



MERGERS – POSITIONING YOUR CREDIT UNION FOR THE FUTURE

Presented by:

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Overview

For many years, credit unions have been merging. In fact, it was the late 60's when there were the most credit unions in the United States. Sometimes these are done due to issues or challenges with the merging credit union; sometimes they are done as part of a business plan, sometimes they are done as “merger of equals”.

Whatever the reason, they are likely going to continue. What this means is there are far fewer credit unions than in the past, and that number will continue to decline.

If you haven't experienced a merger, you are rare in today's environment.

We will discuss mergers in general, the impact to both the acquirer (surviving) and acquired (merging) credit union, why to merge or not to merge, and how to be ready for this activity, whether you are looking to acquire or looking to be acquired.



Agenda

- Merger Trends
- Mergers, Acquisitions, Consolidations
- The Choice is to Acquire or be Acquired, or is it?
- Why to Merge
- Why Not to Merge
- Can Small Credit Unions Survive?
- How to be Ready
- Considerations



Merger Trends

Year	# Credit Unions	Change	%
1950	10,586		
1969	23,866	13,280	125%
1980	21,465	-2,401	-10%
1990	14,549	-6,916	-32%
2000	10,684	-3,865	-27%
2010	7,605	-3,079	-29%
2020	5,099	-2,506	-33%

*130 mergers in 2020 (2.5%)

*74 mergers in 2021 (2.9% annualized) through June

*3.5% average merger rate per year



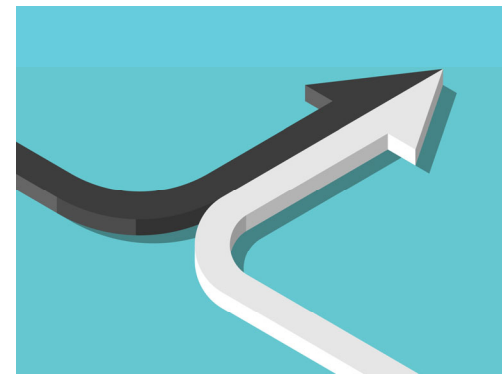
Credit Union Breakdown

	< \$50M	\$50M - \$100M	\$100M - \$250M	\$250M - \$500M	\$500M - \$1B	\$1B - \$10B	> \$10B
# CUs	2,616	694	714	367	289	370	18
Average Assets	\$43.4M	\$50.1M	\$160M	\$351M	\$708M	\$2.6B	\$24.4B
Net Worth	11.99%	10.87%	10.20%	9.82%	9.92%	9.98%	9.83%
ROA	0.25%	0.51%	0.58%	0.67%	0.83%	1.08%	1.42%
Loan/Share	49.31%	54.48%	59.92%	64.99%	70.02%	71.71%	68.94%



What is a Merger

- Combination of two or more separate entities into single new entity
- Acquisition is the purchase of one entity by another
- Accounting Rules only allow acquisition method
 - *Pooling of interests no longer allowed*
- Purchase and Assumption
- Regulatory Assistance



Acquisition Accounting

- Assets and Liabilities recorded at fair value
- Accounting complications
- Results in intangibles
 - *Core deposit intangible*
 - *Goodwill*
 - *Bargain purchase*



Acquirer vs Acquired

- Acquirer is the survivor, or continuing credit union
- Acquired is the merging credit union
- In what position is your credit union?



Why to Merge (Acquirer)

- Economies of scale
- Similar common bonds
- Growth
- Locations
- Talent



Why Not to Merge (Acquirer)

- Too much risk
- Everyone is doing it
- Bigger is not always better
- Best interest of the industry



Why to Merge (Acquired)

- Economies of scale
- Similar common bonds
- Facing similar challenges
- Cost of new programs exceeds resources
- Products and services
- Difficulty finding executives to lead CU
- Difficulty finding board members
- Financial failure
- Regulator's force it



Why Not to Merge (Acquired)

- Merging for merging's sake
- Everyone is doing it
- Vital to their community and individual members
- Retirement of CEO
- Best interest of the industry



Positive Impact of Merger

- Larger
- Stronger
- Survival odds improve
- New employment opportunities
- More/better services and products
- More locations
- Improved employee benefits



Negative Impact of Merger

- Job losses/reassignments
- Board representation
- Less control
- Lost identity



Small Credit Union Challenges

- Technology and its cost
- Leadership
- Member Growth
- Revenue
- Overall Costs



Be Ready

- Have a merger policy
- Be aware of other CUs
- Collaborate with other CUs
- Maintain good profitability
- Maintain good net worth
- Control balance sheet risk
- Maintain relationships with other CUs
- Have current policies/procedures
- Have good audits/exams



Considerations

- Permissibility
- Board representation
- Management & organizational structure
- Compensation & benefits
- Members
- Facilities
- Contractual obligations
- Lending philosophies



When Approached/Approaching

- Respect the other institution
- Management/staff of both institutions should get along
- Complete due diligence
- Balance sheet valuation
- Regulatory approval
- Merger plan and other documentation required
- Merging CU member approval required
 - *Unless waived by regulator*





Thank you for being here!



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Dan is the President of Mahalak Consulting Co. He spent most of his career at Cindrich, Mahalak, & Co., a CPA firm that provided audit, compliance, accounting, and consulting services to credit unions and their subsidiaries. He joined the firm in 1980 upon graduation from Eastern Michigan University and became a partner in 1988. Mahalak Consulting Co. provides professional services in the following areas:

- Strategic Planning
- Regulatory Matters
- Mergers & Acquisitions
- Budgets/Financial Plans
- Restoration Plans
- Accounting Assistance/Advice
- Virtual CFO Services
- Policy/Procedure Assistance
- Executive Search
- Fraud/Embezzlement Investigations
- CUSO Consulting
- Education & Training
- Speaking Engagements

Throughout his career, Dan worked in all phases of the CPA practice. He was involved in all audit activities, staff training and development, and a wide range of consulting projects. He was responsible for thousands of credit union audits. His extensive experience allows him to provide clients with unique insights into any problems, issues, or challenges they are facing. Credit unions have been his focus throughout his career. He understands the business, the challenges it faces, and the successes and failures that have occurred.

Dan continues to work with credit unions in an advisory capacity. He has been a frequent speaker on topics related to the credit union industry on both a local and national level; and has written articles for several credit union publications.

