When Prospective Partners Come Knocking:

Credit Union Board and Management Responsibilities to Consider Merger Proposals



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Table of Contents

Merger Trends Reflect a Strategic Shift 5

Confronting Realities and Resistance 9

The Need to Keep Pace with Innovation and Members' Expectations 10

Coast-to-Coast Competition 14

Coming to Terms with a Changing Business Landscape 15

When a Merger Offer Is Submitted 20

How can credit union leaders prepare in advance to assess merger proposals? 20

What constitutes a solicitation or offer? 23

How can executives and directors evaluate what is in members' best interests? 24

View from Across the Industry: Bank Merger Negotiations 27

What are the next steps? 28

Case Study: Wisconsin Credit Unions Find a Good Fit 30

Conclusion: Changing Times for Credit Unions 33

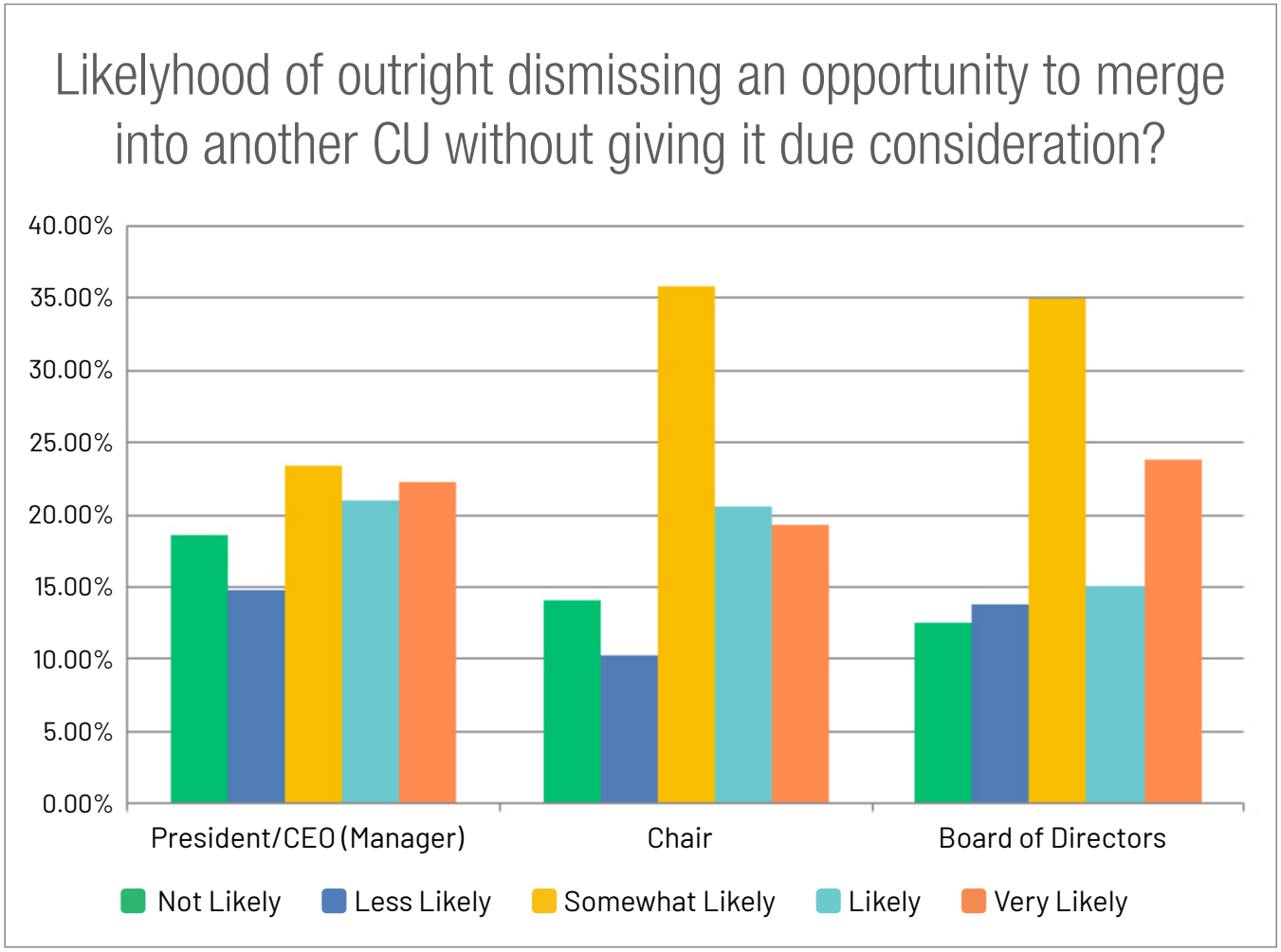
Acknowledgments 36

References and Resources 36



Credit union boards are expected to carry out their duties "in a manner reasonably believed to be in the best interests of the membership," according to the NCUA—and that includes an impartial assessment of the merits of merger proposals. However, as a recent survey of credit union directors, executives, and industry consultants suggests, factors often cited by credit union leaders as reasons to dismiss a merger offer may not reflect the priorities of members and prospective members in choosing their primary financial institution. This white paper explores the responsibilities of credit union boards and executives to evaluate proposals to join forces with other financial cooperatives—and the possible obstacles in fulfilling those duties.

The pervasiveness among credit union leaders to outright reject any merger opportunity without considering the benefits to members can be quite alarming. Nearly three quarters (72%) of credit union executives and directors said they would be somewhat likely to very likely to outright dismiss merger opportunities without giving those proposals due consideration, according to a recent survey CEO Advisory Group conducted regarding merger attitudes and perspectives.



This white paper explores both current views on mergers and the need for forward-looking, objective perspectives that reflect how changing consumer behavior in the digital world is forcing financial service providers to find ways, including mergers, to continually evolve and deliver new services and delivery channels.



Merger Trends Reflect a Strategic Shift

Over the past decade, successful financial cooperatives have redefined their brands and revamped their operations behind the aim of forging strong ties with members and maintaining sustainable financial growth. Patterns in recent mergers mirror that transformation. In the past, the vast majority of mergers occurred because the merging institution was in dire financial straits. Today thriving credit unions, large and small, are partnering in strategic mergers to position themselves to better serve members and employees for the long run.

Several recent mergers illustrate that phenomenon. In a spring 2018 announcement of its plans to merge with Nuvision Credit Union, Denali Federal Credit Union focused on the value to members in "ensuring your credit union continues to grow and thrive. This proposed merger will significantly increase our asset size, market scope, and operating efficiencies so we have the resources to offer much more to members and

our local communities—with the same personalized service we've always delivered. It also puts us in a much stronger competitive position for the future."

In laying out the case for the merger, executives and directors for both Nuvision and Denali emphasized that the continuing financial institution would be a well-capitalized $2.2 billion credit union with 160,000 members and 30 branches in Alaska, Arizona, California, Washington, and Wyoming, expanding the service area for the merging organizations and their members.

The Denali leadership team had studied nearly 30 credit unions in Alaska and other western states as possible merger partners, the announcement noted. That search focused on "a synergy of cultures, goals, and organizations" that would minimize market/branch overlap and optimize market diversity and economies of scale to "significantly decrease our future expense structure, increase operating efficiencies, and reduce risk associated with difficult economic or rate environments."

Another planned merger announced in January brings together two California credit unions, Schools Financial Credit Union, with $1.9 billion in assets, and $15.2 billion SchoolsFirst Federal Credit Union, under the latter's name and charter. In discussing the merger with *CUToday*, Schools Financial CEO Tim Marriott noted that his organization is performing well financially but looks to consolidation as an opportunity to enhance scale and competitive standing. "If you look at the competition out there—not only from banks, but from fintechs and all other players in our space—in order to provide the best technical solutions and convenience members are increasingly expecting, it's important to have the horses to do that," Marriott said.

Under the title "Committed to Enhancing Member Value," McGraw-Hill Federal Credit Union, a $420 million institution based in New Jersey, announced that its merger with the nation's second largest financial cooperative, $24.2 billion Pentagon Federal Credit Union, would occur May 1.

And in Canada, seven British Columbia credit unions began in late 2017 examining the business case for an amalgamation of their operations as an "opportunity to build something together that may not have been possible for us independently," including more significant investments in new technologies, products, services, and service delivery. As of December, six of the credit unions, ranging in size from $142 million to more than $1 billion, are moving forward with merger planning.

These examples demonstrate the growing acceptance among financially sound credit unions to consider consolidation as an opportunity to enhance their product and service offerings to members and to solidify their standing in a crowded marketplace as a foundation for continued growth. As Vincent Hui, Managing Director leading Merger and Acquisition practice for Cornerstone Advisors (www.crnrstone.com), notes in a recent article:

Many credit unions can survive with the moderate growth that comes from providing basic financial services to members. However, this level of growth alone will not be enough to generate a lot of earnings and capital that credit unions need to invest in new products and services. To make these kinds of investments, credit unions must achieve the sort of financial flexibility that will enable investments in new products and services, provide better rates to members, serve members in an expanded field of membership, and grow capital to support more credit to members. To reach this goal, a credit union has two options: go it alone or complement its growth strategy by pursuing a merger.

The marketplace and fiscal realities behind the steady consolidation in the financial services industry in recent years have simultaneously decreased the number of credit unions and expanded the capacity of those remaining to continue to serve members through the financial cooperative model. This seeming paradox is borne out by a steady increase in the movement's combined membership and assets. The number of federally insured credit unions declined from 7,806 to 5,375 over the decade ending December 31, 2018, according to the NCUA. Over the same period, combined membership rose 31 percent from 88.6 million to 116.2 million, and total assets increased from $811 billion to $1.45 trillion.

Credit unions were founded to provide access to fairly priced credit to people who could not obtain loans from banks. In that respect, not-for-profit, member-owned institutions helped revolutionize the financial services landscape: Most consumers now have a multitude of choices among credit unions, banks, fintechs, and other nontraditional providers competing for their business. In part through consolidation, credit unions have strengthened their position to continue to provide an alternative, members-first option for financial services in that busy marketplace.

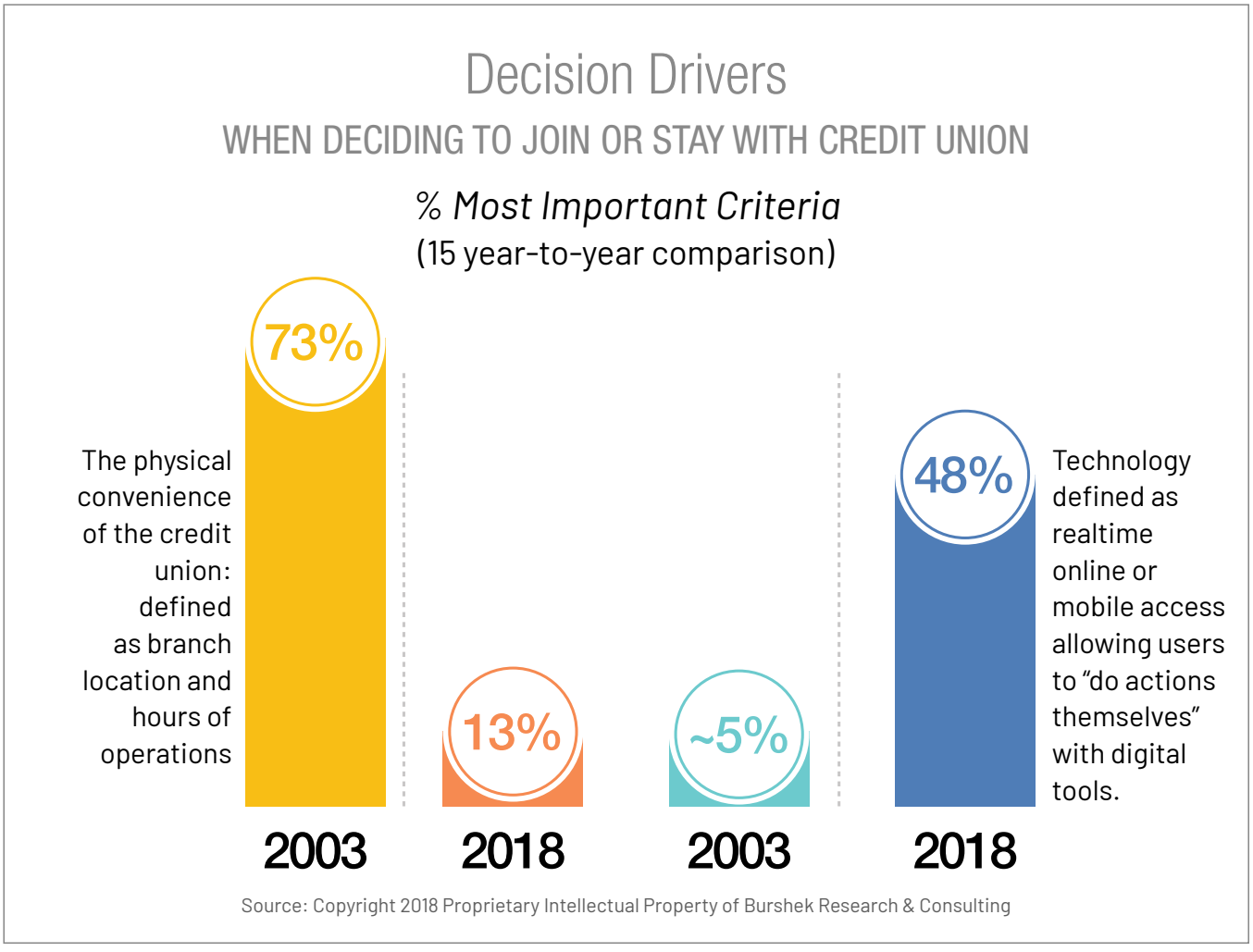


Confronting Realities and Resistance

Let's examine the foremost factors—the high cost of technological advances and ever-increasing competition—supporting the increasing acceptance of mergers as a strategic solution to confront those challenges. Then we will turn to the results from our online survey that suggest continued resistance among some credit union leaders to consider consolidation. Conducted in the summer of 2018, the survey drew responses (n=93) from executives and board leaders from across the country and a spectrum of credit union sizes, with 35% of participants with financial cooperatives under $100 million in assets and 58% over $100 million (30% were from credit unions with $500 million or more in assets); the remaining survey participants self-identified as industry consultants.

The Need to Keep Pace with Innovation and Members' Expectations

As consumer choices for financial services have become more plentiful, the most pressing quandary facing even the most high-performing credit unions today is how to remain relevant to members by providing the products, services, and delivery channels they need and want. The game-changer has been the advent of digital banking. In a remarkably short time—just over the last 15 years—technology has transformed financial services and consumers' expectations, says John Burshek, president of Burshek Research & Consulting (www.burshekresearch.com). Burshek's research is based on interviews and focus group discussions with members and



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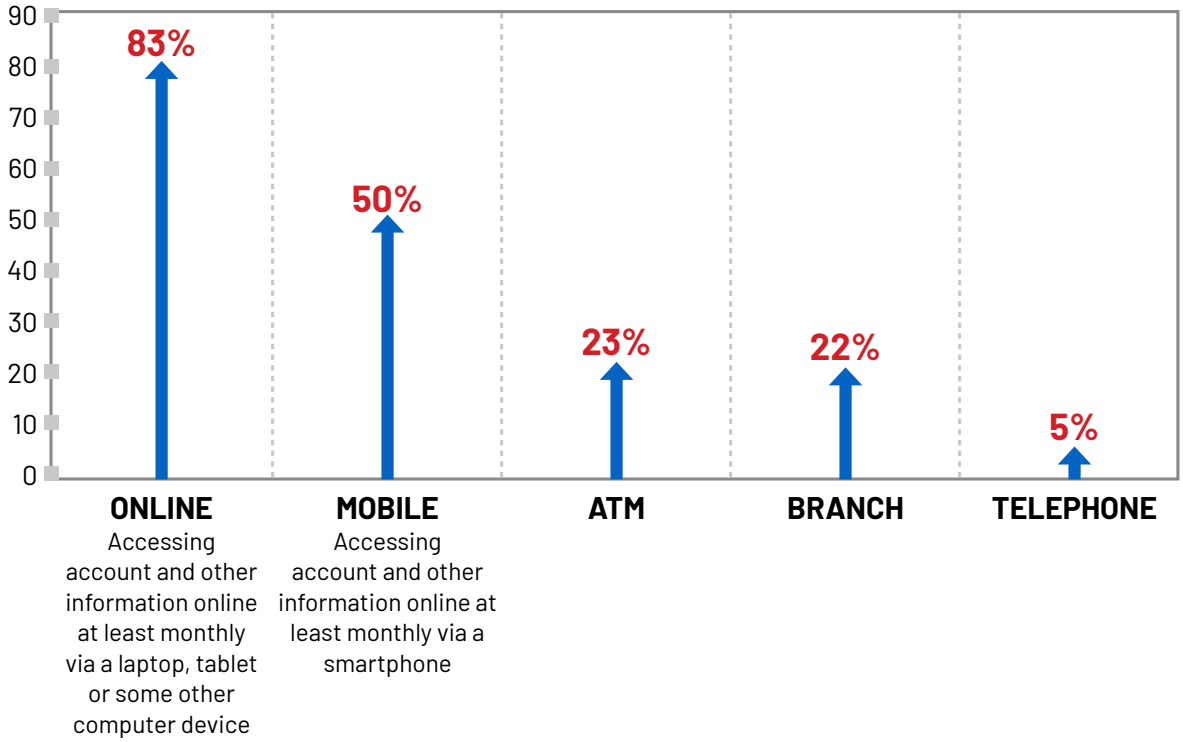
potential members on the "drivers of decisions" about financial services that can be applied to steer credit unions' strategies and tactics to increase member acquisition and retention.

In 2003, Burshek notes, 73% of members identified the physical convenience of branches, as defined by their locations and hours of operation, as the most important criteria in deciding whether to join or remain with a credit union. By 2018, that rate had dropped to 13%. Today, the top reason for choosing a financial services provider, cited by 48% of consumers, is the quality of technology services.

Monthly Channel Usage

CREDIT UNION MEMBERS

% Using Specific Channel at Least Monthly in 2017-2018



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The hard reality is that the main means of differentiation many credit union leaders have long touted—friendly personal service by familiar branch employees—no longer matters as much to most members, he contends. According to Burshek's research, only 22% of members stopped by a credit union branch at least monthly in 2017 and 2018, and only 5% phoned their credit union regularly.

In contrast, 83% accessed their accounts online through a computer or tablet at least once a month and 50% relied on mobile services, though many consumers don't distinguish between remote channels. Instead, they view online and mobile access as synonymous—and preferable to a trip to the branch.

"Looking more broadly at prospective members, preferences skew even more sharply to digital delivery: Over 75% of the household decision-makers start their research for a new potential financial institution online, and that goes up to over 90% among customers in the 35 and younger age bracket," he says.

As our survey indicates, the need to deliver on members' expectations for digital services is widely recognized. The top three top factors identified by respondents as important or very important in assessing merger proposals relate directly to how technology is transforming the industry:

> 87.7% Digital transformation, having the tools in place to be competitive
> 83.6% Online/member experience as a key differentiator
> 80.5% Ability to offer a broader array of products and services

How important are the following factors, now and in future, in assessing whether merging into another credit union is beneficial?



Coast-to-Coast Competition

Members' increasing reliance on remote access and digital services is intertwined with another challenge—the widening competitive field facilitated by the Internet marketplace and remote delivery of financial services. In the not-too-distant past, credit unions looked down the street or across town to gauge the competition. Today, however, members' financial services choices are no longer limited by geography. The explosion of online deposit and loan services offers a wealth of options with enticing rates and features.

The rise of online commerce has moved beyond broadening the competitive landscape to upend the long-standing notion that access to a community-based financial institution is a significant factor in consumers' decisions about where to bank. In a recent *Forbes* article, Ron Shevlin argues that, for many people, the traditional definition of *community* as a geographic construct has been replaced by the concept that people with similar interests and views make up a community "regardless of where they live."

"Consumers may still *want* a financial institution with a local presence, but they increasingly rely on non-local providers—both traditional institutions and new fintech startups—in addition to that local provider," Shevlin contends.

The implications of those evolving preferences are that credit unions likely command less of the financial business of existing members and face an uphill battle to win over new members. The long-prized status of becoming members' primary financial institution—their one-stop shop for all their deposit and lending needs—is much harder to achieve.

In addition, credit unions must compete effectively both in their communities and online. To even appear on the radar for consumers shopping for a new financial services provider, credit unions need to come up in online searches and maintain a web presence that looks and feels modern and provides a workable interface. And increasingly to close the deal, credit unions also need to offer convenient, easy-to-use online enrollment and account opening, Burshek says. The costs for developing and maintaining that virtual branch presence are significant.

Service metrics are also shifting. The Net Promoter Score, which many credit unions rely on, may no longer provide the most accurate or complete view of member preferences. There are more inclusive and diverse metrics for determining relational and transactional success, and by those measurements, banks, especially the big ones, have erased the service level gap, Burshek warns. In fact, they're now setting service standards through the use of new tools implementing customer and data analytics, A.I., and machine learning.

Again, the credit union leaders in our survey are well aware of the competitive challenges facing their organizations. Almost three-quarters (71.2%) agreed that the ability to meet the challenges posed by fintech and other new entrants is a key consideration in assessing merger proposals.

Coming to Terms with a Changing Business Landscape

In combination, the steady ratcheting up of consumer expectations for state-of-the-art services and the increasingly crowded competitive field makes it ever more difficult for credit unions to go it alone. Through that strategic lens, as a credit union CEO recently suggested in a conversation with this author, the central question shifts from "Why should we merge?" to "Why shouldn't we merge?"

At the same time, it can be difficult for executives and board members who have dedicated years of service to their credit unions to accept that a merger may be in members' best interests. A frequently cited factor with the potential to derail board consideration of a merger was "ego/pride," cited by 65.7% of respondents as influential or very influential. In other words, credit union leaders understandably take a great deal of pride in all their organizations have accomplished for their members and communities through the years—sometimes to the point of clouding their ability to objectively assess the merits of a merger offer.

As Hui cautions, "The board and management have invested a lot of passion and time in their credit union, so it's hard to take emotion out of these considerations, especially when there's no clear guidance on what should be considered."

Survey respondents were asked to share their views on the issues most likely to derail a merger proposal, from the perspectives of both credit union executives and directors. The most common factors identified as likely to raise concerns among executives fell into three general categories: (1) apprehension about executive and staff jobs and compensation, (2) opinions that their credit unions are doing well enough that a merger is not necessary, and (3) beliefs that their credit unions serve members adequately, precluding the need for a merger. Among the factors most often cited as influential or very influential in discouraging serious consideration of merger proposals by executives and managers:

IMPACT ON EXECUTIVES AND STAFF

67.6% Concerns over CEO/other executive roles post-merger

67.6% Concerns about compensation

59.4% Concerns about employees' jobs

57.7% Concerns over the CEO's ability to find a position post-merger

BELIEFS THAT THE CREDIT UNION'S CURRENT PERFORMANCE IS ADEQUATE

65.7% The credit union isn't currently facing financial problems.

62% The credit union is doing well now.

BELIEFS THAT THE CREDIT UNION SERVES MEMBERS' NEEDS ADEQUATELY WITHOUT A MERGER

58.6% Believe they can serve members better

58.6% Believe local is important

56.4% Fear service quality would be worse post-merger

Those final two categories also topped the list of factors likely to resonate with directors as the most significant hurdles in evaluating merger proposals:

68.2% The credit union isn't currently facing financial problems.

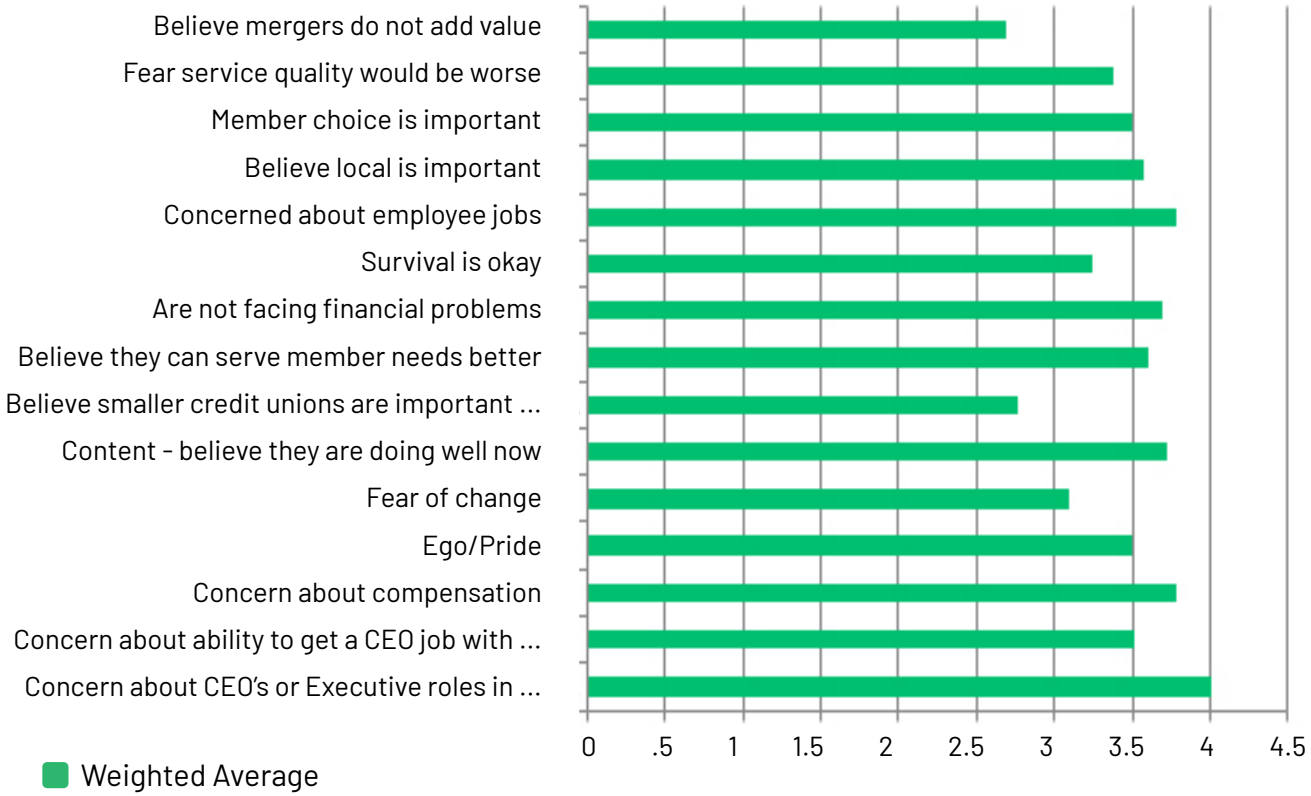
64.2% The credit union is doing well now.

56.7% Concerns about employee jobs

53.7% Believe they can serve members better

52.2% Believe local is important

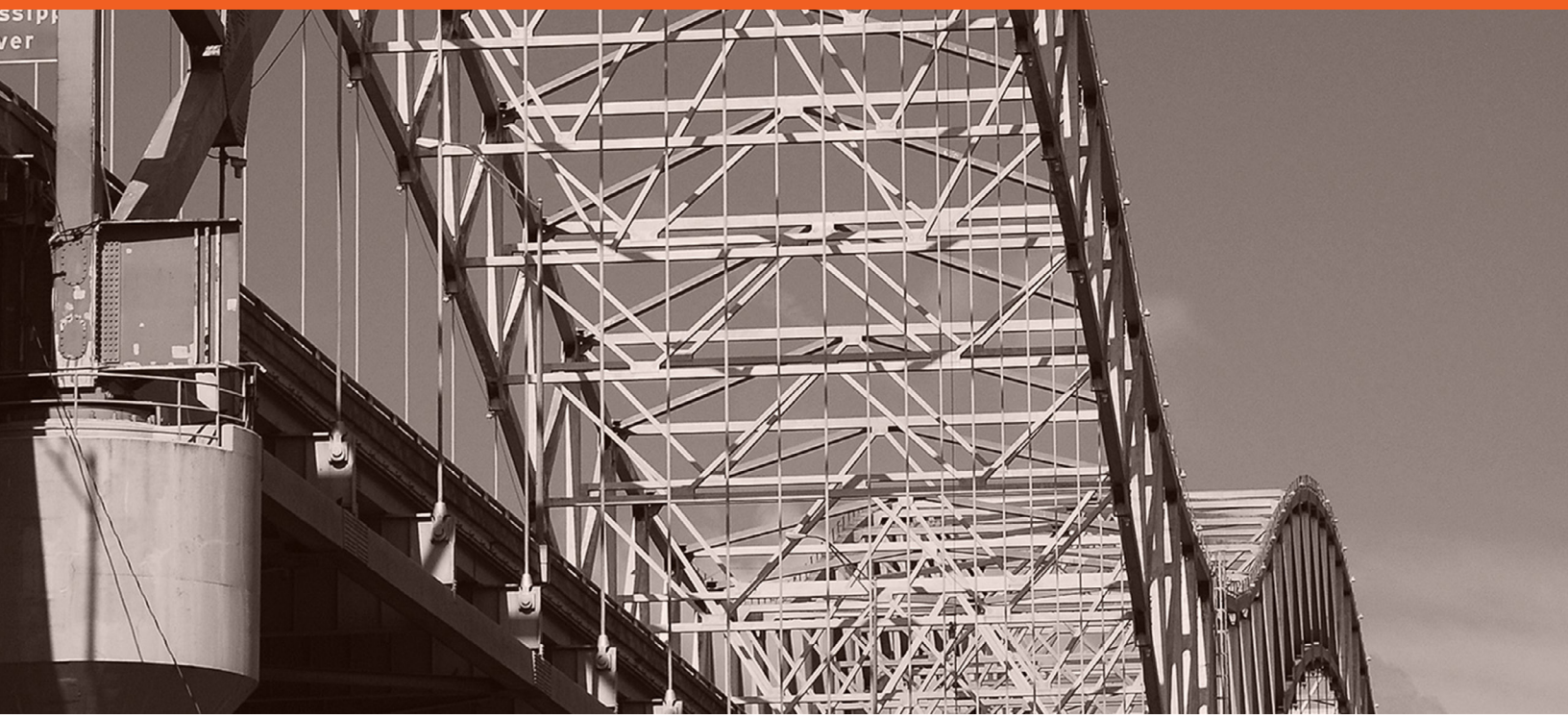
To which degree are the following factors or hurdles influencing whether CU CEO/Manager will entertain a discussion about merging into another CU?



These survey results suggest that a variety of issues may take precedence over members' interests in credit union leaders considering—or not considering—a merger offer. This raises the strong possibility of a disconnect between the views of executives and directors who are reluctant to objectively evaluate the merits of merger proposals and the priorities of existing and prospective members in choosing their financial services providers.

As noted previously, the business and member service case in favor of consolidation deserves serious consideration. As Burshek's and other market research demonstrates, local service is no longer a big draw for many members, and service quality is measured much more by the breadth of digital delivery than local branch availability. In addition, adequate current financial performance may not provide the capital needed for investments in the new financial services and delivery channels to meet members' ever-evolving expectations. "Good enough" financial performance may not support the full range of products, services, and delivery channels needed to win over both existing and new members credit unions will need to continue to prosper.

The issues of job security and adequate compensation are natural concerns for executives and employees, and directors are understandably sensitive to those issues in considering merger outcomes. The board has the option to structure a change-in-control agreement with the chief executive to support impartiality in evaluating merger and acquisition proposals and to offer high-performing executives certain guarantees in the event of major changes that might affect their positions or compensation arrangements (see our white paper on this topic). In an effort "to do the right thing" for their staff, the board and executives can negotiate on the topic of continued employment in merger discussions. However, the credit union's long-term viability to serve member needs should be the foremost consideration.



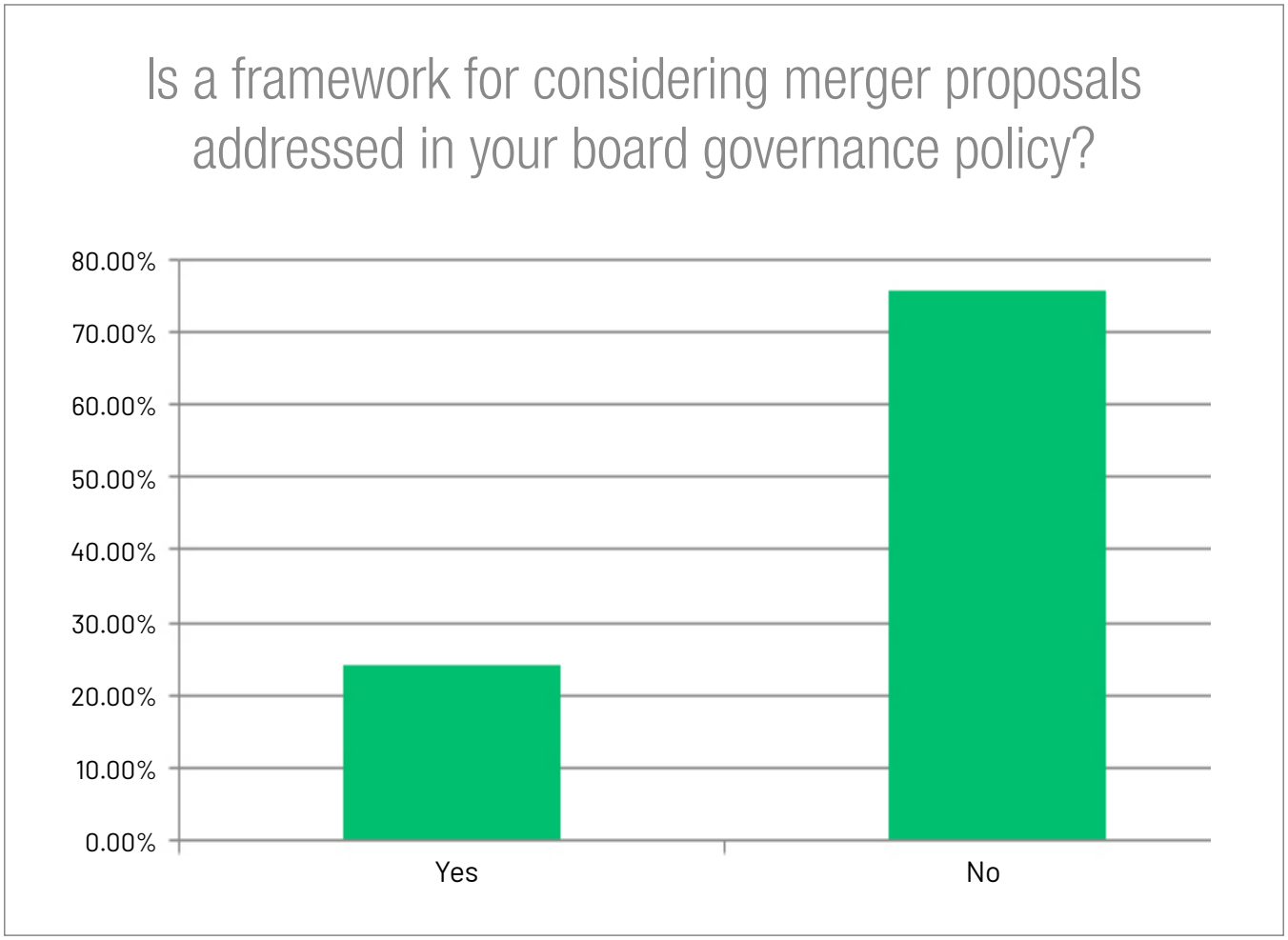
When a Merger Offer Is Submitted

Though regulations at the federal and state level assign a fiduciary responsibility to directors to consider whether a merger proposal would be in members' interests, there is little direct guidance on how to make that determination. A proactive approach would be for credit union boards to develop and maintain a formal framework or process for considering merger offers within the context of their governance policies and the organization's strategic objectives. Attorneys, consultants, and industry observers who have worked with credit unions and other financial institutions on developing and evaluating merger proposals offer several recommendations.

How can credit union leaders prepare in advance to assess merger proposals?

Developing a framework for evaluating merger proposals is a useful exercise for the board, especially in this era when mergers and acquisitions are happening with

greater frequency. This is not a standard practice: According to our survey, less than a quarter of respondents (24.2%) said their board had a framework in place for considering merger proposals.



A framework may be a more productive route than a formal policy, Hui suggests. "Policies tend to be rigid. Every merger is different. If your policy is too rigid, it might become grounds to reject a merger proposal, when in fact the merger might be the best course for the credit union and its members. And if it's too loosely written, then a policy is worthless," he notes.

A framework for evaluating mergers should be regularly reviewed and updated, perhaps annually in conjunction with strategic planning, to account for changes in the credit union's financial position, goals, and market. Any changes in circumstances might dictate adjusting the framework to take a more or less aggressive view of possible mergers.

The framework should address whether the credit union tends toward a proactive approach to explore merger opportunities or a more reactive response to accept them. "Every board and management team may say, 'We're open to mergers.' What does that mean?" Hui asks. "Are you going to go out and actively seek merger partners, or are you going to sit back and react when merger proposals come your way?"

A merger policy or framework should address the components that credit unions need to put in place from the earliest stages of these discussions. For example, "the first thing you need is a good confidentiality agreement to start the process," says Richard Schulman, a Chicago attorney who serves as counsel to a variety of credit unions. "No one wants it to be publicly known that their credit union is looking for a merger partner."

Taking a wider view of mergers in board governance responsibilities, Schulman suggests that directors consider mergers as part of their strategic planning and succession planning. Without a firm succession plan in place, credit unions may find themselves seeking merger offers simply to fill the leadership void left by an unexpected vacancy at the top.

Boards that view mergers as an opportunity to achieve their credit unions' strategic objectives may also consider forming merger committees of directors and management to consider proposals and lead outreach efforts to prospective merger partners.

It may be helpful in developing a merger framework for directors to consider in their discussions what they might glean from successful mergers in the industry to guide their thinking. "Think about why those successful mergers occurred in the first place," Hui advises. "Typically it goes back to the value to members."

Developing a framework that reflects the credit union's strategic imperatives can help head off a related issue that can result in short-circuiting consideration of merger proposals—a lack of preparedness.

"These are tough conversations to have. Most boards and executives avoid broaching the subject because they know it will be difficult. They say, 'We'll deal with it when the time comes,'" Hui notes. "But when the time comes, leaders are unprepared and tend to revert back to their comfort zones rather than relying on a rational framework or thought process."

What constitutes a solicitation or offer?

The merger discussion framework should spell out at what point these proposals would be presented to directors. Not every merger possibility comes before the board, Hui says. Two CEOs chatting over lunch in casual conversation about the possibilities of their credit unions someday merging does not rise to the level of a formal proposal.

In many cases, informal merger discussions start with a phone call between managers and sometimes board chairs, Schulman notes. Some proposals may also be submitted through intermediaries. In the past, unsolicited offers were rare, but they are becoming more common.

For a merger proposal to merit consideration by a credit union's management team and board, the solicitation would need to be "memorialized" in some fashion, typically

as a letter of intent, says Richard Garabedian, a financial institutions attorney with Hunton & Williams, LLP, Washington, D.C. (www.hunton.com).

"One CEO having verbal discussions with another on the topic of mergers would not rise to the level of an offer," Garabedian says. "Unless the potential partner puts it in writing, the offer is just something that can evaporate into the air."

Once a credit union has submitted a letter of intent, the president/CEO and/or board chair of the other institution have a responsibility to analyze the offer and decide how to proceed in presenting the proposal for board discussion and action.

How can executives and directors evaluate what is in members' best interests?

There is no one-size-fits-all checklist to guide this review process. And as the survey results illustrate, a variety of concerns and beliefs held by credit union leaders can obscure an objective assessment of whether a merger might benefit members. "Since a credit union is a not-for-profit institution, there are no stockholders in the picture," Garabedian notes. "But the NCUA has recognized in recent years and incorporated it into regulations that the directors of a federal credit union have a fiduciary responsibility to act in the best interest of members. And there is a similar standard in many states—that a fiduciary duty is owed to members."

Because there is no specific regulatory guidance, the approach to evaluate merger offers differs from credit union to credit union, Hui notes.

Consultants who work with boards and executive teams in evaluating merger offers typically facilitate the process of assessing whether the proposed consolidation would provide members access to better products, more favorable rates and rewards, improved functionality, and/or more convenient access, both in terms of branch

locations and offerings and remote delivery channels. Plans to expand community support or financial education offered by the continuing credit union might also be considered as part of that evaluation.

"Members care about these things, so these considerations should be on directors' and executives' minds," he says. "The goal is to determine whether 1+1 equals greater than 2."

To assess merger offers objectively, directors should maintain a realistic view on their credit union's current financial performance and near- and long-term prospects, Garabedian recommends. "There are hundreds, even thousands of credit unions that are just hanging on. It would be better for the institution and their members if they were able to merge with another credit union that could better serve members. You want to do that before you're so financially weak that you lose control over your credit union's destiny."

The intentions of the continuing credit union to keep branch locations open and offer continued employment for the management and staff of the merging organization are often important considerations in these discussions. However, the board's fiduciary responsibilities dictate that members' interests must take precedence over these issues.

Merger discussions may also address the possibility of an ongoing role for directors of the merging credit union in the continuing institution. Especially when a much smaller credit union is merging into a larger organization, it is likely that no accommodations will be made for directors of the merging financial cooperative to serve on the continuing board. That is another issue that can detract from the central question of whether the merger will benefit members, Garabedian cautions.

"If a board is doing its job according to the law, directors need to make these decisions in the best interests of the membership," he emphasizes.

As an alternative to expanding the board of the continuing credit union to include some directors of the merging organization, one point of negotiation could be the creation of an advisory board to consult with the surviving institution on serving the new wider membership, he suggests.

A credit union board has no requirement to accept a merger offer or continue negotiations. "In fact, if it's the only offer that has come to them, directors may think about reaching out to other credit unions that would be a good merger partner to see if there's some commonality that could benefit members," Garabedian says. "There's no overriding legal reason why they have to take the first offer or any offer—if they don't believe it would be in members' best interests."

"A merger of equals is a whole different playing field," he adds. "That will entail lots of discussion about who's going to be on the board and how management and executive positions will be merged. There's got to be give-and-take from both sides, or you won't be able to make a deal."

Negotiations for mergers of equals and near-equals can be derailed by issues more related to ego and control than by a focus on outcomes most likely to benefit members, he cautions.

View from Across the Industry: Bank Merger Negotiations

Since the banking sector is also undergoing extensive consolidation, a comparison of how bank and credit union directors evaluate merger proposals might be instructive. Boards of both banks and credit unions have a responsibility to respond in some fashion to a legitimate merger offer—though in some cases, that response may be to just say no, also sometimes referred to as the "Nancy Reagan response," notes TK Kerstetter, CEO and show host of Boardroom Resources (www.boardroomresources.com).

In assessing an M&A opportunity, bank board directors may consider wide-ranging criteria, including the impact on customers, employees, and community. However, the primary focus of that analysis should come down to how the likely outcomes of a proposed merger compare with the board's future plans to improve shareholder value.

"It's useful for the board to consider if their existing plans will reward shareholders at the same level or better than accepting a merger offer," Kerstetter says.

For a privately held community bank, the decision may be somewhat simpler because board members typically hold a significant share of ownership, report to largely local investors, and do not represent institutional shareholders.

In comparison, the board of a publicly owned bank must consider the wide range of interests of diverse shareholders in evaluating a merger offer, under the very real threat of a lawsuit by dissenting investors whatever the ultimate decision. The United States is a litigious society, and M&A transactions are among the most often legally contested corporate board decisions, Kerstetter notes.

"For the board of a public company, the focus is on directors' duty of loyalty and duty of care," he explains. "The duty of loyalty means you won't put your own interests as a

director ahead of those of other shareholders. The duty of care requires that you are as informed as possible and take into account all factors in making prudent decisions for the corporation."

While the duty of loyalty is fairly obvious to assess, "the duty of care becomes much tougher because there are so many variables and so many parties involved," he adds. "Trying to take everyone's interests into consideration forces the board to consider what's best for the corporation in addition to what's best for shareholders."

In every case, whether a merger proposal is before the board of a publicly held or privately owned bank or a credit union, "this decision is unbelievably complex and fluid because every organization's situation is different," Kerstetter says. "There are many different cases on how the board is expected to respond under multiple scenarios and tight legal controls."

As a result, the boards of all financial institutions should rely on legal guidance "early and often" throughout the process of considering and acting on a merger proposal, he adds.

What are the next steps?

A detailed discussion on merger negotiations is beyond the scope of this white paper. However, it bears repeating that preparation and advance discussions about how a merger might fit in strategic objectives to serve members are essential in guiding credit union executives and directors through every step of this process.

"It goes back to being ready with a merger strategy," Schulman advises. "Director experience levels are different in every credit union, but many of the smaller credit unions we see disappearing have elderly directors and retiring management looking for a good exit to end their career, a way to preserve employee jobs, and, of course,

maintain personal service to their members. The manager and board have to discuss the possibility of merger opportunities before they happen and prepare accordingly."

Once the boards of two credit unions agree to pursue a merger, the NCUA and state regulators provide useful guidance on this process, including the need to inform and educate members about the reasons for a merger. "For all the discussion of credit unions being democratically run, a very small percentage of members take part in annual meetings and merger voting," Schulman notes. "But a few mergers have come to a halt because of active member opposition."

As the process becomes more formalized, negotiations and due diligence proceed. "That can be a quick or long process. There is no typical contract offer and acceptance process," Schulman says. "It happens organically. It requires trust. Anyone can walk away at any time until the actual merger. More fall apart early than proceed."

When credit unions announce a merger, they are making a promise to their members that their access to financial services will improve in some specific ways and their credit union will become even more relevant to them, Hui notes. "And after you make a promise, the next step is to keep it. So the executives and boards need to figure out how to do that. If, during the course of a merger, they start to see dysfunction, they may need to step back."

"A key question in deciding to move forward with a merger is: What promises are we making to key stakeholders? That means members first, but also staff and the communities the credit union serves," he adds. "The next question becomes: Do we have the right capabilities to deliver on those promises?"



Case Study: Wisconsin Credit Unions Find a Good Fit

The leaders of two Wisconsin credit unions certainly took a strategic view of their merger completed in 2018, when $155 million Bull's Eye Credit Union joined forces with $1.7 billion Connexus Credit Union.

Directors of the merging credit union recognized both the strengths and challenges of their organization: With strong brand recognition in its community, Bull's Eye enjoyed a relatively staunch member base, serving 23% of its field of membership. On the other hand, "our member community was growing age-wise, with members more oriented toward saving than borrowing," says Dave Stark, Bull's Eye former CEO and now Chief of Staff with Connexus. "We had a strong core deposit base, but not a large lending base. We wanted to stay relevant with members by offering the products and

services they expect, but we knew that would be hard if we couldn't get more loans on our books."

What mattered most to Bull's Eye management and board in evaluating potential merger partners was an outcome that would be a net positive for members, Stark notes. The leadership team considered options both as the merging and acquiring institution but ultimately ruled out the latter.

"To take on a $50 or $60 million merger would require a lot of resources, and with our small staff, that became an operational concern," he explains. "So we considered, 'What about becoming a merger partner?' And the board said again, 'If that's in the best interests of members, that should be our main concern.'"

At the same time, directors recognized the importance of the Bull's Eye history to members, right down to the distinctive trademark on large signs on the shoreline that guided floating logs down river to the then-Consolidated Papers mill. Resolute on the need to take care of members and employees, they sought a merger partner that would respect the credit union's heritage and commitment to "guide members to financial success."

Connexus met those requirements in part by agreeing to bring the Bull's Eye staff and its three branches on board through the merger. In addition, the continuing organization came up with a proposal to maintain the merging credit union's brand through the Bull's Eye Legacy Fund as a way to give back to the community.

"Our core members absolutely loved it," Stark says. The Bull's Eye board voted unanimously in favor of the merger, and the final tally at the members' meeting was 147–14 in favor of the proposal.

The merger was a good fit for both credit unions, which had served complementary markets in contiguous counties, he adds. And the Bull's Eye deposit base dovetailed well with Connexus CU's strength in lending.

The benefits to Bull's Eye members of joining Connexus included a full range of financial products and services and quicker access to mobile and online channel upgrades instead of waiting for a couple years for technology system prices to come down, as their former credit union had been forced to do.

"We recognized that the time to make this move was when our credit union was still strong—to take advantage of the right opportunity before us for all the right reasons," Stark says. "Our members should be able to look back and say, 'This was the right decision.'"

"Our board was open to the idea of a merger. Even our staff realized the good old days were over," he adds. "Connexus helped clear the final hurdle with the promise, 'We'll find a role for your employees,' but it was the best interests of our members that really grounded us."



Conclusion: Changing Times for Credit Unions

The struggle to keep pace with changing consumer expectations and the resulting default to consolidation is not unique to financial services. Burshek offers the example of the grocery industry, which has shifted from thousands of small independent stores across the country to domination by major brands over the past two decades. Today, 50% of retail grocery market revenue is controlled by six brands, and 75% goes to 21 brands, one of which is Amazon.

"The world has completely and irrevocably changed. Everyone has to accept and understand how deeply these changes affect business as we know it, or whatever efforts credit unions take to gain and retain members will be wasted," Burshek contends.

One force that may be in credit unions' favor for member retention is inertia, he suggests. "In focus groups, consumers say one of the big reasons they don't switch financial institutions is that it would take too much time. They say, 'It's not worth the effort,' and 'We're happy enough where we are right now.'"

At the same time, innovation in financial services delivery continues to ratchet up consumer expectations, and new entrants from fintechs to giant retailers like Amazon and Walmart are chipping away at the share of the market held by traditional financial institutions. Credit unions can't rely on inertia over the long term. Burshek shares three recommendations for financial cooperatives to hold on to existing member relationships and become more relevant to prospective members:

1. **Step up efforts to gather member input and use that feedback to make meaningful improvements in service delivery.** "If you're not measuring and delivering what members want, your credit union will not survive," he insists. Direct member feedback through focus groups and effective surveys provide useful data, as does the "institutionalization of word-of-mouth feedback," as Burshek puts it. "Think about TripAdvisor for hospitality, Home Advisor for home repair, Yelp for restaurants, GooglePlay for financial institution apps, and GlassDoor for employers. Credit unions' only path to control those reviews is to know what people are saying and correct any perceived shortcomings."
2. **Connect with the experts your credit union needs to correct digital service gaps.** Credit unions that position themselves primarily as caring financial institutions will increasingly fall short of consumer expectations, he contends. "Nobody cares that you care unless you show them that you care by actually offering the financial services delivery they really want in a way that works. Business issues are so complex and changing so quickly that you've got to have a team of both insiders and outsiders working together to solve those business problems in order to move forward."

3. **Consider mergers as a strategic opportunity to deliver what members want and need.** "Over the past decade, both credit unions and banks have been slowly decreasing in number at about the same rate. In the current political climate, banks are rebounding more robustly than credit unions, tipping the favor toward big banks' capacity to deliver on their customers' expectations," Burshek warns.

Mergers are not inevitable, but for credit unions that are challenged in delivering on the value members expect and can find elsewhere, they may provide the means to become more relevant to members and prospective members, especially younger consumers. Burshek's outlook is that the number of credit unions could ultimately decline to a field of 500 to 800 organizations. Given those trends, he suggests that most credit unions today have two options: "Join forces with other financial cooperatives or get really good at serving a niche audience."

Credit unions have long prided themselves on a "members-first" approach to financial services, but that terminology means different things to different people today. Long-time executives, directors, and members, especially those with ties to original sponsors, may emphasize the importance of their credit unions' history and commitment to personal service. Many other members, especially Gen-Xers and millennials in their prime borrowing years, define personal service as the ability to choose from complete range of products, services, and delivery channels, including full-service online and mobile access. Delivering on those expectations over the long term is a costly proposition that may require executives and directors to objectively evaluate the benefits of joining forces. By doing so, the continuing organization can achieve the necessary scale and operational efficiencies to effectively compete for members' business—by truly putting their needs first.

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