

## Latest credit union deal to buy bank adds fuel to simmering policy fight

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If someone were looking to incite already lathered-up community bankers, he or she couldn't have timed the latest credit-union-buys-bank story any better.

An announcement Tuesday that Verve, a Credit Union (yes, that's its name) in Oshkosh, Wis., had agreed to buy South Central Bank in Chicago came just a day after the Independent Community Bankers of America urged bankers to submit examples of "egregious actions" by credit unions as it seeks to stop more of these kinds of deals from happening.

The sale of South Central, which has about \$300 million of assets, is an example of the credit union community "making a mockery" of its tax-exempt status, says Linda Koch, president and CEO of the Illinois Bankers Association.

"Instead of focusing on their mission of serving people of modest means they're cherry-picking distant communities," she said. "We are apoplectic."

### Notable credit union-bank deals announced in 2019

Buyer/seller	Seller's assets
MidFlorida/Community Bank	\$733 million
Verve/South Central	\$296 million
VyStar/Citizens State	\$280 million

Arizona Federal/Pinnacle	\$236 million
Power Financial/TransCapital	\$204 million

Source: S&P Global Market Intelligence

The Verve-South Central deal is the eighth announced in 2019 in which a credit union is buying a bank. There were nine deals of that type in 2018. Five have been in Florida this year, compared with two in total last year.

Banks have long decried what they perceive as the unfair playing field that results from credit unions being exempt from federal income taxes, and the trend of bank acquisitions has added fuel to the fire.

But National Association of Federally-Insured Credit Unions President and CEO Dan Berger said a thriving credit union industry is good for American consumers and the U.S. economy. "Bank lobbyists' fixation with credit unions' tax status is political, designed to limit consumer choice and rid the market of competitive pressures for banks," he said.

The Verve-South Central transaction is the second such deal in Illinois after Michigan-based Advia CU announced in November that it was acquiring Golden Eagle Community Bank in Woodstock.

Last year, the 16 largest credit unions in Illinois reported net income of more than \$218.6 million, Koch said. Based on estimates from the state Commission on Government Forecasting and Accountability and private studies, imposing a state corporate income tax on those credit unions would generate \$20 million to \$27 million annually in state revenue, she said.

Michael Bell, an attorney with Royal Oak, Mich.-based Howard & Howard, which advised Verve in the deal, said the politics sound good but only serve as an

emotional rallying cry. He said the subject of taxes will always be a lightning rod, but the reality is that both credit unions and community banks face overregulation.

"Both industries have burdensome costs associated with those regulations," he said. "I think energies would be best spent working together to make things better."

Koch said she does not fault any bank for taking the best deal it can find. "They have to do what's right for their bank and their shareholders, but Congress needs to start looking at the long-term implications of these cross-industry acquisitions," she said.

Todd Grayson, president of South Central Bank, said in a news release that its commitment to promoting the growth of business customers led the bank to a partner that shares the same focus.

After the deal is finalized, the combined organization would have more than \$1.2 billion in assets and 21 branches. It is expected to be completed in the fourth quarter.

"Not only will this acquisition allow us to grow in a new thriving market, but financially it makes sense for the entire membership of Verve," said Kevin Ralofsky, president and CEO of \$936 million-asset Verve. "We look forward to expanding our field of membership and serving the Chicago market."

Vedder Price and Janney Montgomery Scott advised South Central Bank. Howard & Howard and McQueen Financial Advisors advised Verve.

The eight credit union-bank deals announced this year included the largest bank (Community Bank & Trust of Florida in Ocala, at \$730 million in assets) ever sold to a credit union, and the largest credit union (VyStar in Jacksonville, at \$8.6 billion of assets) to buy a bank.

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