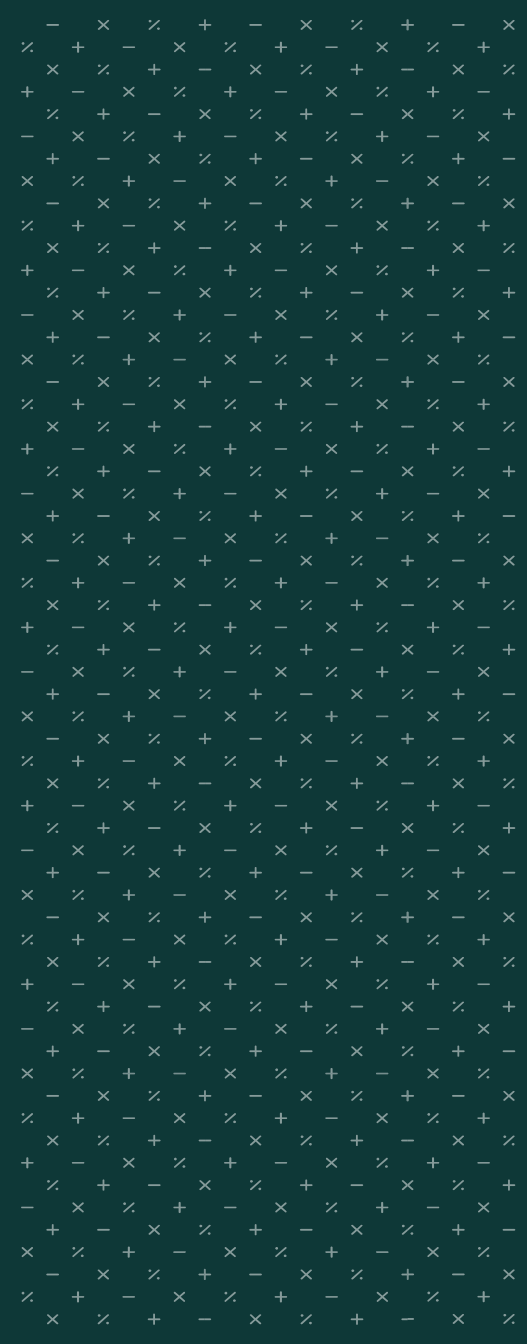




Credit Union Mergers



With You Today



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Forget Organic Growth; Merge!

Discussion Agenda

- Credit union mergers
- Credit unions buying banks
- Merger accounting considerations



Polling Question 1

Has your credit union completed a merger in the last five years?

A – Yes; more than 3

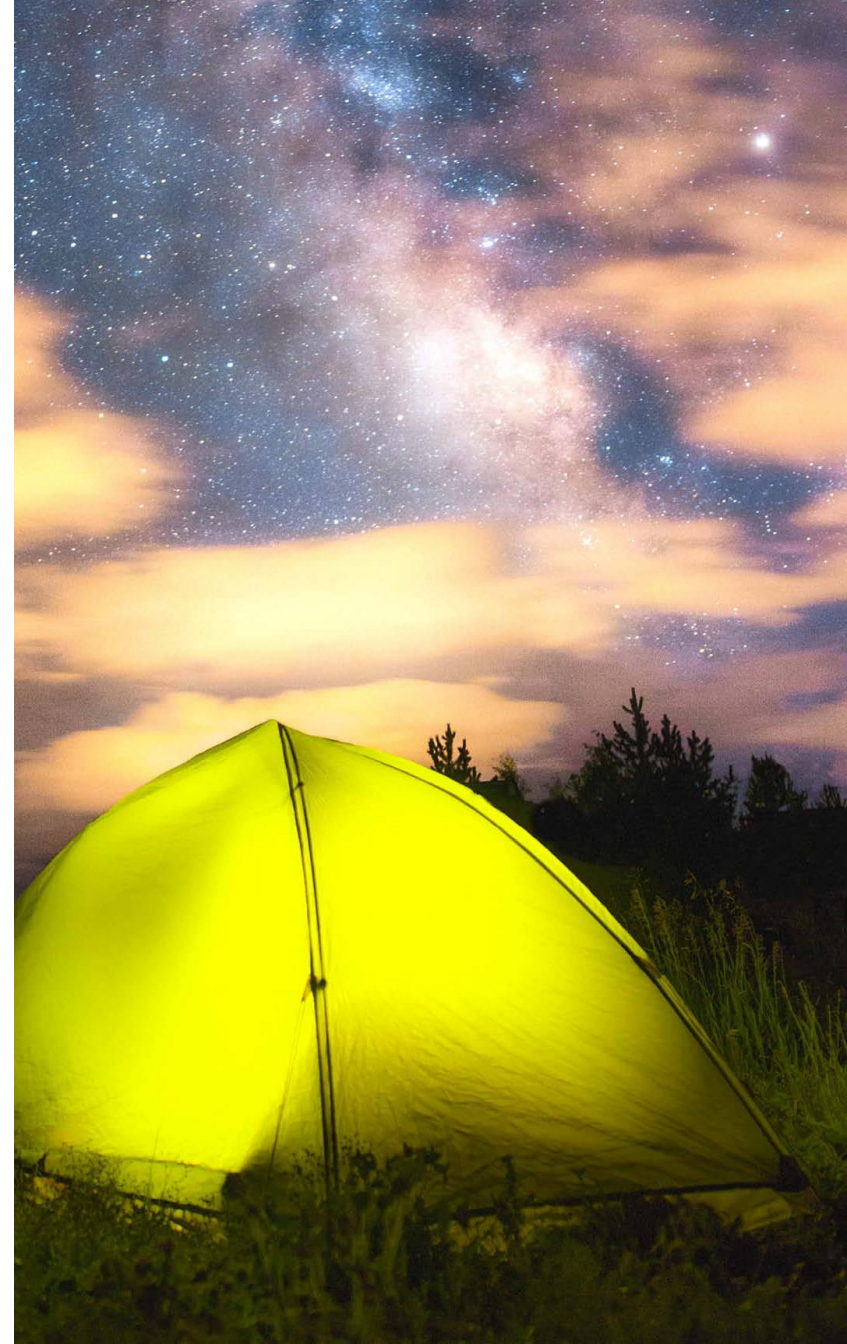


B - Yes; more than 1

4

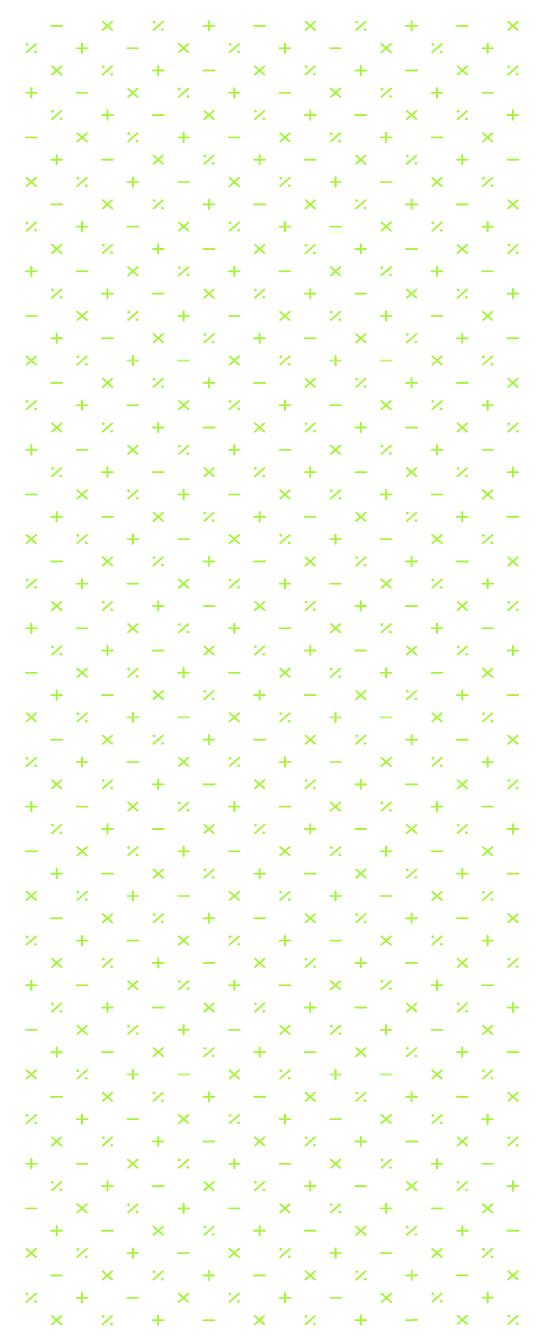
C – Merger in process now

D - Nope





Credit Union Mergers

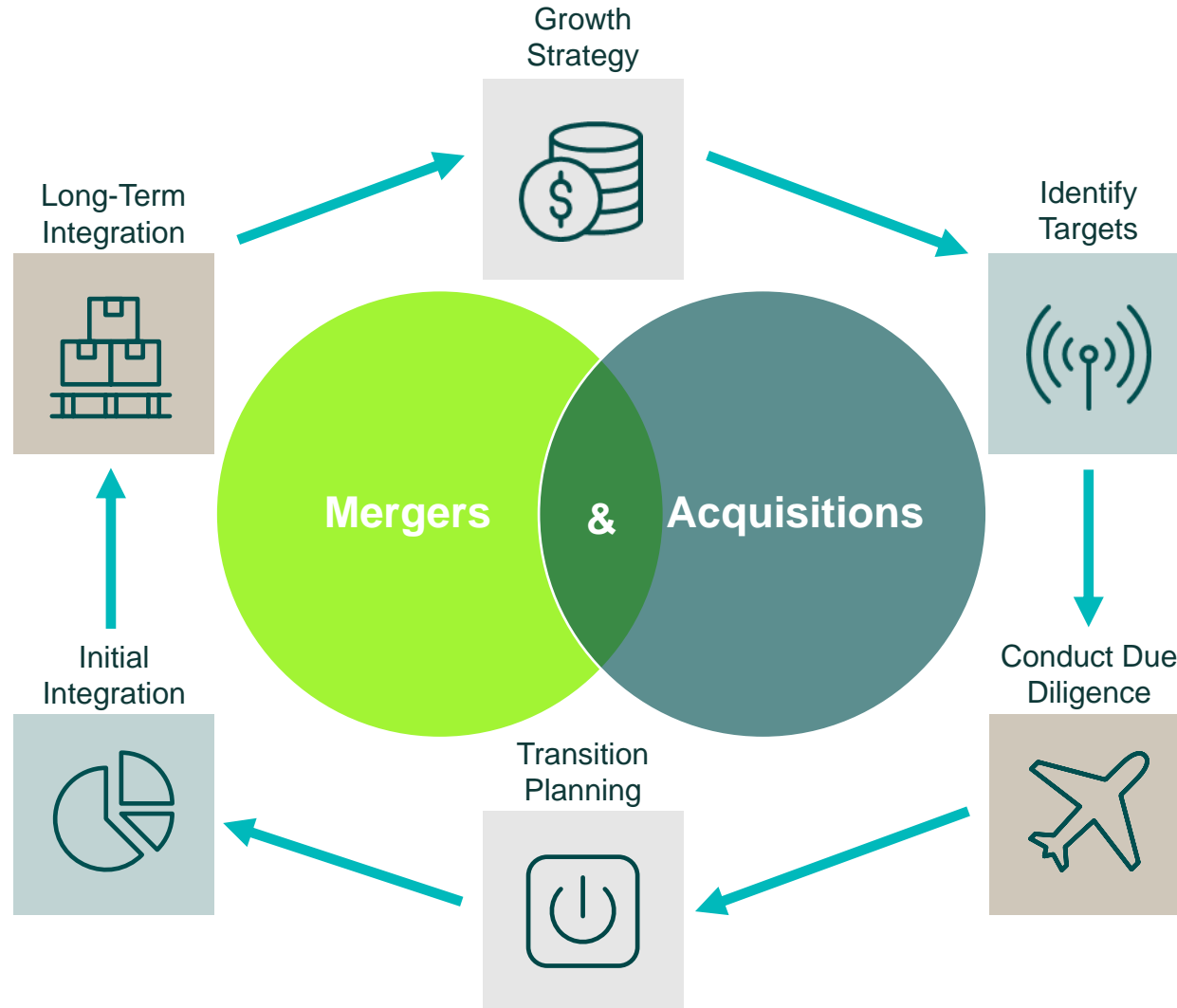


Credit Union Mergers – It's All About the Members!

- On track for more than 100 mergers in 2021
- Reasons for credit mergers:
 - Expand/improve services to its members
 - Expand a CU's field of membership
 - Ensure a succession plan
 - Achieve economies of scale and improve financial condition
 - Maximize member value
- General characteristics of merged credit unions:
 - Smaller size – Total assets < \$50 million
 - Deteriorating member base
 - Deteriorating financial condition



The Art and Science of Mergers & Acquisitions



Management and Audit Considerations

- Use of specialists
 - Valuation
 - Due diligence
 - Auditors
 - Legal
- Lending culture and policies
 - What is the credit culture?
 - Retention of key personnel
 - Business lending requires ongoing/continuous monitoring



Management and Audit Considerations

- Information technology
 - Change management
 - User access
 - Training programs
- Member communications and complaints
- Documentation retention
- Evidence of controls
- Governance
 - Board oversight/committees
 - Supervisory/Audit Committee



Credit Union Merger Challenges

- Number of targets is declining
 - Improved financial performance throughout industry
 - Consistent merger activity = smaller population of smaller credit unions
 - Barriers to entry for new credit union charters
- Incentives are not there for key decision makers
 - Loss of roles/responsibilities
 - No or limited financial windfalls
- Misalignment between credit unions
 - Culture
 - Strategic vision and direction



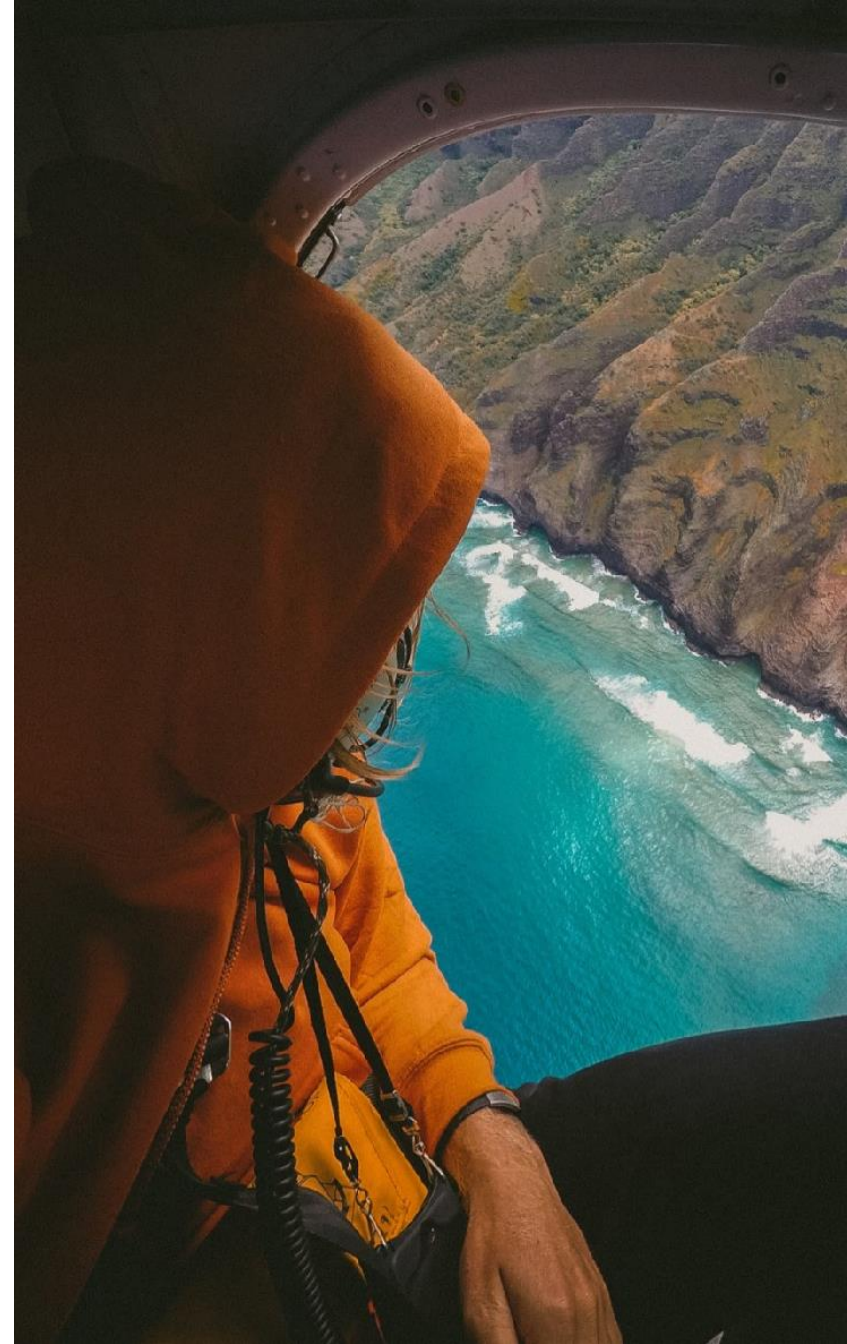
Polling Question 2

Are you ready for a merger?

A – Yes! Bring it on!

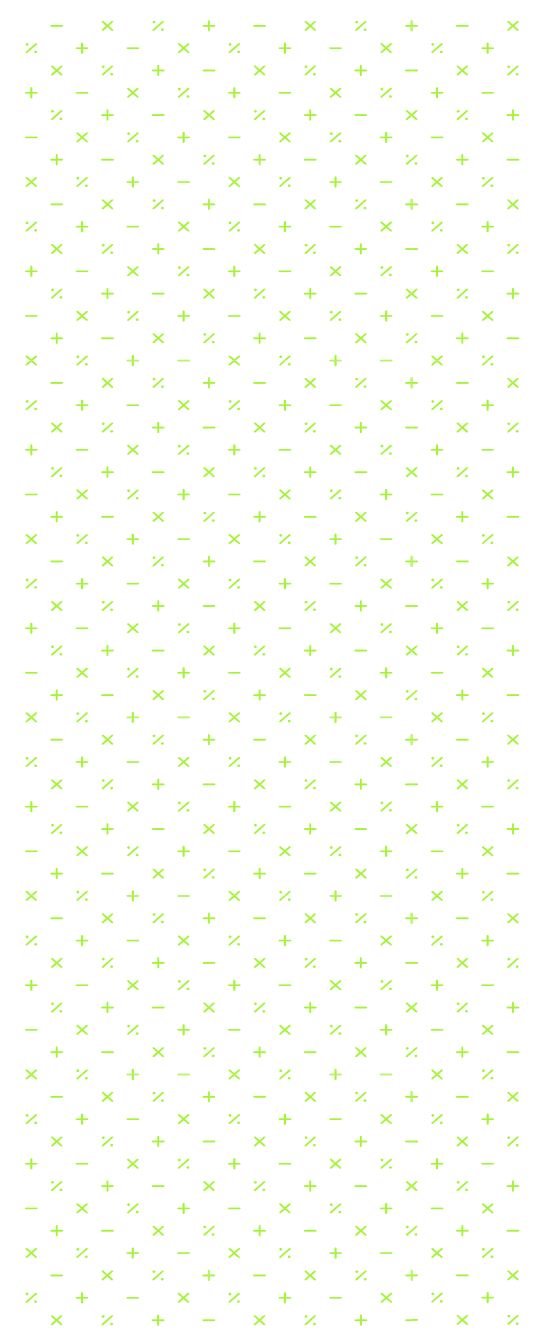
B – Nervous at the prospect but ready to learn

C – Dreading the possibility





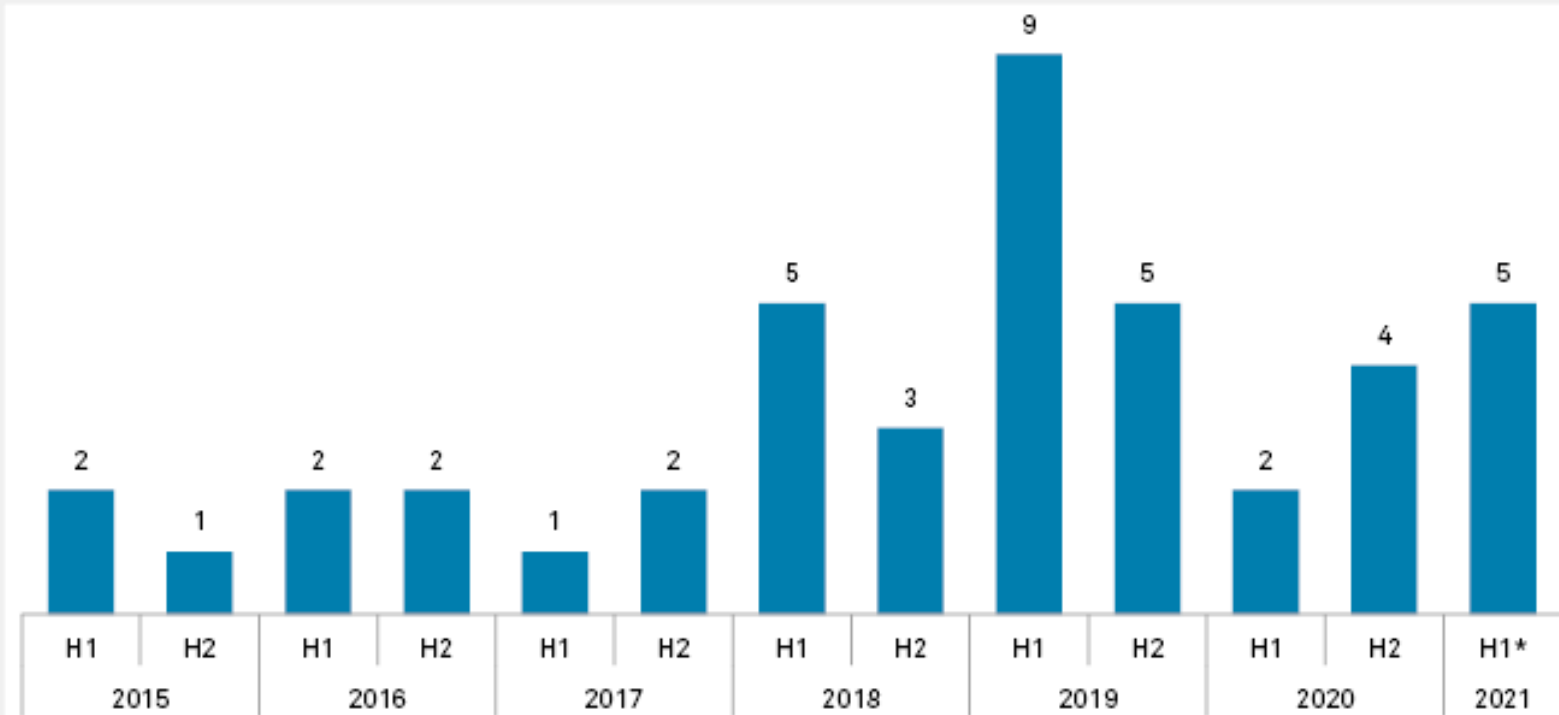
Credit Unions are Buying Banks



Credit Unions are Buying Banks

US credit unions' acquisition of banks

Number of merger announcements



Data compiled June 18, 2021.

Analysis limited to pending and completed deals announced from Jan. 1, 2015, to June 17, 2021, with a U.S. credit union as the buyer and a U.S. bank or thrift as the target.

Excludes terminated deals.

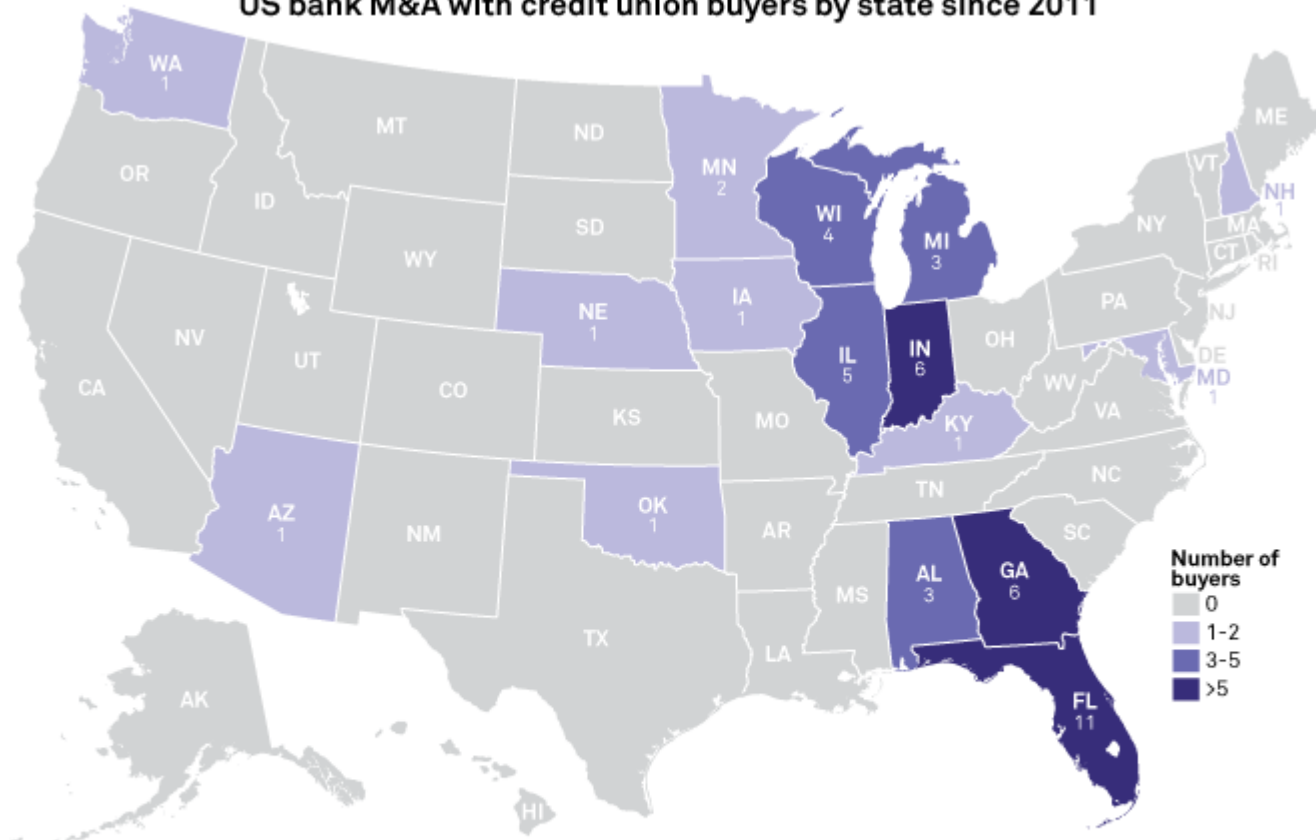
* Data available through June 17, 2021.

Source: S&P Global Market Intelligence



Credit Unions are Buying Banks

US bank M&A with credit union buyers by state since 2011

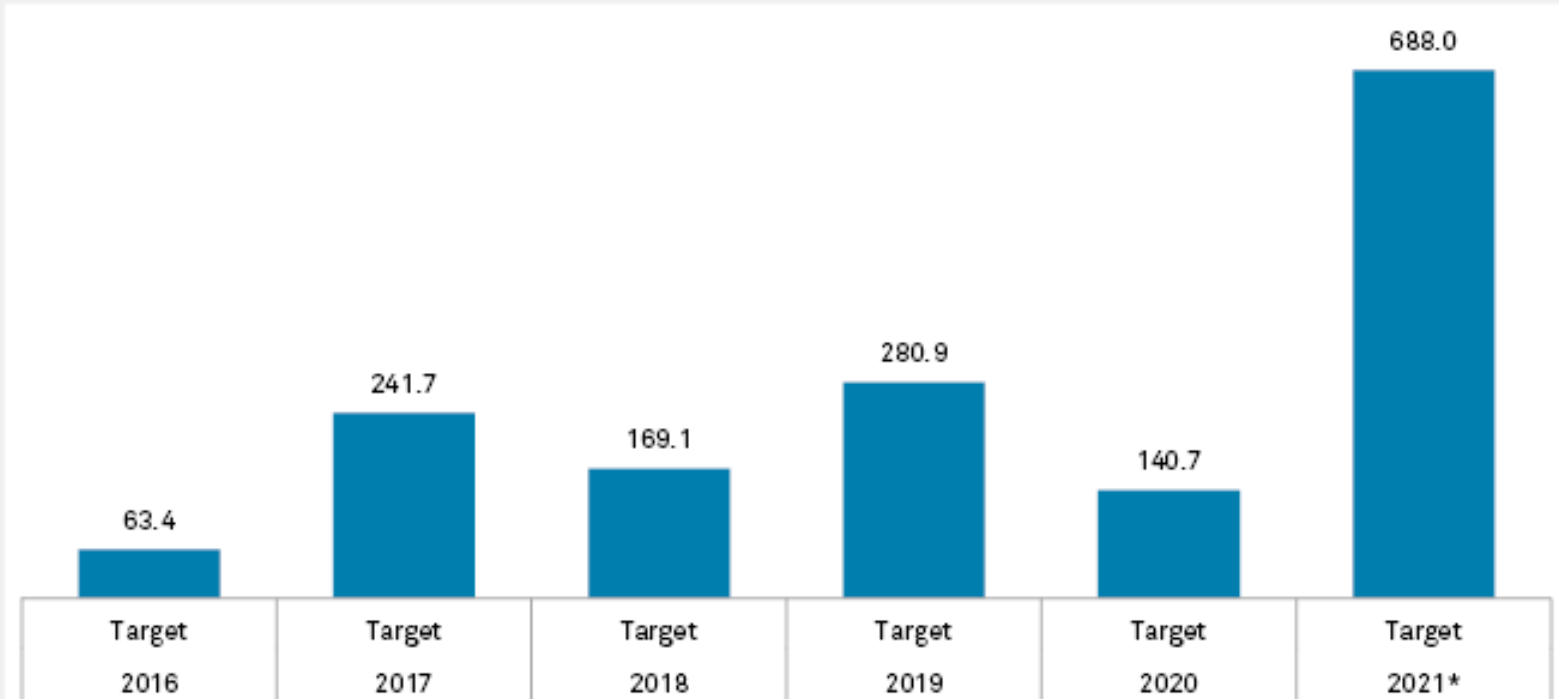


Data compiled June 18, 2021.
Includes pending and completed deals announced from Jan. 1, 2011, to June 17, 2021, with a U.S. credit union as the buyer and a U.S. bank or thrift as the target. Excludes terminated deals.
S&P Global Market Intelligence data does not show any credit union-bank mergers before 2011.
The map shows the targets' headquarters.
Map credit: Ciaralou Agpalo Palicpic
Source: S&P Global Market Intelligence



Credit Unions are Buying Banks

US credit unions' acquisition of banks getting larger
Average total assets (\$M)



Data compiled June 18, 2021.

Analysis limited to pending and completed deals announced from Jan. 1, 2016, to June 17, 2021, with a U.S. credit union as the buyer and a U.S. bank or thrift as the target.

Excludes terminated deals.

* Data available through June 17, 2021.

Source: S&P Global Market Intelligence



Why Do Credit Unions Buy Banks?

- More banks are selling
 - Earnings pressure and regulatory burdens
 - Human capital constraints/management succession issues
 - Prices of community bank stocks have risen
- Larger banks are not interested in smaller banks
- Credit union buyers are attractive to banks
 - Ability to pay more (lower required ROI due to no taxes)
 - Ability to pay all cash
- Number of viable credit union targets is diminishing



Why Do Credit Unions Buy Banks?

- Improves the balance sheet
 - Instant growth
 - Diversification of earning assets
 - Leverage excess capital
- Provides for a competitive advantage
 - Increase market share/geographic expansion
 - Acquire expertise in commercial lending and an existing commercial loan portfolio
 - Eliminate in-market competition



Polling Question 3

Do you think merger trends will continue?

A – Yes; will accelerate

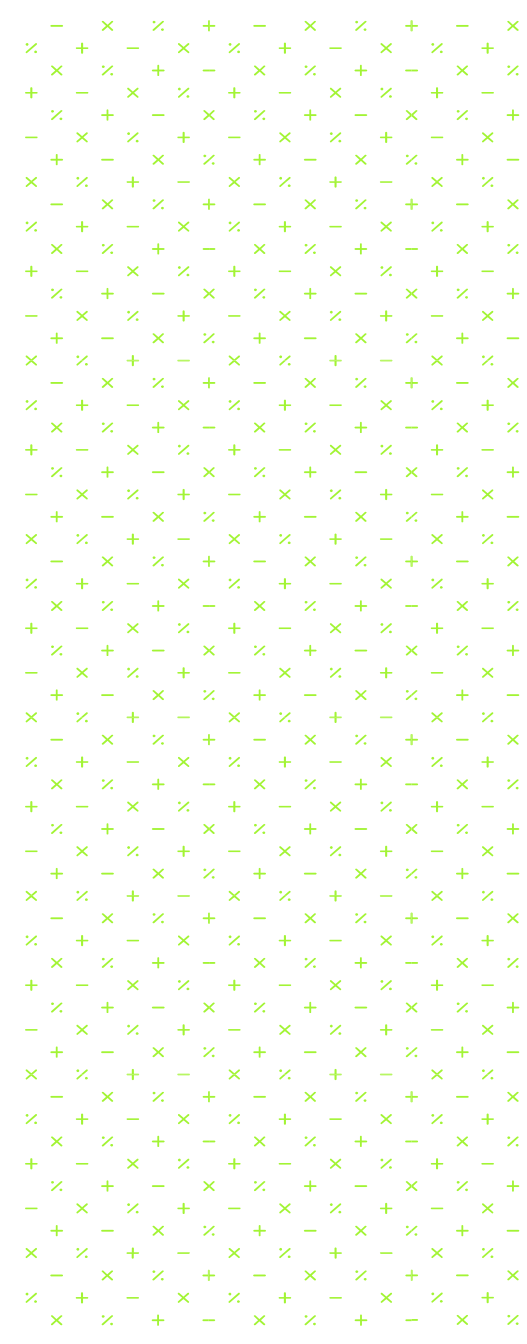
B – Yes; will remain steady

C – No; we are running out of institutions/targets





Merger Accounting Considerations



Acquisition vs. Pooling of Interest

- Historically accounted for mergers as Pooling of Interest
 - Relatively straightforward combining of book values
 - GAAP no longer allows pooling of interests method (since 2009)
- Acquisition Accounting for Business Combinations
 - More complex
 - Assets acquired and liabilities assumed marked to Fair Value
 - Often involves recognition of intangible assets; CDI, Goodwill
 - Accounting guidance ASC 805



Fair Value Considerations

- Assets of the acquired entity are marked to Fair Value
 - Loans – performing vs. nonperforming
 - Allowance for Loan Loss does not carry over
 - Recognition of intangible assets at fair value (e.g. core deposit intangibles and mortgage servicing rights, etc.)
- Liabilities assumed are marked to Fair Value
 - Deposit accounts
 - Debt
 - Commitments (earn-outs, etc.)



Fair Value Considerations

- Purchase Consideration
 - Unlike credit union mergers, bank acquisitions often involve purchase price – Purchase Consideration

- Goodwill vs. Bargain Purchase Gain

Purchase Consideration	\$ XX,XXX
Less: Net Assets Acquired	(\$XX,XXX)
<hr/>	
Goodwill/(Bargain Purchase Gain)	\$ X,XXX



Use of Specialists

- Fair value determinations can be complex
- Requirement for supportable estimates
- Use of qualified valuation firm
 - Provide quality reporting and supportable estimates
 - Experience with similar transactions
 - Engage early
 - Help you identify and work through issues



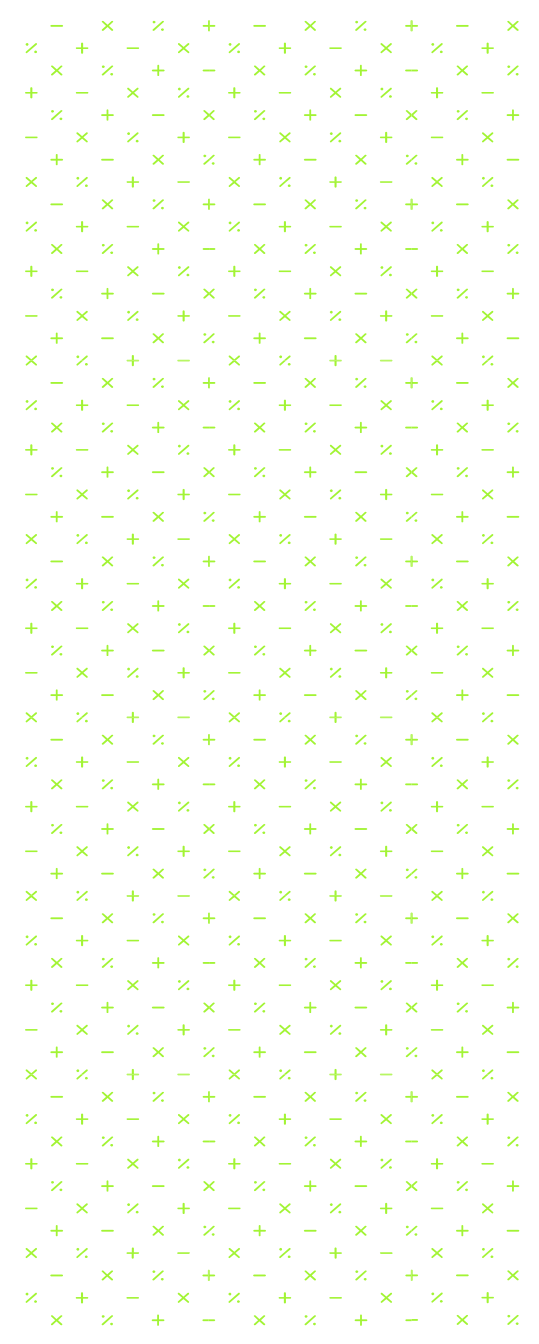
Day 1 & Day 2 Concept

- Day 1 Accounting
 - Initial Recognition of Assets/Liabilities at Fair Value
 - Record Goodwill, Core Deposit Intangible, Earn-outs, etc.
- Day 2 Accounting
 - Ongoing effects of Day 1 entries
 - Income Statement Impacts – amortization and accretion, yields
 - Balance Sheet Impacts – ongoing assessment of impairment
 - Financial Reporting



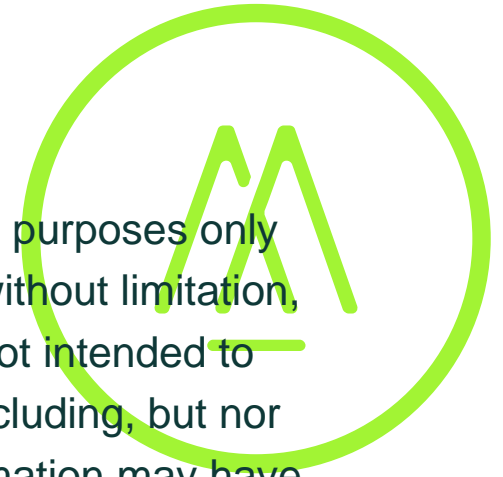


Questions?



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THANK YOU