



Angling for a Merger?

Make Your Credit Union a Great Catch

Any number of conditions may spark interest in merger among credit union leaders. If your organization is looking to expand through acquiring other credit unions or to join forces with an organization of similar—or larger—size, make an honest assessment of the strengths and weaknesses of your own operation the first step in your search. Understanding what your organization has to offer a merger partner, as well as what you want to gain from one, will help you evaluate potential suitors. It may also suggest ways to enhance your appeal to prospective partners by playing up your strengths, remedying correctable problems, or adopting a more flexible approach to some issues.

Here are five areas to examine in determining your organization's desirability as a merger partner:

Your field of membership.

What growth opportunities does your credit union's current charter provide, and what might it mean for a potential merger partner. In a merger, the surviving charter is typically the one with the broadest field of membership, regardless of which partner has the most actual members.

Consequently, a credit union with a broad community field of membership but a relatively small number of existing members might be significantly more attractive to many potential merger

partners than would a credit union with the same number of members serving a single sponsor. Its field of membership would be a selling point to locally based suitors that are looking for opportunities to expand membership recruitment beyond current SEG groups or the boundaries of a smaller community.

Your field of membership may also suggest natural liaisons. For example, an educationally based credit union might combine with the teachers' credit union in a nearby district, or with a credit union serving a local college. Or, two hospital credit unions might combine with a multi-group or TIP charter. Assuming your current field of membership offers the potential for recruiting a good balance of member types, combining with a similar organization to achieve economies and expand access points for members can benefit both partners.

Your membership demographics.

Numerous credit unions possess graying memberships. If your organization has successfully recruited younger members, or even a significant group of Gen Why members, potential partners will find both your existing membership and your expertise attractive. Combining with a credit union with a core of older, more affluent members would provide additional dollars to fund loans. It could also provide expanded convenience, such as several new local branches, that will help you to retain members.

Membership diversity across a range of demographics generally makes a credit union stronger. Single-sponsor charters and narrowly drawn community fields of membership can be especially susceptible to financial risks from economic downturns. Consequently, a credit union with a membership dominated by small business owners and their employees might match well with one dominated by manufacturing firm employees representing a similar range of income levels.

Considering member demographics can also mean taking into account the "personality" of your membership and

their expressed preferences for doing business. If your membership comprises mostly people that like an informal atmosphere and your operation emphasizes greeting them by name, your credit union may be a bad match for an organization where speed of service is the primary goal and members are encouraged to use automated systems for most transactions.

Your branch network.

In the days when credit unions were mostly single-sponsor organizations, the sponsoring firm often provided office space at the company's work site. With the move to multi-group and community charters, more credit unions these days make their own office arrangements. However, there are still some in the industry that benefit from sponsor-provided space.

While free or reduced-rate accommodations offer obvious advantages, they also have a downside. On-site company branches are often inconvenient or inaccessible for anyone other than employees, which inhibits use by family members and others who may be in the credit union's field of membership. There's also a certain amount of insecurity in knowing the sponsor may choose to end the arrangement and force the credit union to scramble for space at an inopportune time. Shared branching and fee-free ATM network memberships offer a partial solution, but their locations may not meet all your members' needs.

A credit union with nice looking branches located in well-traveled areas has a great advantage to offer potential merger partners. One or two locations of this type can be a better selling point than a whole network of branches located in restricted or difficult-to-access sponsor facilities.

Your special areas of technical or product expertise.

Perhaps your credit union has an exceptional mortgage lending program or a staff with an unusually strong background in small business lending. Maybe

you have regularly been an early-adopter of new technology and have a strong, deep IT staff. Any area in which you excel or have unusual talent reserves in comparison with others in the industry can prove attractive to a merger partner.

The flip side of this, of course, is that a merger also provides your organization the opportunity to strengthen areas where you may perceive weakness or to add new areas of expertise that will benefit members. Consequently, include a "wish list" of talent and expertise—as well as your own strengths—on your list of merger considerations.

Your leadership team's strengths.

Did you hear the one about the credit union that was looking for a CEO and found a merger partner too? As more industry leaders approach retirement, competition for great industry executives will heat up. That opens the way for potential mergers as strong young leaders are approached for new job opportunities. Perhaps it makes sense to combine two organizations into a larger, stronger entity with greater resources to retain the executive talent needed to guide it.

Reducing staff is rarely a goal in credit union mergers. In most instances, the combined organization has sufficient need for all existing talent, though some executives may need to be re-slotted to make maximum use of their abilities. The most difficult personnel task for merging credit unions is often determining how to best position a second CEO. If one of the CEOs has announced plans for retirement, or if an interim CEO is at the helm of one of the merger partners until a permanent replacement can be named, questions regarding who will lead the merged organization resolve quickly.

Moving Ahead

No two mergers are exactly the same. The characteristics of the merger partners ensure that each will follow a distinct pattern. Almost any credit union can be a great merger partner for someone, but not every credit union is a great potential

partner for your organization.

Understanding what your credit union brings to the table and what you want to take away from it will help you craft a successful combination of operations and move ahead as a stronger entity. Look at the details as well as the big picture. Decide where you can be flexible and where you can't. Recognize that if you expect a merger to succeed you will need to be flexible on some points.

The fact that your members conduct most of their business electronically while a potential partner offers few electronic service alternatives doesn't necessarily mean you're a bad match and may not be a deal-breaker. After all, your members might appreciate the chance to visit a branch more easily for some transactions and theirs may be hungry for expanded convenience.

What is a problem in any voluntary merger is the determination of one partner to impose a particular model on the merged organization unilaterally. If your view of business dictates that electronic services must predominate and staffed branches will be minimized, find a partner who shares that view.

Pursuing a voluntary merger with a partner that has a radically different style and expecting it to conform willingly to your views will likely end in disappointment. Savvy board members understand that many of their members will rebel at efforts to force them from comfortable ways of doing business. They also have an interest in protecting staff members that would be displaced or devalued through a dramatic transition. Expect them to demand changes in your plans or block the merger long before your "new-fangled" ideas can discomfit their members or disturb employees to whom they are committed.

Summer is Compensation Survey Season



D. Hilton Associates' annual Executive Compensation and Staff Compensation surveys were distributed recently with data collection slated to run through June. The surveys, first introduced in 1992, have become a leading source of compensation data for the credit union industry with hundreds of credit unions participating in the two surveys each year.

Participants in the DHA compensation survey will receive substantial discounts on the survey reports. Credit unions that participate in both surveys and purchase both reports will pay less than half price for the data. Full price for each of the two reports is \$499; however, participating credit unions will be able to purchase a package with both reports for just \$400. Participants may purchase either of the reports separately for just \$275. Discounts for 2006 were increased significantly from those offered in years past.

Survey forms will be mailed to many credit unions, and also will be available for download through the DHA Web site. Completed questionnaires may be returned by mail or fax. In addition, for the first time in 2006, survey participants will be able to submit information electronically, as an Excel spreadsheet.

The 2006 Executive Compensation Report will incorporate data on 18 positions, with four positions being added to the 14 for which information was tracked in 2005. This year's report will also include new coverage of variable pay, which will examine programs such as profit sharing, gain share, scorecard, and discretionary bonus and the metrics involved.

The 2006 Staff Compensation Report will cover nine more positions than the 92 included in the 2005 edition. This year's report also will add coverage regarding turnover among tellers and in other positions, including member service representatives, loan officers, call center representatives and branch managers.

Both of the compensation reports are scheduled for distribution in early September. Participants may order their reports by checking the appropriate box on their survey forms. Advance orders may also be placed by mail or via the DHA Web site.

For more information on DHA's Executive and Staff Compensation surveys, visit www.dhilton.com or email surveys@dhilton.com.