



**Credit Union Merger and Acquisition:
Saving Money and Increasing Member Satisfaction**

by

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Executive Summary

Consolidation is the thread completing the design of the current Credit Union industry tapestry—the business model. Depending on your vantage point, you’ll view a different image—a different perspective. For many, the image is blurry at best. Not unlike a Monet painting, one must step back to see the intricacies and genius of the work of art.

For many Credit Unions, monies have been lost as have employees and once lucrative initiatives. These losses have been departmental in scope. Eventually the supposed controversial “m” enters the discussion—mergers. It’s not always an enviable position but rather than seeing it as a limitation, the process should be viewed as a new platform of progressive possibilities.

Current conventional wisdom says to complete a merger as quickly and painlessly as possible. This approach is neither logical nor prudent. “Quickly as possible” without expertise and oversight more often than not results in a merger that truly *is* as costly as painful as possible.

To avoid the sting, hindsight must be balanced with foresight. This can be accomplished by connecting with a consulting resource that performs mergers in the same fashion as a successful Credit Union provides banking and lending services to valued members.

Yes, by hiring a consultant a Credit Union will assume responsibility for yet another fee, which is frowned upon in the current economic climate. Consider, however, that this fee is actually an investment that will be easily absorbed in the savings realized from the expert engagement.

Realigning the bottom line is accomplished, in part, by vendor contract negotiation and sound project management leading to a high degree of member transparency and minimum internal impact. These processes are but the tip of the ice berg. Less we forget that best practices are an art form, and a lucrative one at that.

Credit Unions are assiduous in numerous applications including in-house auditing. This is a terrific means to cutting the fat on the bottom line; however, even the best intended, diligent internal teams have limitations during a merger as they are essentially operating within a bubble that is the construct of their respective Credit Union.

Sure, they appreciate and understand the complexities of respective operations but due to their linear scope, they are not in the position to see the collective industry picture. It is the seasoned and successful consultant that can take a step back with an expert artful eye and see the whole picture for what it truly is, unabashedly.

These personally tailored application—keys to successful mergers—are not for public consumption in trade publications but rather reserved for valued Credit Unions facing an acquisition process or are in the process of absorbing a peer. Consultants offer an inside track to taking advantage of an otherwise depressed perspective.

Market Conditions

From California to Florida, Credit Unions are consolidating at an alarming rate. If you were to take a helicopter view of the industry, of the nation, and red thumbnails on the map below represented mid-to-high level performing CUs and yellow thumbnails were mid-to-low underperforming Credit Unions, you would literally see yellow disappearing into a sea of red.

Dennis Dollar, valued founder of the Birmingham, Alabama Dollar Associates, recently told the *Credit Union Times* that he has changed his national merger forecast from “one every business day,” which has been the pace since 2000, “to three every business day over the next 18 to 24 months.”

David Hilton of the Dallas-based reputable D. Hilton Associates, which specializes in recruitment and CU governance, told *Credit Union Times* his agency is recording call volume 10 times what it was just last year. Calls, he noted, are coming from CUs in California, Arizona, Nevada, Florida and Michigan all looking for merger partners as well as from well-situated CUs on the East Coast or in the Midwest shopping for candidates.

When mergers are discussed in closed door meetings, operational procedures and related redundancies, which equate to large sums of capital, are hashed out, particularly if two CUs of equal size are considering a merger.

The National Credit Union Administration (NCUA) and the respective States Department of Financial Institutions (DFI) stance is to oversee a successful merger so as not to be liable—keeping clear of depleting its reserved funds. They strongly recommend larger Credit Unions absorb fledging, smaller Credit Unions. As the song goes, “match maker, match maker, make me a match.”

Once NCUA or the DFIs successfully make their cases, they want to the merger to take place as soon as possible before the Credit Unions have a chance to change their minds. Often the expectation is set that it should take three or four months to complete, an assumed messy period but the process is presented to a soon to be overwhelmed resulting Credit Union as the price of doing business in the bigger leagues.

In-house teams will study the Credit Union that is to be absorbed and develop and deliver documents of resolution that identify what’s wrong and which critical issues need to be addressed within often a tight timeframe. If within this period issues are not addressed,

the corresponding auditors then issue findings and possibly repeat findings report, usually capital or compliance based. This is never good news.

If the Credit Union can't bring their capital inline with auditor recommendations, they will likely be passed over. A new game of match making, a courting period, begins; a process that includes paring CEOs and board members. At the same juncture technological applications, programs and platforms are investigated only at a high level.

The initial phase is a game of matchmaking, especially sizing and matching board members, the majority of which are retired and enjoy the perks the seat affords. On average, only one or maybe even two will remain in their position if the merger is successful. As a result, they start to consider if the merge is actually *beneficial to themselves or even the Credit Union*.

Before the recession, this premarital courtship with all its thrill, circumstance and often eventual cold feet was an exercise with a back door, an exit strategy that was often used. Today, it is a matter of necessity--to survive, and it's far from exciting. This process can take several months. Data conversion, Process Merger, Staffing and other key variables of the full equation are key equally important aspects of this process.

Due to the current compressed time periods facing today's merger climate, it is imperative that Credit Unions get it right out of the gate and that is achieved by adopting best practices from well-versed consultants that handle mergers and acquisitions on a regular basis. On average a Credit Union goes through a merger once every several years, perhaps more if a larger, successful organization. Why take the chance on this all important transition without an unbiased, progressive expert consultant onboard?

It is during this critical time period—courtship—between a Credit Union accepting the recommendation of an organizations like NCUA and the State DFIs and the beginning of the merger process that a seasoned consultant should be brought in to facilitate the process. The consultant oversees the entire process while simultaneously saving the Credit Union money and ensuring a high degree of member transparency.

Credit Unions in this position are understandably not starting from zero when approaching a merger. They are in a precarious position. Early termination of vendor contracts can result in costly penalties. When a seasoned consultant is hired these costs are not only avoided, additional savings are arise during the negotiation process. A Credit Union must realize that hiring a consultant to manage the merger will actually save them money.

Oversight and Optimization

When two entities collapse into one there is a redundancy factor that is not only overwhelming but costly. There are two of the following: corporate riders, core vendors

and processors, ATM and card processors, online and bill payment processors and the list goes on.

In essence, a larger Credit Union considers the merging of technology and product as an adjacent liability to gain a new member base and book of business. Yes, a merger will bring new members to the fold, but those members can abandon ship at any point during a messy transition which makes the merger transparency process all the more important.

Surprisingly, given the high stakes, CEOs do not want to budget more money on hiring a consultant to oversee an intertwined, varied and complicated process best characterized as a merger. Yet, at the end of the day it's comes down to sustaining members. There is no room for miscalculations.

Internal teams may present a significant hurdle to the inclusion of an outside consultant in the eyes of Senior Management. However, the experienced consultant who conducts mergers on a day to day basis is able to deliver merger best practices and compare overlapping vendors on apples-to-apples basis. Internally Credit Union teams coming together have at best two bruised pieces of fruit to contrast.

Following the analogy, each piece of fruit represents a service and that service has a contract provided by a vendor. Ultimately a decision has to be made as to which of the platforms will be selected which is usually the larger, stronger CU's platform; however, when two Credit Unions of equal size merge, this process becomes a significant undertaking. Once a course is set there will be termination costs associated with whichever vendor will be canceled out. A best in breed consultant can lower such costs and deliver de-conversions from the outgoing vendors in optimal manner.

Instead of going to the vendors and simply relieving them, which is the most common approach, Credit Unions should force a competition to see which vendor is willing to absorb those costs and retain the business. In short, make the "winning" vendor pay the penalties associated with the outgoing vendor.

Senior levels executives are understandably caught up in the massive amount of details associated with the merger. As a result they are not aware of the possible savings and are willing to forgo the monies that can otherwise be saved. For a fraction of the money saved, a consultant can not only facilitate a clean and less painful merger but provide for a streamlined, structured and less costly r solution with a high degree of member transparency: a winning business proposition.

Improving the Bottom Line

Savings, of course, depend on the size of the Credit Union. The consultant's price and approach is relatively fixed. On average, best practices require a three to six month process. The average cost for a merger is thirty thousand dollars. On average, this investment by the Credit Union will net hundreds of thousands, if not millions in savings.

Not only are savings secured, but more importantly, as stated above, a high degree of member transparency is achieved. This is critical during the merger process—member satisfaction through communication, education and proper expectation setting.

An additional benefit is the consumption of internal resources is rendered efficient. This removes the possibility of high internal impact, spinning wheels and wasting capital while members potentially vacillate on where to take their hard earned money. To be clear, the merger process will consume the Credit Union. A consultant can shield members from any fallout.

An unadvised Credit Union can accomplish a merger in a similar time frame but often lose huge sums of money and suffer negative internal impact and most importantly unnecessary member attrition. The process is messy. You wouldn't hire a plumber to fix your car and you wouldn't hire a brain surgeon to fix your plumbing.

Without proper oversight including renegotiating vendor contracts, costs will mount. Credit Unions have but one chance during the merger to take the reins and use an otherwise headache inducing set of circumstances to restructure an efficient environment that will best serve senior level executives, employees, and most importantly, members.

All too often during mergers go wrong. This is not only due to Murphy's Law. It is a consequence of juggling too many unknown and unfamiliar balls in the air. If one juggler can effortlessly keep five balls in the air, how is that same performer expected to throw three more balls and not be expected to drop a few? It is important to keep in mind that it is the member who is experiencing this performance. If the balls drop, so do their perceptions and loyalty to their Credit Union.

Why send letters of apology to members because the core or other delivery channels are not functioning and meeting their expectations? Rather, a Credit Union could, and should, proudly disseminate letters to members celebrating a successful streamlined, transparent merger.

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