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FINANCE

Credit Unions Go On Bank Buying Spree

Not-for-profit financial firms have acquired a record number of banks since last year

Rodney Hood, chairman of the National Credit Union Administration, is planning a new rule on deals between credit unions and banks. PHOTO: ANNA MONEYMAKER/BLOOMBERG NEWS

By Lalita Clozel

Sept. 3, 2019 9:00 am ET

WASHINGTON—Credit unions are buying small banks in record numbers, a trend that is prompting pushback from the banking industry.

Credit unions have acquired 21 U.S. banks since 2018, according to S&P Global Market Intelligence, compared with 12 purchases in the prior five years.

Bankers say the deals are proof credit unions are growing too aggressively given their not-for-profit business model. Credit unions say they are driven by the same market forces that have driven hundreds of bank mergers in recent years.

"We see opportunities to expand our network, bring in new products to the table, and get a good return on investment," said Brian Wolfburg, the president and chief executive of VyStar Credit Union in Florida, which closed its first bank acquisition in August.

Banks have complained for decades that credit unions, which have tax-exempt status, compete with an unfair advantage over financial products such as mortgages, credit cards and business loans while benefiting from weaker regulatory requirements. Banks also have lost numerous battles to change regulation and tax treatment of credit unions.

> Credit unions say their growth helps them extend lower-cost loans and better deposit rates to more consumers.

“Credit unions serve the greater good, not the greater greed,” said Dan Berger, the president and chief executive of the National Association of Federally-Insured Credit Unions, a trade group.

Credit unions, owned by member-customers, are exempt from corporate taxes and certain lending rules. But they also face restrictions: they must serve lower-income households and limit customers to a restricted pool of people who generally work together or live near one another.

Credit union and bank tie-ups represent a tiny fraction of the consolidation happening in the industry. There were 187 mergers between credit unions approved in 2018, according to the National Credit Union Administration, compared with nine announced deals between credit unions and banks. So far this year, credit unions have announced mergers with 12 banks.

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Credit unions also are smaller overall, holding $1.5 trillion in assets in the first quarter of 2019, compared with $18 trillion for banks and thrifts.

Still, the deals illustrate how competitive credit unions have become, given their tax advantages, lack of shareholders and diminishing constraints on growth.

“The substantive mission-driven aspects of the credit union charter that are supposed to make them unique and justify many taxpayer benefits have eroded, if not ended,” said Karen Shaw Petrou, whose firm Federal Financial Analytics Inc. published a report in June about credit unions commissioned by the American Bankers Association.

Last year, Martin Steele hired an investment bank to field potential buyers for his $206 million-asset firm, The Bank of Washington.

Mr. Steele, the Seattle-area bank’s president and chief executive at the time, said he received six offers. He chose the one from Sound Credit Union, in part because it was an all-cash bid and he worried the value of competing stock-based offers from banks could drop before a deal closed.

“I’ve got five friends who I’m saying no to, and I’ve got a credit union who I’ve never met before who I’m saying yes to,” said Mr. Steele, who now serves as president and chief executive of First

Sound Bank.

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Laura Lee Stewart, president and chief executive of Sound Community Bank in Seattle, was one of the bidders that had an existing relationship with Bank of Washington. Ms. Stewart, who is also chairman-elect of the ABA, said the community will lose a tax-income source as a result of the deal. "When an entity is in business doing the same thing and gets a free ride, that's bad public policy," she said. "And it's bad for communities."

Sound Credit Union, based in Tacoma, Wash., said the acquisition would allow it to expand its services to customers and grow to new markets. "We believe that together, our combined knowledge and experience will better serve our members and communities," Don Clark, president and chief executive of the firm, said in a statement. He added that Sound Credit Union had paid $3 million in payroll, property and sales taxes in 2018.

Credit unions face limits to how they can structure the deals. They must ensure that the customers of the bank they are acquiring will fit into their field of membership and that they won't hit a business-lending limit as a result of the acquisition.

NCUA Chairman Rodney Hood said he plans to introduce a rule later this year to clarify credit unions' regulatory responsibilities when acquiring banks.

Credit unions should "make sure that they are acquiring a bank that comports with their existing field of membership and the lines of business they are operating in," Mr. Hood said in an interview. The NCUA and bank regulators generally need to approve these deals before they close.

To get around laws prohibiting credit unions from holding bank charters, many of the deals are structured as "purchase and assumptions," in which the bank empties out its loans and deposits and transfers everything over to the credit union.

"There was nothing that said you could. But there was nothing that said you couldn't," said Michael Bell, a partner at law firm Howard & Howard Attorneys PLLC who helped popularize the process after advising on a credit union-thrift merger completed in 2012.

Mr. Wolfburg, of VyStar Credit Union in Florida, said his company worked with about a half-dozen investment advisers and weighed more than 90 different bank acquisition opportunities since 2018.

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Its recent deal with Citizens State Bank allowed VyStar to expand into more commercial loans and broaden its geographic footprint while avoiding layoffs and pay cuts, said Mr. Wolfburg.

“When we earn more, it does not get stripped out through shareholders, it goes to our members,” he said.

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