CREDIT UNION/BANK MERGERS ISSUE BRIEF

Despite recent efforts by banking trade groups to attack credit unions and draw attention to the issue, mergers between credit unions and community banks are not new and have occurred over the last decade as the rate of financial institution consolidation has increased. **In 2019, ten mergers between banks and credit unions were finalized.** Historically, over the past decade, the average number has been three mergers per year. Overwhelming compliance burdens and costs since financial crisis and enactment of the Dodd-Frank Act have made it harder to survive as a community bank or credit union. This has caused financial industry consolidation, which has led to fewer and fewer merger options. **In 2010, there were 15,275 total credit unions and banks in the United States. Today, there are only 10,537**. More regulatory relief for community institutions would help slow this trend.

Bank-credit union mergers represent a tiny percentage of overall mergers in the financial services sector, accounting for **less than three percent of the total mergers in 2018**. These mergers are typically a win-win for a local community that may lose its community-focused financial services, or even local employees and branches, if a national bank buys the local community bank. **Credit union-community bank mergers often mean employees retain jobs and branches remain open with a focus on the members in the community**. Big banks, on the other hand are focused on profits and making money from a merger. A look at the financial health of community banks that have recently merged with credit unions shows that those institutions are generally less-profitable (table below), and thus less attractive, as potential merger partners for larger for-profit banks.

AVG. COMMUNITY BANK (CB) PERFORMANCE COMPARISON[1]

	ASSET GROWTH (Y/Y, %)	RETURN ON AVERAGE ASSETS (%)
All CBs	1.17	0.96
Avg. CB Merged into another CB in 2019[2]	2.34	0.79
Avg. CB Acquired by a CU in 2019[3]	0.46	0.72

Notes: (1) data as of Dec. 31, 2018; (2) finalized transaction only; (3) includes finalized and announced transactions that are not yet finalized

Sources: FDIC, FFIEC National Information Center, SNL Financial

QUICK FACTS ABOUT CREDIT UNION-BANK MERGERS:

- Mergers are voluntary, market-based transactions that require a community banks' board of directors to vote on selling to a credit union. These are not "hostile" takeovers. *The bank is the one that ultimately makes the decision to sell to, and merge with, a credit union.*
- Mergers cannot occur without approval from both prudential regulators (NCUA and FDIC).
- Credit unions that merge with a bank retain their credit union characteristics and are still subject to strict statutory prohibitions and limits on powers as set out in the *Federal Credit Union Act*, including:
    - **Field of Membership Requirements:** The bank's customers must fit within the credit union's field of membership for a merger to take place. The credit union cannot serve those consumers who do not fit into the field of membership.
    - **Business Lending Cap:** Business lending is capped at 12.25% of assets, thus there may be instances where a bank's loan portfolio cannot be assimilated into the credit union.
    - **Capital Limitations:** Credit unions are generally prohibited from holding capital other than as retained earnings, so a merged-bank's stock must be divested.
- Credit union-bank mergers keep local institutions and credit decisions in the community.
- Despite bankers false claims to the contrary, credit unions actually pay many taxes, such as local property taxes and payroll taxes when the former bank remains open as a credit union.
- Purchase and Assumption transactions (if the Bank is a C. Corp. which is most common) are subject to taxation at the Bank level (unlike Bank to Bank transactions – which may involve stock) and we estimate that over 100 million dollars in taxes have been paid in the past several years.