

DATA DISPATCH

Credit unions to face stiffer competition for bank deals in 2024

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By Lauren Seay and Ronamil Portes

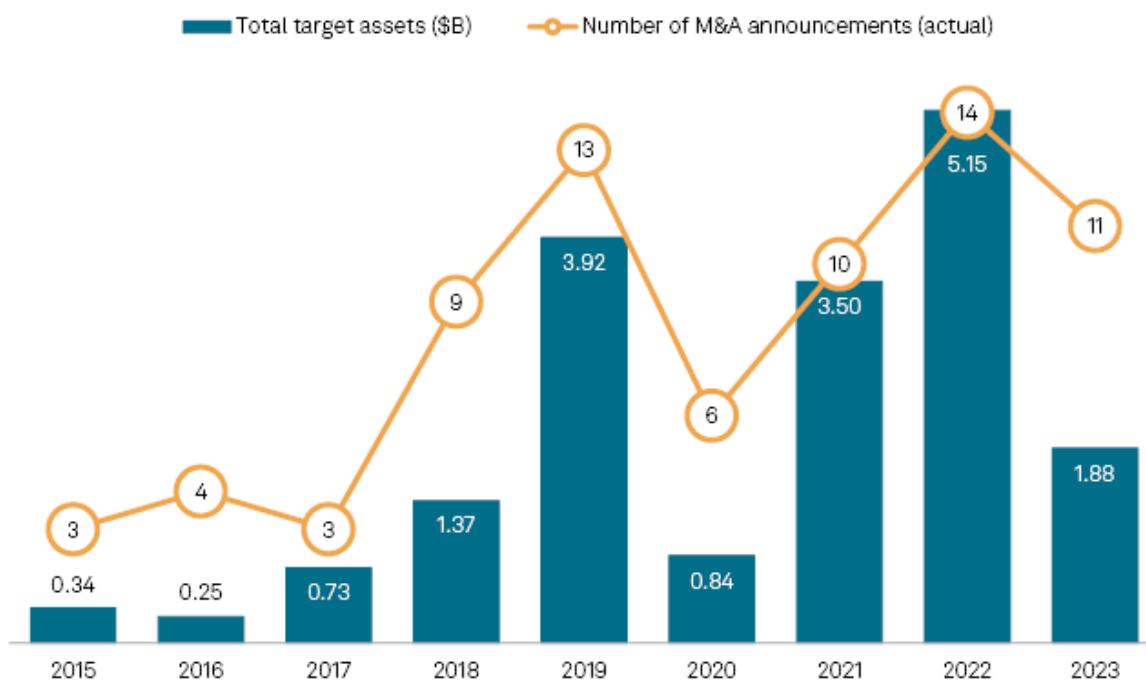
Market Intelligence

Credit unions' appetite for bank deals won't wane in the new year, but those potential buyers are expected to face more hurdles.

In 2023, US credit unions announced 11 bank deals, three shy of the record 14 announcements in 2022. However, the slow pace of bank M&A led to credit unions making up a greater share of the buyers in 2023 bank deals with the percentage increasing to a record high 11.2%, up from just below 9% in 2022, according to S&P Global Market Intelligence data as of Jan. 2.

Deal advisers expect the interest to continue in 2024 as credit unions look to diversify through banks' commercial lending expertise, but they will face more impediments, such as stiffer competition from bank bidders and capital restraints.

US credit union-bank M&A deals



Data compiled Dec. 27, 2023.

Analysis limited to whole-bank and franchise deals announced between Jan. 1, 2015, and Dec. 26, 2023, with a US credit union buyer and US bank or thrift target; excludes terminated deals.

Total target assets are as of the most recent quarter-end prior to deal announcement for all deals announced that year.

Source: S&P Global Market Intelligence.

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Shifting landscape

US bank M&A slowed in 2023 as rising interest rates, a spurt of large failures and the tougher regulatory environment made deal agreements more difficult to reach. The lack of wherewithal for banks to pursue deals pushed potential sellers to contact credit unions.

A Federal Reserve memo following a November 2023 meeting of the Community Depository Institutions Advisory Council noted that larger credit unions were "receiving an increase in inquiries from banks seeking to sell, primarily because other banks are unable to make acquisitions in the current environment." The memo added that credit unions with "ample liquidity and capital hold a distinct advantage, positioned as desirable" buyers of banks.

But of late the likelihood for banks to come off the dealmaking sidelines has increased thanks to changes in the interest rate outlook and a rally in bank stock prices. For those that are hungry for growth through M&A, the backdrop has become more conducive to pay up and win the deals they want.

"Community banks that wish to be active in M&A are stepping up to the plate and perhaps being a bit more aggressive with their pricing and recognizing that there's competitive landscape for some of these transactions," Greg Cunningham, senior vice president at Donnelly Penman & Partners, said in an interview. "They are taking a longer-term approach to their strategic endeavors, including M&A, and being very competitive in a lot of the processes that we've been involved in."

In addition, the recent industry focus on liquidity coupled with stiff deposit competition and high funding costs has credit unions being more frugal with their cash. As such, they are being pickier about what deals they bid on as they can only pay cash since they are nonprofits and can't use stock in deals like publicly traded companies can.

"We're in a cycle where liquidity matters, and that does impact buyers," said Michael Bell, partner and co-leader of the financial institutions practice at Honigman LLP. "It's making buyers be a little more deliberate."

"It makes them more focused on process, on due diligence, on making sure everything kind of checks out, double, triple checks. It makes them more focused on the financial analysis and the models and making sure the models are conservative, making sure the models can be trusted," Bell added.

Credit unions are particularly conscious of their forward earnings and conserving capital for the potential downturn of consumer lending segments like auto and credit card.

"With the change of interest rates here and the spike up in deposit costs, margins are tighter, and so people are more nervous about their earnings going forward," Charley McQueen, president and CEO of McQueen Financial Advisors, said in an interview. "And then as we're starting to see, it's not bad, but we are obviously starting to see delinquencies increase in auto loans and credit card loans in different areas. And as that comes up, it does make people a little bit more defensive."

US bank acquisitions by credit unions since 2022

Buyer	Target	Target city, state	Date announced	Total assets (\$M)*	
				Buyer	Target
● A.E.A. FCU	West Valley National Bank	Goodyear, AZ	11/01/23	384.8	74.3
● Five Star CU	Wilcox County State Bank	Abbeville, GA	08/31/23	773.2	178.5
● Michigan State University FCU	Algonquin State Bank	Algonquin, IL	08/31/23	7,713.4	144.6
● Innovations Financial CU	First National Bank Northwest Florida	Panama City, FL	08/29/23	399.8	169.2
● Michigan State University FCU	McHenry Savings Bank	McHenry, IL	08/28/23	7,713.4	322.4
● Five Star CU	OneSouth Bank	Macon, GA	08/28/23	773.2	212.2
● Harborstone CU	First Sound Bank	Seattle, WA	08/01/23	1,903.1	174.7
● Nusenda FCU	Western Heritage Bank	Las Cruces, NM	06/06/23	4,135.1	335.1
● All In FCU	SunSouth Bank	Dothan, AL	06/01/23	2,814.8	114.2
● Land of Lincoln CU	Nokomis Savings Bank	Nokomis, IL	04/28/23	391.1	27.9
● 4Front CU	Old Mission Bank	Sault Sainte Marie, MI	01/10/23	976.6	130.2
● Land of Lincoln CU	Colchester State Bank	Colchester, IL	12/21/22	374.0	82.1
● Alabama One CU	First Bank	Wadley, AL	12/19/22	956.8	130.4
● LGE Community CU	Greater Community Bank	Rome, GA	12/16/22	2,050.5	322.0
● Dort Financial CU	Flagler Bank	West Palm Beach, FL	12/13/22	1,428.2	489.3
● Veridian CU	American Investors Bank and Mortgage	Eden Prairie, MN	12/06/22	6,705.5	112.0
● Wings Financial CU	Settlers Bank	Windsor, WI	11/02/22	8,047.1	350.3
● NuMark CU	Pioneer State Bank	Earlville, IL	06/01/22	623.8	135.2
● DFCU Financial	First Citrus Bancorp. Inc.	Tampa, FL	05/12/22	6,404.0	689.3
● CoVantage CU	LincolnWay Community Bank	New Lenox, IL	04/27/22	2,634.0	276.8
● Arizona Financial CU	Horizon Community Bank	Lake Havasu City, AZ	03/10/22	2,779.9	539.5
● Summit CU	Commerce State Bank	West Bend, WI	03/03/22	4,830.6	837.1
● Barksdale FCU	HomeBank of Arkansas	Portland, AR	02/28/22	2,028.7	73.8
● Robins Financial CU	Persons Banking Co.	Forsyth, GA	02/28/22	3,880.1	429.5
● Georgia's Own CU	Vinings Bank	Smyrna, GA	02/21/22	3,419.4	685.6

● Pending deal ● Completed deal

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* Total assets as of the most recent quarter-end before deal announcement.

Source: S&P Global Market Intelligence.

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Not done yet

Despite those headwinds, credit unions are still on the prowl for bank deals. One of the major drivers for their appetite is acquiring commercial lending expertise. Historically, credit unions' products are more consumer focused, and bank acquisitions are a good way to break into commercial banking.

Credit unions are also interested in banks with attractive noninterest income businesses, like wealth management and trust services, Cunningham said.

Moreover, the recent bank failures are bolstering credit unions' desire to diversify through M&A after the turmoil of 2023 brought greater industry awareness to how concentration risks can contribute to a depository's downfall.

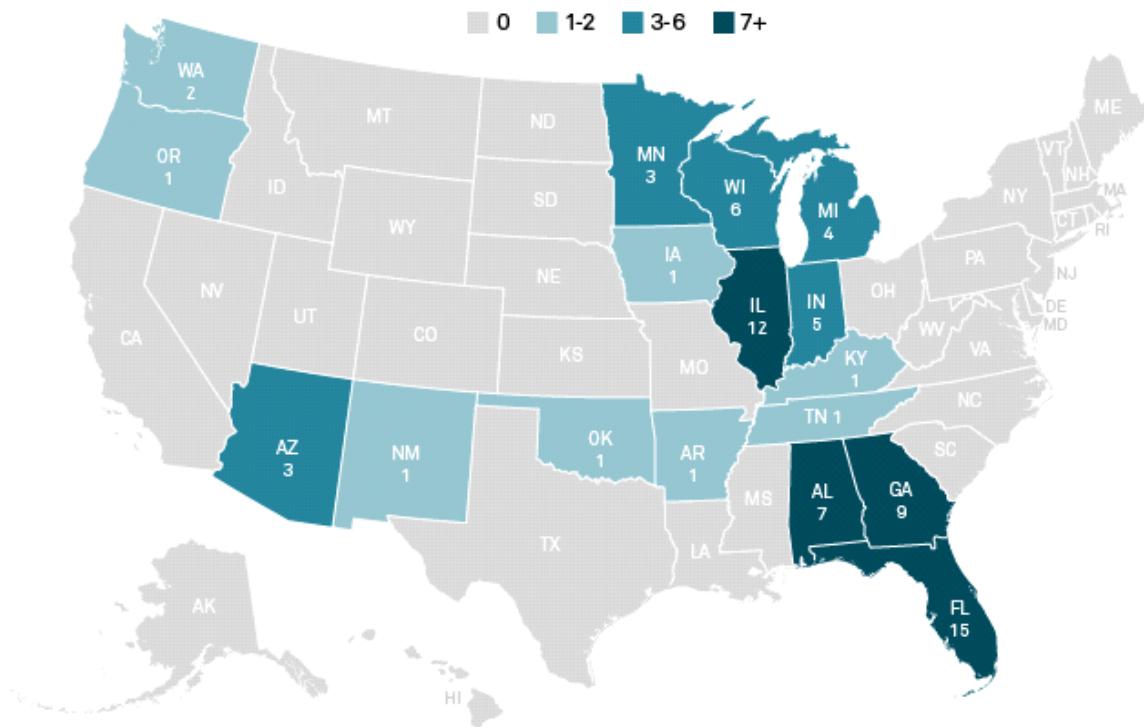
"If a buyer can diversify its loan or deposit portfolio, either geographically, either up and down the income spectrum, urban, rural, business, personal — all of those things make you safer and sounder," Bell said.

Geographic expansion

Advisers expect these deals will stay concentrated in Midwest and Southeast, and states where there are a lot of small banks left.

But both Bell and McQueen predict geographic expansion, with Bell suggesting up to five new states could see their first credit union-bank deals in 2024. McQueen predicts more activity in the Pacific Northwest.

US bank M&A targets with credit union buyers by state since 2015



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Data shown is based on target bank headquarters.

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