

COMMUNITY CORNER

## Banks, CUs alike looking at M&A as vehicle for growth

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By Ken McCarthy and Kevin Dobbs

In an operating environment marked by economic vigor and rising interest rates, banks and credit unions are looking at M&A as a way to expand and efficiently gather more low-cost core deposits.

For U.S. credit unions, those acquisition targets in many cases are now community banks.

Ferndale, Mich.-based Credit Union ONE in May agreed to buy Southfield, Mich.-based Hantz Bank, which marked the sixth deal announced in 2018 where a credit union bought a bank. There were six credit union-buying-bank deals announced in 2017, although one of those was later terminated.

Charley McQueen, President of McQueen Financial Advisors, said in an interview the firm is currently working on about 12 credit union-buying-bank deals, and he expects a few to be announced soon.

The firm has advised credit unions, including Credit Union ONE, in 15 deals where banks were acquired.

McQueen said he has dealt with some bank "hard liners" that will insist on selling only to another bank, but he has rarely come across a banker who would say no to cash. "If the credit union is giving you the best price...that's all that they really care about," he said.

And those acquisitive credit unions are joining a broader pool of potential community bank buyers. Rob Pachence, a managing partner working on bank M&A at Ambassador Financial Group, said in an interview that many banks are actively hunting for possible take-out targets.

An acquisition, he said, could give a buyer access to new lines of business and new markets, providing growth paths. At the same time, with an eye on targets that boast robust levels of core deposits, a deal could provide a buyer a heightened level of inexpensive funding to fuel that growth.

"Almost every bank is focused in a big way on core deposits," Pachence said.

He said that is likely to prove a key driver of bank M&A throughout 2018 and into next year.

McQueen agreed and said the search for deposits extends into the credit union sector, too. "I don't think anyone is happy where they are," he said. "Core deposit generation has been very difficult."

The vast majority of the credit unions that have acquired a bank have been below \$1.5 billion in assets, but McQueen said that could change. In fact, he believes that some of the largest credit unions in the country are interested in buying banks. That is because it is substantially cheaper to enter new markets through an acquisition than through de novo branching, he said.

Arkansas FCU has made no secret of its desire to acquire a community bank. President and CEO Rodney Showmar said in an interview this week that the Jacksonville, Ark.-based credit union in recent months has done some "serious diligence" on three bank purchase opportunities.

"We bid on one of the three and finished in the runner up position to another bank," he said. "It was a great learning opportunity for us and we are eagerly looking for our next opportunity."

Michael Bell, a lawyer with Howard & Howard who has advised on many of those deals, said this week the quick pace

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continues and deal flow is the most he has seen. His credit union clients across the country are actively involved in approximately 20 possible transactions. "In the near future more deals will be announcing, some of which are branch deals, some whole bank," he said.

The number of those deals reaching completion will undoubtedly grow, but one factor keeping them somewhat in check is the capital structure of credit unions. McQueen said many CUs want to acquire banks but might not have the available capital to make the purchase.

Still, many community bank sellers want to find a buyer that cares about the community and will not lay off its employees. McQueen said bankers he has spoken with often believe such a scenario is more likely to play out with a credit union buyer rather than with a regional bank.

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