as the US economy expanded over the past several decades. The total assets of credit unions have grown more rapidly than commercial bank assets, and each institution's assets have expanded considerably faster than the US economy. This century, credit union assets have grown by 214%, bank assets grew by 177%, and the US economy grew by 83%.

The average sizes of the credit unions and banks, by assets, have followed the same paths. Figures 10 and 11 show the growth in the sizes of the industries.

The savings industry has consolidated to an even greater extent. Since the beginning of the twenty-first century, the number of federally insured savings institutions declined by approximately 50%, from 1,482 to 776 institutions. The industry's total assets have remained approximately $1.2T since 2000.

FIGURE 10

TOTAL ASSETS OF CREDIT UNIONS, 2000–2017

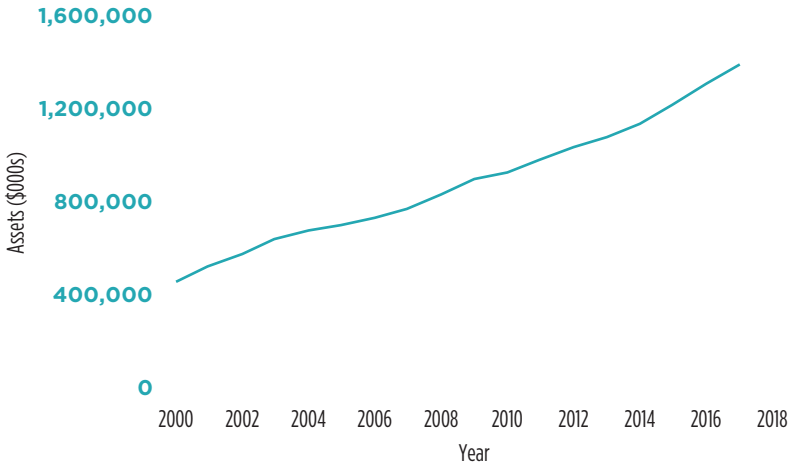
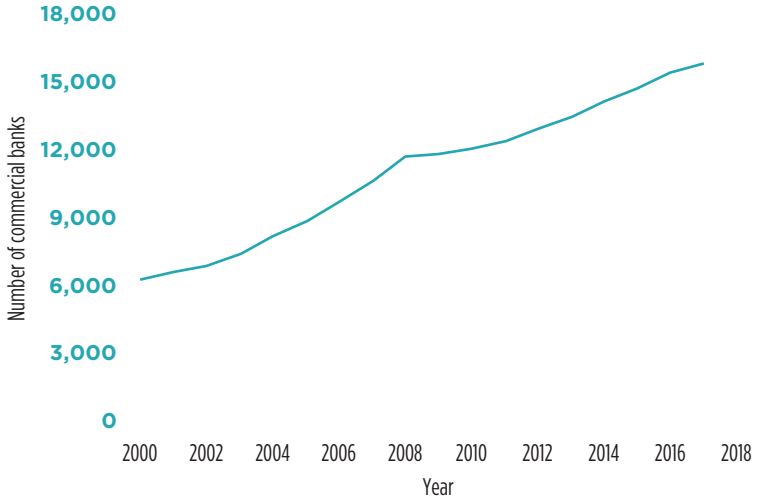


FIGURE 11

TOTAL ASSETS OF COMMERCIAL BANKS, 2000–2017



Competitive Environment

The competitive environment for consumer financial services firms has changed dramatically over the past four decades. Three major acts of Congress changed much of the geographic and product economies of scale and scope. The Depository Institutions Deregulation and Monetary Control Act of 1980 leveled the competitive "playing field" among various insured depository institutions and gave the Federal Reserve some of the broad regulatory authority it had sought for many years. The Riegle-Neal Interstate Banking

Act of 1994 and the Gramm-Bliley-Leach Act of 1999 allowed commercial banks to expand their geographic and product markets, respectively. These acts broadened the competitive environment that banks exploited during the following decades.

The competitive environment for consumer financial services firms has changed dramatically over the past four decades.

CHAPTER 3

Economies of Scale and Scope in Acquisitions

Credit unions' acquisitions of other insured depository institutions are opportunities to pursue potential economies of scale and scope. The expected returns are both strategic and financial. The potential financial incentives enable banks to spread fixed and administrative costs over a larger volume of activity. Moreover, the potential to reduce costs of capital is realized for a consolidated institution since banks and stock savings institutions can raise new capital by issuing capital debentures and new shares of stock. Credit unions must depend on attracting new share deposits from existing and new members. In a limited number of situations, financially healthy credit unions may pursue supplemental capital as long as the structure of a credit union is not affected.

In a limited number of situations, financially healthy credit unions may pursue supplemental capital as long as the structure of a credit union is not affected.

Horizontal and Vertical Integration

The decision to pursue any acquisition is often a choice between seeking a horizontal (economy of scale) or a vertical (economy of scope) acquisition. Among insured depository institutions, most mergers have been acquisitions to pursue economies of scale. Within the commercial banking industry, most mergers have been horizontal mergers among institutions that compete in the same product markets, but not necessarily in the same geographic market. An acquisition of a commercial bank by a credit union is a vertical integration because at least some of the activities of the acquired institution are products

the acquiring institution is not permitted to offer. Thus, the acquiring credit union can anticipate both economies of scale (via size) and scope (via product differentiation) from acquiring a bank or thrift.

Product Markets

Many credit unions that have acquired commercial banks are mainly pursuing economies of scope, via vertical integration of institutions that serve different members and/or product markets. An attractive acquisition allows an institution to expand and benefit from economies of scale and scope. When a credit union, serving its well-defined affinity membership, acquires a commercial bank, the consolidated institution is likely to offer a wider range of services to a broader range of members, including a variety of commercial and mortgage loans.

An attractive acquisition allows an institution to expand and benefit from economies of scale and scope.

CHAPTER 4

Approach to Analyzing Acquired and Acquiring Institutions

The financial analysis of acquiring credit unions and the condition of the acquired banks are examined based on variables and ratios that simulate the CAMEL regulatory system (see Saunders and Cornett 2019, chap. 12). This system is a major tool the NCUA, the three federal bank regulators, and the Farm Credit Administration have applied to evaluate the financial performance of retail financial institutions since 1979.

CAMELS

The letters of CAMELS represent the six factors that reflect retail financial institutions' performance: *c*apital adequacy, *a*sset quality, *m*anagement, *e*arnings, *l*iquidity, and *s*ensitivity to market risk.

The *s* in CAMELS includes off-balance sheet, derivative, and global risks. Bank regulators require each large commercial bank to develop its own analysis of systemic risk. The

sensitivity to market risk for credit unions and banks with less than $10B in total assets is quite small. The NCUA does not currently require each credit union to develop a measure of its systemic risk, and the required risk analysis for small banks is quite modest. The NCUA classifies credit unions with assets above $50M as complex credit unions, requiring analysis that is more sophisticated. In 2016, the NCUA considered adding sensitivity to market risk to its regulatory analysis.

CAMEL Measures

For this study, a ratio is calculated to simulate each CAMEL component for each institution. There is no claim that the measures employed here are exact ratios that regulators employ, but these ratios surely reflect the institutions' financial performance. The balance sheet and income statement ratios and measures are employed to reflect and simulate the CAMEL components that follow:

- Capital adequacy: net worth / total assets (NW/TA)
- Asset quality: net loan charge-offs / total loans (NCO/TL)
- Management: net income / equity (return on equity, ROE)
- Earnings: net income / total assets (return on assets, ROA)
- Liquidity: total loans / total deposits (TL/TD)

Regulators evaluate each CAMEL component with a grade from 1 (the strongest position) to 5 (the weakest position). A composite, overall grade of 1 through 5 is assigned to represent the overall institution's performance.

CHAPTER 5

Simulated CAMEL Analysis of Acquired Institutions

Approach to Analysis

There are a multitude of reasons to explain why some small banks and savings institutions have been prone to merge into credit unions or have allowed themselves to be acquired since 2012. The financial crisis had ended two years before and the financial performance of many banks and savings associations, especially smaller ones, had hardly improved.

The positive impacts of the Troubled Asset Relief Program (TARP), the Fed's quantitative easing regimes, and Dodd-Frank changes hardly assisted many smaller institutions. Since October 2000, 555 commercial banks and savings institutions and 267 credit unions (measured with 2008–2017 data from NCUA 2018, "Conservatorships and Liquidations," and 2000–2007 data from Dopico and Wilcox 2009, fig. 23, involuntary liquidations plus purchases and assumptions plus involuntary liquidations) have failed. Most of them have been small institutions. The bank regulators have concentrated on the larger institutions through the TARP program during the financial crisis (Gaby and Walker 2011). No credit union received TARP funds from the federal government. The Dodd-Frank Act required the OCC to integrate the federal supervisory and regulatory obligations for the thrift institutions that had been regulated by the Office of Thrift Supervision.

With these changes, some commercial banks and thrifts sought or are seeking merger partners outside the institutions with which they compete. In other instances, banks and thrifts have merged with credit unions because the acquirer pursued the bank. As noted in Chapter 1, five additional credit union acquisitions of banks are expected to be completed by year-end 2018.

Michael Bell, who has been the attorney of record on most of the acquisitions, has pointed out to the author that:

> *Smaller banks and thrifts are highly incentivized to include credit unions as possible acquirers. Credit unions are usually 100% all cash purchasers and provide an instant equity event. In addition, credit unions meet or exceed an equivalent bank purchaser on the soft issues by retaining more employees and increasing support to the community.*

The CAMEL simulated components are calculated for each acquiring credit union and each acquired institution to measure the impacts of the acquisitions. The base year is 2012 since it was the year acquisitions began. A second basis is the year a credit union acquired a bank or savings institution.

"Smaller banks and thrifts are highly incentivized to include credit unions as possible acquirers."

There are wide variations among the sizes, locations, and performance for the 16 acquired institutions. Most of them have low or negative returns on either capital or assets, or both. Figure 12 reports the ratios across the acquired institutions for the specific year when they are acquired. An interesting characteristic is that the standard deviations of three measures—ROE, ROA, and NCO/TL—are considerably larger than their means, showing the

FIGURE 12

CAMEL CHARACTERISTICS OF ACQUIRED INSTITUTIONS, BY YEAR ACQUIRED

	NW/TA (%)	ROE (%)	ROA (%)	TL/TD (%)	NCO/TL (%)	Assets ($000s)	Year
Monadnock Community Bank	8.68	–0.37	–0.03	103.73	2.67	82,573	2012
Griffith Savings	8.44	4.01	0.34	79.47	0.52	85,200	2012
Advance Mutual Savings	9.58	0.98	0.09	91.49	0.38	60,763	2013
Second Federal S&L	2.05	–144.99	–2.97	86.27	2.17	198,243	2013
Hartford Savings	10.80	2.10	0.23	77.46	1.21	175,411	2014
Flint River National	6.93	–32.48	–2.25	54.14	–0.02	19,135	2014
Calusa Bank	10.28	2.47	0.25	88.98	0.66	165,559	2015
Farmers State Bank	4.09	–15.97	–0.65	33.06	0.68	47,217	2015
American Bank	8.15	–16.84	–1.37	92.06	–1.06	112,588	2016
Mid America Bank	11.33	–0.36	–0.04	81.05	0.74	83,372	2016
Capital Bank	13.27	4.33	0.57	59.48	0.55	35,552	2016
Bank of Pine Hill	15.59	5.49	–0.86	22.41	–0.23	20,110	2017
Peoples Bank	10.72	7.89	0.85	80.77	0.01	236,725	2017
Mackinac Savings	8.73	6.37	0.56	74.99	–0.21	109,507	2017
State Bank of Georgia	14.60	5.67	0.82	90.90	–0.05	81,158	2018
Mean*	9.55	–1.78	–0.30	74.42	0.53	100,874	
Standard deviation*	3.46	12.31	1.09	21.99	0.91	63,834	

*Excludes Second Federal S & L.

Note: NCO = net loan charge-offs; TL = total loans; TD = total deposits; NW = net worth; TA = total assets. Year and data are year-end that institution was acquired by a credit union or prior year data if acquisition is mid-year.

wide variations among the acquired institutions. The mean size of a CAMEL measure for an acquired bank or savings institution is 150% larger than its standard deviation ($101M versus $64M). The range of sizes is from $19.1M to $236.7M.

Compared to the means for all banks and savings institutions with assets below $100M in assets, the three most recently acquired institutions—Peoples Bank, Mackinac Savings, and State Bank of Georgia—earned attractive returns.

Acquiring and Acquired Institutions

Figure 13 provides mean CAMEL ratios for the acquired institutions at the time of each acquisition (T) and the three prior years (T-1, T-2, and T-3). The column on the far right provides the 2017 ratios for banks and savings institutions with total assets below $100M (FDIC 2017). Figure 13 reveals some of the financial weaknesses of the 16 acquired institutions, in contrast to comparable-size insured institutions.

FIGURE 13

TIME SERIES: CAMEL VARIABLE MEANS FOR ACQUIRED INSTITUTIONS

	Year T	Year T-1	Year T-2	Year T-3	Banks and savings institutions under $100M
NW/TA (%)	10.10	9.90	9.47	9.67	13.01
ROE (%)	–0.12	–3.83	–7.49	–5.75	6.39
ROA (%)	0.05	–0.18	–0.35	–0.44	0.83
TL/TD (%)	71.29	70.89	73.37	71.47	70.55
TL/TA (%)	60.43	60.10	60.41	58.70	58.99
NCO/TL (%)	0.10	0.33	1.15	1.18	21.00
TD ($000s)	80,477	81,487	81,338	84,951	70,000
TA ($000s)	94,707	95,800	96,879	101,283	83,700

Note: NCO = net loan charge-offs; NW = net worth; TA = total assets; TD = total deposits; TL = total loans; ROA = net income/TA; ROE = net income/NW; T = year bank was acquired.

At the time when the banks or savings institutions were acquired (T), the acquired institutions had substantially lower net worth ratios (10.10 versus 13.01), ROE (–0.12 versus 6.39), and ROA (0.05 versus 0.83). The acquired institutions were somewhat less liquid, with slightly higher loan to deposit ratios (71.29 versus 70.55) but lower net returns. This may suggest managerial difficulties at the acquired institutions.

The weaknesses for the acquired institutions are surprisingly consistent across T, T-1, T-2, and T-3. Three years before the acquisitions (T-3), many of the weaknesses of the acquired institutions were clear. Their ratio of net worth to assets declined by 0.43 (from 9.67 to 10.10) and their ROE and ROA were negative for T-1, T-2, and T-3 and only slightly higher by the acquisition year. The weak banks and thrifts exhibited some slight improvement before the acquisition year (T). This could have been a result of their planning to seek regulatory approval from the NCUA and the federal bank regulators for the acquisitions.

Some of the ratios for some of the periods for three banks have been excluded from the calculations because of their unusual circumstances around the time they were acquired. Second Federal Savings and Loan had small equity and negative income for the four periods; it is excluded from the calculations for net income as a ratio to equity for T-1 and T-2. For the year prior to being acquired (T-1), Griffith Savings Bank, one of the two banks acquired in 2012, reported zero loans and 100% asset liquidity in T-1, so it is excluded from the calculations for that year. Monadnock Community Bank, the other bank that was acquired in 2012, is not included in calculations for T-1 and T-2; the bank had a capital asset ratio of 53.5% for T-1 and no loans and no deposits for T-1 and T-2.

Characteristics of Acquiring Credit Unions

Some considerations supporting a credit union's acquisition of a commercial bank or savings institution are, of course, not reflected in the financial data. The author visited four credit union CEOs and held phone interviews with two others who acquired a total of nine banks and savings institutions: Avadian Credit Union (one acquisition), Achieva Credit Union (one acquisition), Advia (two acquisitions), Royal Credit Union (one acquisition), Five Star Credit Union (two acquisitions), and GFA Federal (one acquisition). In addition, extensive telephone interviews were arranged with Michael Bell, who is the attorney of record for many of the acquisitions, and Michael Lussier, who has acquired seven credit unions for Webster First Federal Credit Union in New England. The author also met with Dr. Ralph Monaco, director of research for the National Credit Administration, and interviewed Ryan Donovan, chief advocacy officer, and Mike Shenk, vice president of research and policy analysis, for the Credit Union National Association. Two institutions declined requested meetings. The questions that were explored are listed in Appendix 1 and the dates of the interviews are listed in Appendix 2.

Visits and Interviews with Acquirers

The visits and telephone interviews provided considerable insight to the issues analyzed in this study. The interviews were extremely valuable to broaden the scope of the author's perspectives. The executives were quite forthcoming about the reasons they acquired particular institutions and the opportunities the acquisitions have provided to the credit unions and their members.

CEO and Expert Perspectives

The perspectives of the executives of acquiring credit unions and the views of other people interviewed were surprisingly consistent. Some of the views that were shared frequently are:

- Most credit union CEOs recognized that significant economies of scope and scale opportunities were more likely from acquiring a commercial bank or savings institution than by acquiring another credit union.
- The financial crisis had left some small banks in such weak financial condition that federal bank regulators seemed quite satisfied to learn that a credit union planned

to acquire a particular small bank and that another federal financial regulator would assume the responsibility for supervising the acquired institution.

- The low interest rates for the past several years and the Federal Reserve policy blueprint since 2016 have enhanced expansion plans for some credit unions to acquire other institutions during the current strong economy (see Figures 3–6).
- In some states, credit unions cannot acquire a bank because regulations prohibit or restrain a credit union from acquiring any financial service firm unless it has the same type of charter or unless it has no stock outstanding.
- Often an acquiring credit union has a modest amount of activity with a product that is the primary financial product of its target bank or savings institution.
- Sometimes a bank's major stockholders, who have a thin or limited market for their shares, become disappointed with their annual returns and dissatisfied with current management. They urged bank directors to seek a merger to liquidate their ownership share of a bank's net worth.
- Some senior commercial bank management teams were ready to retire, and the bank stockholders did not have confidence in their prospective successors.
- Credit union executives reported that most acquisitions were beneficial and/or profitable for the credit union within 18 months of the acquisition. Executives are generally satisfied with their bank acquisitions.
- Acquisitions were not hostile acquisitions.
- Almost all of the credit union executives would like to pursue future acquisitions. Several CEOs plan to acquire additional banks or savings institutions within the next 18 months. Some of these credit union executives had prior experience acquiring other credit unions.
- One expert projected that credit unions will continue to be active acquiring banks through the current strong economic period, but they could lose interest in acquisitions if there is a recession.
- The NCUA has not had noteworthy difficulty regulating the credit unions that have acquired banks and savings institutions, but they would look carefully at acquisitions.

The financial crisis had left some small banks in such weak financial condition that federal bank regulators seemed quite satisfied to learn that a credit union planned to acquire a particular small bank and that another federal financial regulator would assume the responsibility for supervising the acquired institution.

Initial Credit Union Acquisitions

In 2012, two credit unions acquired institutions whose goal had been to earn a profit for their stockholders. GFA Federal Credit Union acquired the Monadnock Community Bank and United Federal Credit Union acquired Griffith Savings Bank (see Figure 1). Each acquisition was across state lines and required the approval of several federal financial regulators, state regulators, and the NCUA.

GFA Federal Credit Union headquartered in Gardner, Massachusetts, acquired Monadnock Community Bank in Peterborough, New Hampshire. GFA had assets of $465M, more than five times the assets of Monadnock Community Bank (assets of $83M). GFA is a federally chartered credit union, federally regulated by the NCUA, and the acquired bank was a federal savings bank, originally chartered by the state of New Hampshire, previously regulated by the Office of Thrift Supervision (OTS) before the enactment of the Dodd-Frank legislation in 2010, and regulated by the OCC at the time of the acquisition.

The financial condition of the Monadnock Community Bank was not strong. Of the 16 institutions that have been acquired, Monadnock had the least liquidity, measured by the ratio of loans to deposits, and the highest ratio of net loan charge-offs to total loans (see Figure 12). The bank had negative returns on equity and assets, –0.37% and –0.03%, respectively. The OCC surely had an incentive to find an institution that would acquire the bank and integrate it into a healthy institution. The bank's key simulated CAMEL ratios did not compare favorably to the corresponding ratios for all banks in Monadnock's size category (see Figure 13).

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The acquisition by GFA could not have been disappointing to the OCC and the FDIC as Monadnock's former federal bank regulators. "But for" GFA's acquisition, the bank's regulators would probably have sought to arrange a merger or purchase and assumption with a larger bank that was well capitalized, had strong earnings, and was well managed. NCUA became the regulator and insurer of the enhanced GFA.

United Federal Credit Union acquired a strong financial institution in Griffith Savings Bank. Griffith was the same size as Monadnock Community Bank, but had ROE and ROA ratios of 4.01% and 0.34%, respectively. Monadnock had negative ROE and ROA ratios. United Federal Credit Union was five times the size of GFA, with $2B in assets and 30 branches in

six states. United Federal had evolved from the Whirlpool Employees Federal Credit Union after 65 years of operations. Between 2008 and 2012, United Federal had grown by 81% and continued to expand its assets by another 71% (2012–2017). United Federal increased its loan portfolio by 102%.

GFA and United Federal were attractive acquiring institutions in 2012. Both acquirers had net worth percentages of assets above 10% and low net charge-off levels to total loans. These were ratios well above what NCUA reports for comparably sized institutions. GFA was quite liquid with a loan-to-deposit ratio of only 59%. United Federal was not so liquid.

Later Acquiring Credit Unions

After 2012, 12 additional credit unions acquired 14 commercial banks and savings institutions. Five Star Credit Union acquired two banks (see Figure 1). Royal acquired one bank plus a major bank branch from Deerwood Bank in Minnesota. Achieva acquired one bank and has announced another acquisition.

The credit unions that the author visited expressed considerable satisfaction with their acquisitions. Senior executives for each of these credit unions expressed interest in acquiring additional institutions in the future. The acquisitions appear to be serving the credit union members' effectively, especially in underserved economic areas.

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CAMEL Analysis of Acquiring Credit Unions

The credit unions that acquired banks and savings institutions have encountered both challenges and opportunities. These acquirers survived the financial crisis (beginning with the JPMorgan purchase of Bear Stearns on March 15, 2008, and the bankruptcy of Lehman Brothers on September 15, 2008) without critical difficulties.

Figures 14–16 provide the acquirers' simulated CAMEL ratios for year-end 2008, the year of their acquisition, and year-end 2017, respectively. The credit unions that have acquired institutions in 2017 and 2018, except for Advia, are excluded from these tables because their transactions are too recent, there is little post-acquisition financial experience, and limited data are available. Advia is included because it had acquired the Mid American Bank in 2016.

FIGURE 14

CHARACTERISTICS FOR ACQUIRING CREDIT UNIONS FOR 2008

	NW/TA (%)	ROE (%)	ROA (%)	TL/TD (%)	NCO/TL (%)	Assets ($)
Royal	9.59	7.31	0.73	112.30	0.65	992,454
Advia	10.23	–0.02	0.00	97.79	1.28	169,149
Avadian	12.78	6.57	0.83	84.22	0.38	387,587
Achieva	12.32	–3.85	–0.47	86.20	0.82	592,240
Five Star	10.90	3.21	0.35	83.44	3.09	150,757
Self Help	38.95	27.14	1.73	58.71	1.25	113,634
Landmark	6.81	4.33	0.31	97.17	0.42	1,277,951
Municipal	11.59	–4.14	–0.52	88.73	0.68	889,164
United Federal	14.08	3.61	0.53	123.91	0.67	842,552
GFA	13.37	4.16	0.60	58.18	0.44	272,421
Mean	14.06	4.83	0.41	89.07	0.97	568,791
Standard deviation	8.53	8.31	0.62	19.58	0.77	390,235

Note: NCO = net loan charge-offs; TL = total loans; TD = total deposits; NW = total capital; TA = total assets; ROA = net income/TA; ROE = net income/NW.

FIGURE 15

CREDIT UNION CHARACTERISTICS FOR YEAR THEY ACQUIRED

	NW/TA (%)	ROE (%)	ROA (%)	TL/TD (%)	NCO/TL (%)	Assets ($)	Year
Royal	10.45	9.87	1.07	95.85	0.24	2,205,442	2016
Advia	11.83	7.91	0.92	94.33	0.61	1,347,692	2016
Avadian	10.47	4.62	0.47	74.01	0.64	733,279	2016
Achieva	11.18	9.57	1.02	93.94	0.54	1,099,723	2015
Five Star	9.30	14.01	1.28	76.13	0.78	365,831	2015
Landmark	8.38	12.33	0.97	96.39	0.57	2,308,818	2014
Self Help	14.77	33.88	0.80	54.72	0.20	558,414	2013
Municipal	9.96	5.18	0.53	70.97	1.09	1,224,005	2013
United Federal	10.50	10.72	1.12	96.73	1.00	1,524,004	2012
GFA	10.19	3.36	0.40	59.42	0.45	419,219	2012
Mean	10.70	11.15	0.86	81.25	0.61	1,178,643	
Standard deviation	1.62	8.25	0.28	15.42	0.27	656,367	

Note: NCO = net loan charge-offs; TL = total loans; TD = total deposits; NW = total capital; TA = total assets. Year is year-end that institution was acquired by a credit union.

FIGURE 16

CHARACTERISTICS OF ACQUIRING CREDIT UNIONS FOR 2017

	NW/TA (%)	ROE (%)	ROA (%)	TL/TD (%)	NCO/TL (%)	Assets ($)	Year
Royal	10.73	11.49	1.20	99.23	0.24	2,211,061	2016
Advia	10.52	8.09	0.85	98.53	0.61	1,683,959	2016
Avadian	10.82	5.71	0.55	74.98	0.86	747,425	2016
Achieva	11.57	10.09	1.00	86.77	0.73	1,534,543	2015
Five Star	11.84	14.75	1.54	73.64	0.90	383,487	2015
Landmark	9.59	16.11	1.45	102.78	0.32	3,602,950	2014
Self Help	12.94	18.87	1.08	114.14	0.42	1,097,590	2013
Municipal	11.80	3.88	0.44	77.09	0.99	1,172,951	2013
United Federal	9.65	10.33	1.02	129.65	0.73	2,601,670	2012
GFA	10.47	4.00	0.40	77.30	0.23	497,845	2012
Mean	10.99	10.33	0.95	92.51	0.60	1,553,348	
Standard deviation	0.99	4.85	0.38	17.78	0.27	960,960	
Credit unions: $500M < TA < $1B	10.90	6.61	0.72	84.11*	0.52	2,832,400	

*Total loans/total savings

Note: NCO = net loan charge-offs; TL = total loans; TD = total deposits; NW = total capital; TA = total assets. Year is year-end that bank was acquired by a credit union.

At year-end 2008 (Figure 14), the acquiring credit unions had a healthy capital position (NW/TA = 14.06%), modest returns on equity and assets (ROE = 4.83% and ROA = 0.41%, respectively), and net loan charge-off ratios slightly below 1.0%. Recall that unemployment had risen to 6.87% and GDP growth had deteriorated to –8.2% for the fourth quarter of 2008.

Figure 15 provides comparable information to Figure 14 for the year-end dates when the 10 credit unions arranged their acquisitions. At the time of the acquisitions (beginning in 2012), the acquirers' average net worth ratio had declined to 10.70%, but their returns on assets and equity, respectively, had more than doubled to 0.86% versus 0.41% and 11.15% versus 4.83%, respectively. Without the Self Help Credit Union, some of whose data are outliers, the ratios for the acquisition years were NW/TA = 10.25%, ROA = 0.86%, and ROE = 8.62% (Figure 15).

By year-end 2017, the 10 acquirers had continued to strengthen their financial positions (Figure 16) following the financial crisis. At the bottom of the table, the means and standard deviations for 10 acquiring credit unions are contrasted with the aggregate data for all 250 credit unions with total assets between $500M and $1B in assets.

Compared to these 250 credit unions, the acquirers were financially stronger. Contrasting the 10 acquirers and the 250 credit unions with $500M ≤ TA ≤ $1B (bottom line of Figure 16). NW/TA is 10.99 versus 10.90%, ROA is 0.95 versus 0.72%, and ROE is 10.33 versus 6.61%.

Effects on Credit Unions from Acquisitions

From financial and regulatory perspectives, the key issue is what has occurred for the acquiring credit unions as a result of their acquisitions. This can be viewed by contrasting several of the tables discussed above:

- Figure 17 = Figure 15 – Figure 14
- Figure 18 = Figure 16 – Figure 15

Three test periods reflect the impacts on the acquirers' as they have integrated their acquisitions. Analysis of (1) effects on the acquiring credit unions for the period since the financial crisis (2008), (2) impacts for the period across the years of their acquisitions (2012–2017), and (3) results for the current period (year-end 2017). Figure 17 provides the differences between corresponding data in Figures 14 and 15 – acquisition year (Figure 15) minus 2008 financial crisis year (Figure 14). Figure 18 provides the respective differences between corresponding data in Figures 15 and 16—current data for 2017 (Figure 16) minus acquisition year data (Figure 15).

FIGURE 17

YEAR OF ACQUISITION VS. 2008: DIFFERENCE

	NW/TA (%)	ROE (%)	ROA (%)	TL/TD (%)	NCO/TL (%)	Assets ($)
Royal	0.86	2.56	0.34	–16.45	–0.41	1,212,988
Advia	1.60	7.93	0.92	–3.46	–0.67	1,178,543
Avadian	–2.31	–1.95	–0.36	–10.21	0.26	345,692
Achieva	–1.14	13.42	1.49	7.74	–0.28	507,483
Five Star	–1.60	10.80	0.93	–7.31	–2.31	215,074
Self Help	–24.18	6.74	–0.93	–3.99	–1.05	444,780
Landmark	1.57	8.00	0.66	–0.78	0.15	1,030,867
Municipal	–1.63	9.32	1.05	–17.76	0.41	334,841
United Federal	–3.58	7.11	0.59	–27.18	0.33	681,452
GFA	–3.18	–0.80	–0.20	1.24	0.01	146,798
Mean	–3.36	6.31	0.45	–7.82	–0.36	609,852
Standard deviation	7.16	4.68	0.70	9.81	0.79	377,223

Note: NCO = net loan charge-offs; TL = total loans; TD = total deposits; NW = total capital; TA = total assets; ROA = net income/TA; ROE = net income/NW.

FIGURE 18

YEAR 2017 VS. YEAR OF ACQUISITION: DIFFERENCE

	NW/TA (%)	ROE (%)	ROA (%)	TL/TD (%)	NCO/TL (%)	Assets ($)
Royal	0.28	1.62	0.13	3.38	0.00	5,619
Advia	–1.31	0.18	–0.07	4.20	0.00	336,267
Avadian	0.35	1.09	0.08	0.97	0.22	14,146
Achieva	0.39	0.52	–0.02	–7.17	0.19	434,820
Five Star	2.54	0.74	0.26	2.51	0.12	17,656
Self Help	–1.83	–15.01	0.28	59.42	0.22	539,176
Landmark	1.21	3.78	0.48	6.39	–0.25	1,294,132
Municipal	1.84	–1.30	–0.09	6.12	–0.10	(51,054)
United Federal	–0.85	–0.39	–0.10	32.92	–0.27	1,077,666
GFA	0.28	0.64	0.00	17.88	–0.22	78,626
Mean	0.29	–0.81	0.10	11.26	–0.01	374,705
Standard deviation	1.29	4.90	0.18	19.63	0.18	451,031

Note: NCO = net loan charge-offs; TL = total loans; TD = total deposits; NW = total capital; TA = total assets; ROA = net income/TA; ROE = net income/NW.

For example, Royal Credit Union's NW/TA in Figure 17, 0.86%, is its 10.45% from Figure 15 minus the 9.59% from Figure 14. Royal Credit Union's 0.28% in Figure 18 is the 10.73% from Figure 16 minus the 10.45% from Figure 15.

Figures 17 and 18 provide the financial results to examine the performance of the acquiring credit unions as a result of their acquisitions. The financial performance of these credit unions was superior to the average credit union's financial performance of the same size (bottom row of Figure 16), comparing the bottom rows of Figures 16–18.

Between the years of acquisition and the financial crisis (Figure 17), there were some dramatic changes for a couple of the acquiring credit unions. The change in the acquirers' net worth ratio was –3.36%, which was probably due to some of the continuing impact of the financial crisis. The difference between the change in the acquirers' net worth ratio between 2017 and their acquisition years offset some of the earlier deterioration, as shown by the change in the net worth ratio column in Figure 18, an average of 0.29%. Moreover, the net worth ratios in Figure 16 (mean 10.99% versus comparable credit unions of 10.90%) shows that the acquiring credit unions did not have weak capital positions entering 2018.

Similar contrasts appear for the acquirers' mean returns on equity and assets, 10.33% and 0.95%, respectively, versus the 250 credit unions with assets between $500M and $1B, 6.61% and 0.72%, respectively (Figure 16, bottom line) for ROE and ROA.

The acquiring credit unions have managed their loan portfolios effectively. Their percentage of net loan charge-offs have declined, as has been the case for all credit unions. Their charge-offs for 2017 are the same as they were when they made their acquisitions, as shown by their tiny average charge-off difference (NCO/TL = −0.01%) in Figure 18.

CHAPTER 7

Conclusions, Policy Implications, and Limitations

Conclusions

As the US economy recovered from the financial crisis and adjusted to financial deregulation since the 1980s that allowed increased asset concentration among insured depository institutions, 14 credit unions have acquired 16 banks and savings institutions, and five additional acquisitions are in progress. Interviews, visits, and financial analysis—focusing on ratios that simulate the CAMEL system—demonstrate that credit unions have successfully integrated their acquisitions and have managed the integrated institutions effectively.

By year-end 2017, the acquiring credit unions had somewhat stronger financial characteristics after they acquired other institutions. They had higher capital ratios, greater returns on both assets and equity, and lower net charge-off loan ratios than comparable-size credit unions (Figures 16–18).

Credit union executives who were interviewed for this study are enthusiastic about their acquisitions. Some CEOs are actively pursuing additional acquisitions, and others would do so if there were attractive opportunities. Following their acquisitions, credit unions are often offering new services to their members, especially new members in underserved economic areas.

Some CEOs are actively pursuing additional acquisitions, and others would do so if there were attractive opportunities.

Credit union acquisitions are likely to continue for the foreseeable future. Five are in progress in addition to the 16 that have been analyzed here. Stewart (2018) and Michael Bell point out that a number of acquisitions may be under consideration that have not been mentioned publicly.

Policy Implications

The credit union executives who have acquired banks and savings institutions are enthusiastic as they begin offering extended services to new and current members. Loans that are traditional products of the acquired institutions will become more available to members, particularly in areas where people are less likely to have accounts at insured depository institutions. Approximately 10% of Americans do not have insured transaction accounts.

Based on the 16 acquisitions, credit unions have shown they can manage acquisitions without undue risk to the National Credit Union Administration's Share Insurance Fund or the credit union system. Perhaps acquisitions should be restrained so that acquiring credit unions are at least three times the asset size of acquired institutions. The acquirers have been 16 times the asset size of the acquired institutions.

In 2016, the NCUA's Office of Examination and Insurance recommended to the NCUA Board that it expand its CAMEL regulatory framework to CAMELS to include sensitivity to market risk (NCUA 2016). This may not be necessary from the analysis in this study; however, there may be other bases to do so. If the NCUA extends its CAMEL system, perhaps the extension should only apply to the largest 10 credit unions, with assets that comprise 12% of total credit union assets.

There is no apparent basis to discourage credit unions from acquiring dissimilar insured, retail depository financial institutions. These acquisitions enable credit unions to provide new and extended services to members.

Limitations

This study has the limitations of an empirical financial analysis. The data, however, come from the current population of credit unions that have acquired banks and savings institutions.

Selection and survivorship bias are concerns. The acquisitions represent a population, not a sample. The table has been reviewed by people listed in Appendix 2 and a wide range of financial services experts, but there could be other acquisitions. A wide variety of

publications were searched to develop Figure 1. Therefore, there should not be selection or survivorship bias in the analysis.

The acquisitions have occurred during a seven-year period when the US economy has performed well. Most credit unions serve local markets. If data were available, it would be useful to match acquiring credit unions' financial data with local economic data to examine market characteristics with financial performance.

This study does not deal with the complex, controversial tax exemption that credit unions enjoy. This is an issue for a separate study that requires US tax code expertise.

The study does not provide sophisticated empirical models to delineate characteristics of acquiring credit unions. Multivariate econometric modeling and behavior hypothesis tests are beyond the scope of this study. There are a multitude of issues that are not part of this study; the tax issues that pertain to credit union operations and resource allocation, for example, are well outside the scope of the study.

APPENDIX 1

Questions for Credit Union Visits and Interviews

Decision to Acquire

What was the initial impetus behind acquiring a bank?

How do you go about finding candidates for acquisition?

What were key bank characteristics that you looked for?

What was the primary reason that you acquired a commercial bank?

What were the obstacles you anticipated with the acquisition?

Were there any unanticipated obstacles with the acquisition?

Did you consider acquiring another credit union instead of a bank?

The Acquisition

How did you go about finding candidates for acquisition?

Why did you select the particular bank that you acquired?

What made this particular bank most attractive to you?

Are you running the credit union and bank as separate entities?

Are you likely to acquire another bank?

Do you expect credit union acquisitions of banks to increase in the future?

Tax Consequences

Do you operate the bank as a separate institution with the same tax obligations the bank had before the acquisition?

Have you consolidated the credit union and bank financial statements?

When you arranged the acquisition, did you have to mark the assets of the bank to market values and, if so, what were the tax implications for you?

How did you adjust your balance sheet?

How were the complicated tax aspects of the acquisition for you?

Economic Consequences

How long after the acquisition will it take you to obtain most of the economic benefits you anticipated?

What have been the most difficult issues from the acquisition?

Did the acquisition allow you to enter new geographic markets?

Did the acquisition enable you to offer new financial products?

Discuss any economies of scale and scope due to the acquisition.

Managerial Issues

What are the issues you face with the stockholders of the bank?

Have you consolidated CEO and CFO work of the credit union and bank?

What are the personnel challenges because of the acquisitions?

Did you offer incentives for bank employees to join the consolidated firm?

How have your operations changed since the acquisition?

Regulatory Experience

What were the regulatory consequences of the acquisition?

What were the NCUA requirements to complete the acquisition?

What regulations have major impacts on credit unions that are acquiring banks?

APPENDIX 2

Visits and Phone Interviews

Visits

Dr. Ralph Monaco, Chief Economist Ms. Stacy Furukawa, Financial Policy Analyst Mr. Scott Borger, Financial Policy Analyst National Credit Union Administration Alexandria, VA Visit April 16, 2018	Mr. Ryan Donovan Chief Advocacy Officer Credit Union National Association Washington, DC Visit April 6, 2018
Mr. Brandon Riechers Chief Executive Officer Royal Credit Union Eau Claire, WI Visit March 13, 2018	Mr. Gary Regoli President and CEO Achieva Credit Union Dunedin, FL Visit March 1, 2018
Mr. Robert A. Steensma President and CEO Five Star Credit Union Dothan, AL Visit February 9, 2018	Ms. Linda Cencula President and CEO Avadian Credit Union Birmingham, AL Visit February 8, 2018

Phone Interviews

Mr. Mike Schenk Vice President Research and Policy Analysis Credit Union National Association Phone interview April 6, 2018	Ms. Tina M. Sbrega President and Chief Executive Officer GFA Federal Credit Union Gardner, MA Phone interview March 12, 2018
Mr. Michael N. Lussier President and Chief Executive Officer Webster First Federal Credit Union Worcester, MA Phone interview February 9, 2018	Ms. Cheryl A. DeBoer Chief Executive Officer Advia Credit Union Parchment, MI Phone interview March 19, 2018
Mr. Michael M. Bell Attorney and Counselor Howard & Howard Royal Oak, MI Phone interview March 29, 2018	

Statutes regarding Credit Unions Authority to Purchase Bank Assets and Liabilities

Source: CUNA's State Government Affairs, April 2018

Connecticut—Can Purchase Bank Assets

Sec. 36a-455a. Powers. A Connecticut credit union may:

(21) Subject to the provisions of section 36a-455b, sell all or part of its assets, other than extensions of credit, to other lending institutions, purchase all or part of the assets, other than extensions of credit, of other lending institutions, and assume all or part of the shares and the liabilities of any other credit union or out-of-state credit union.

Florida—Unclear

657.031 Powers.

(1) When not in direct conflict with or superseded by specific provisions of the financial institutions codes, the general powers authorized to corporations in s. 607.0302 extend to credit unions formed under this chapter. This section shall be liberally construed to accomplish the purposes stated herein.

607.0302 General powers. Unless its articles of incorporation provide otherwise, every corporation has perpetual duration and succession in its corporate name and has the same powers as an individual to do all things necessary or convenient to carry out its business and affairs, including without limitation power:

(6) To purchase, receive, subscribe for, or otherwise acquire; own, hold, vote, use, sell, mortgage, lend, pledge, or otherwise dispose of; and in and with shares or other interests in, or obligations of, any other entity.

Massachusetts—Credit Unions May Merge or Consolidate with Banks

Chapter 171, Section 78A

Section 78A: Merger or consolidation of credit unions with savings bank, co-operative bank or subsidiary banking institution

Section 78A. Any 1 or more credit unions may merge or consolidate with 1 or more savings banks, as defined in section 1 of chapter 168, or 1 or more co-operative banks, as defined in section 1 of chapter 170, or 1 or more subsidiary banking institutions, as defined in section 1 of chapter 167H and section 4 of chapter 167I.

Michigan—Can Purchase Bank Assets

490.401 Domestic credit union; powers.

(q) To purchase any of the assets of another depository institution, or with the approval of the director assume any of the liabilities of another depository institution.

Nebraska—Can Purchase Bank Assets

21-1740. Credit union; powers.

(13) A credit union may purchase any of the assets of another financial institution or assume any of the liabilities of another financial institution with the approval of the director. A credit union may also purchase any of the assets of a financial institution which is in liquidation or receivership.

North Carolina—Allows the Purchase of Bank Assets

§ 54-109.21. General powers.

(10) Sell all or substantially all of its assets or purchase all or substantially all of the assets of another financial institution, subject to the approval of the Administrator of Credit Unions.

Vermont—Credit Unions May Assume Assets and Liabilities of Banks

Title 08: Banking and Insurance

Chapter 207: Merger, Share Exchange, Consolidations, and Acquisitions

Subchapter 5: Acquisition of Assets; Assumption of Liabilities

§ 17501. Acquisition of assets

(a) General. A Vermont financial institution may acquire the assets of, or assume the liabilities of, any other financial institution authorized to do business in this State. When the value of an acquisition or assumption is worth 25% or more of the assets of the acquiring, assuming, or transferring entity, the transaction shall be subject to and in accordance with the procedures, and subject to the conditions and limitations, set forth in this subchapter.

(b) Adoption of plan. The governing body of the acquiring or assuming institution and the governing body of the transferring institution shall adopt by majority vote a plan for acquisition, assumption, or sale on terms that are mutually agreed upon. The plan shall include:

(1) the names and types of the institutions involved;

(2) a statement setting forth the material terms of the proposed acquisition, assumption, or sale, including, if applicable, the plan for disposition of all assets and liabilities not subject to the plan;

(3) a statement that the entire transaction is subject to written approval of the Commissioner and, if the transaction involves all or substantially all of the assets or liabilities of the transferring institution, the approval of the transferring institution's investors or mutual voters;

(4) if an investor-owned institution is the transferring institution and the proposed sale is not for cash, a clear and concise statement that investors of the institution voting against the proposed sale are entitled to rights set forth in subdivision 17101(c)(2) of this title; and

(5) the proposed effective date of the acquisition, assumption, or sale and all other information and provisions that are necessary to execute the transaction or that are required by the Commissioner.

(c) Commissioner's approval. The Commissioner shall approve the plan of merger or consolidation in accordance with subsection 17101(b) of this title.

(d) Vote of investors or mutual voters. If the transaction involves all or substantially all of the assets or liabilities of the transferring institution or if the transferring institution's organizational documents require, the plan of acquisition, assumption, or sale shall be presented to the investors or mutual voters of the transferring institution for their approval, and their approval shall be obtained in accordance with subsection 17101(c) of this title. If the approval of investors is required, then investors dissenting to the transaction have the rights set forth in subdivision 17101(c)(2) of this title.

§ 17101(c)

(c) Vote of investors or mutual voters. The plan of merger or consolidation, as approved by the Commissioner, shall be submitted to the investors or mutual voters of the participating institutions for their approval at an annual meeting or at a special meeting called for that purpose in the following manner:

(1) Unless a greater percentage is required by the organizational documents of either financial institution, the plan of merger, consolidation, acquisition, or assumption must be approved by the investors or mutual voters by each voting group entitled to vote separately on the plan by a majority of all votes entitled to be cast on the plan by that voting group at the meeting called for this purpose. The vote constitutes the adoption of the organizational documents of the resulting institution, including amendments, contained in the merger, or consolidation agreement

Title 08: Banking and Insurance

Chapter 207: Merger, Share Exchange, Consolidations, and Acquisitions

Subchapter 5: Acquisition of Assets; Assumption of Liabilities

§ 17502. Assumption of liabilities

(a) Assumption of liabilities. Subject to the approval of the Commissioner, any Vermont financial institution may, by contract, assume all or any part of the deposit and other liability of any other financial institution or financial institutions and may accept in payment or part payment for the obligations so assumed, all or any part of the assets of

the other financial institution; or may so accept in payment or part payment, the notes or other undertakings of the other financial institution, secured by a pledge to the assuming financial institution, or secured by any other lien or trust for its benefit, with respect to all or any part of the assets of the other financial institution or financial institutions, at least equal in value to the amount of the deposit liability assumed. Such contracts of assumption, notes, undertakings, liens, or trust agreements may be in any form approved by the Commissioner which provides for equality of treatment of all depositors and for the full payment of all assumed deposits on demand. All depositors whose deposits are so assumed shall be notified by mail of the assumption and any depositor objecting thereto within 60 days of that notice shall be paid the full amount of the assumed deposit, with interest to the date of the objection, computed at the proportional part of the interest rate to be paid for that period by the Vermont financial institution on other deposits, or if no rate has been determined, at the rate for the interest period next preceding the notice, not to exceed the rate prescribed by the directors for the then current period, if a rate has been so prescribed for the period.

(b) Contracts for assumption of deposit liability. Contracts for the assumption of deposit liability may be entered into independently of merger of financial institutions or as a part of any such merger, and the Commissioner may authorize under the provisions of chapter 205 of this title the assuming financial institution to establish a branch at any location at which the other financial institution might have conducted its business. However, such a contract shall not be valid unless the governing bodies of the signatory financial institutions have been authorized in regard thereto by a vote of the investors or mutual voters of the financial institutions. That authorization requires the affirmative vote, in the case of a mutual or cooperative financial institution, of a majority of the mutual voters, and in the case of an investor-owned financial institution, requires the vote provided in its organizational documents for amending the charter and in any event, at least the affirmative vote of a majority of the equity interests, as well as the affirmative vote of a majority of each class of equity interest present and voting at the meeting. All classes of equity interests may vote on the question whether or not the rights of any class to vote generally have been suspended under the terms of the charter by reason of nonpayment of dividends.

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About Filene

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

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