Credit Union-Community Bank Mergers Continue

business customers Mergers and Acquisitions

Summary: Credit unions have now acquired more than 100 community banks since 2013. We have seen this M&A activity ebb and flow, but right now it seems to be flowing. Here is an update with some of the advantages and disadvantages of these deals, while discussing the credit union tax exemption.

Did you hear that Google is buying an office building in NYC for $2.1B? This price tag makes it the most expensive office building sale since the pandemic and one of the priciest office purchases in American history. Maybe this will kick off more activity in the real estate office space.

There has surely been activity in the credit union-community bank M&A space. As more community banks sell to credit unions, more questions arise about tax subsidies, price premiums, and the potential effect on the industry.

In March of this year, we first reported on the uptick of credit union purchases of community banks. Now, a milestone has been reached. According to the ICBA, as of 2013, credit unions have now acquired more than 100 community banks. There were five credit union-community bank mergers in August alone out of 19 bank mergers that month.

Regardless of where you stand on this issue, this is definitely a trend. There are advantages and disadvantages on different levels (community, state, federal, and even industry) with these unions.

Advantages

Credit unions have often paid a premium for community banks, which is certainly a good thing for sellers. They also often pay in cash. Further, if struggling community banks get merged into credit unions and their services improve, then that's a good thing for the merged bank's customers. Oftentimes, credit unions will also keep open local branches, which is good for both the employees and customers.

Disadvantages

On the other hand, each bank merged into a credit union removes a tax-paying bank from the landscape. To account for the lost future tax revenue, the Independent Community Bankers Association (ICBA) proposes an exit fee on community bank sales. It has been estimated that the credit union tax exemption now totals more than $2B annually.

The credit union tax exemption

The tax exemption is something that credit unions have relied on for decades and defend as warranted. It was created in recognition of the unique role that credit unions play in the financial system. The reasons were clearly stated in the 1998 Credit Union Membership Access Act.

"*Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because they are member owned, democratically operated, not for profit organizations,* *generally managed by a volunteer Board of Directors, and because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means.*"

While the tax exemption applies to both federal and state taxes, credit unions still pay some taxes and fees, including payroll and property taxes. In addition, member dividends are taxable.

The tax exemption isn't new, and mergers involving credit unions and community banks aren't new either. What is new is that the average size of credit unions is getting larger and there are fewer community banks. That represents a change in the financial landscape. The question is how significant a change this is, and whether it requires a closer look.

LOAN GROWTH AND FLOATING RATE ASSETS

Does your institution need fully-funded, senior secured floating-rate loans to diversify your portfolio? Learn about our C&I Loan Program to meet your loan growth objectives.

ECONOMY & RATES

Rates As Of: 10/07/2021 11:28AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.04	0.00	-0.05
6M	0.06	0.01	-0.03
1Y	0.09	0.01	-0.01
2Y	0.31	0.03	0.19
5Y	1.02	0.05	0.66
10Y	1.58	0.08	0.65
30Y	2.13	0.09	0.49

FF Market	FF Disc	IORB
0.08	0.25	0.15
SOFR	**Prime**	**OBFR**
0.05	3.25	0.07