



## Community Banks And Credit Unions – New Friendships?

► strategic planning   Mergers and Acquisitions

**Summary:** Community banks and credit unions may not always see eye-to-eye on a variety of issues. But, they are more willing to work together on mergers and acquisitions these days. We lay out the reasons why community banks are selling, how deals are increasing, the community bank benefits, and why branch sales could be a win-win.

Friendships may not always make sense. For instance, Martha Stewart and Snoop Dogg, Mel Gibson and Britney Spears, or even dogs and cats. But, they often share similar values to foster these friendships.

Similarly, community banks and credit unions (CUs) may not always see eye-to-eye on a variety of issues. But, in spite of this, several community banks are nowadays regarding CUs differently and even reaching out to sell them their banks or specific branches.

**Reasons to sell.** As the financial landscape shifts, so do some of these relationships. Some community banks are struggling with thinning net interest margins and decelerating loan growth and are considering exiting the market. Others are considering selling branches to reduce costs, as digital banking adoption increases. Even when considering succession planning or improving overhead, local bankers should consider the neighboring CU. After all, it is one way to broaden the potential buyers' list.

**Increasing deals.** In 2012, a credit union in MI was the first one to complete the purchase of a community bank in IN. Since that time, there has been a record number of purchases. S&P Global Market Intelligence identified the announcement of 10 deals between CUs and community banks in 2020 alone, a little under 10% of all transactions. Some were bank deals and others were branch purchases. While the dollar amount is small, we see this trend continuing in 2021.

**Community bank benefits.** There are advantages for community banks when considering selling to CUs. First of all, CUs usually pay in cash. This can be more appealing than the stocks offered by other banks because the stock price could drop before the deal is closed and after all, cash is king. Perhaps more attractive is the local component, the shared culture, and similar values. Former customers will be less distraught as they will be able to keep a local partner. CUs are more known to retain local branches and their staff.

**Branch sales could be a win-win.** The advantage for CUs is to acquire talent, expand in new geographic areas and grow membership. Historically, CUs are focused on consumers and on residential real estate loans, while many community banks focus primarily on commercial lending, so there could be fewer redundancies and less concern for increased competition than selling a branch or two to another bank.

We have laid out a few reasons why CU-community bank deals may make sense. Smaller communities and rural ones are especially vulnerable these days. So, for community banks in those areas looking for buyers, it may be worthwhile to review the CU option. For those community banks looking to streamline costs, a branch sale could work too.

As always, you know what is best for your institution. We wanted to provide some insight, but we leave the rest to you.

## M&A RESOURCE PAGE

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