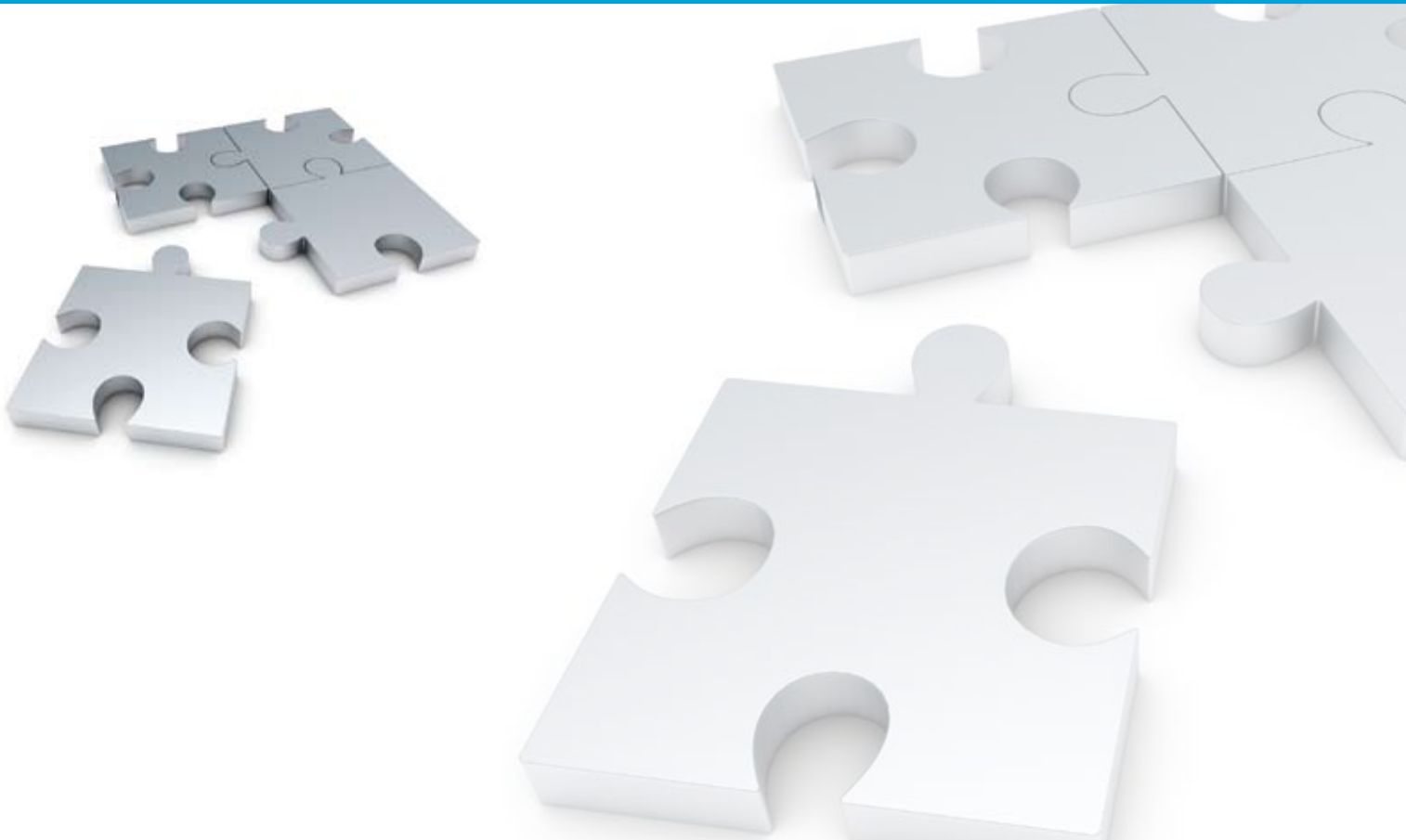




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Mergers: The TDECU Case Study

Growing and staying competitive
in today's market



SITUATION OVERVIEW: TDECU and Texas Crossroads

TDECU, a Texas-based credit union, was seeking additional ways to achieve their goal of greater member service and market growth. One strategy that was known to be highly successful was mergers. By partnering with other credit unions in new markets, both organizations realized a substantial increase in the return to the member, while also expanding their organizational footprint and market share. The impact of a merger benefited all stakeholders, including members, employees and the community.

Organization Overview

Texas Crossroads Federal Credit Union was a growing organization serving the residents of Victoria, TX and the surrounding communities. Texas Crossroads had a community field of membership for multiple counties in South Texas totaling roughly 190,000 potential members. This broad eligibility assisted in double digit deposit growth and membership growth averaging 5% a year. Financially, the credit union was prospering. They averaged a return on assets around 50 basis points and kept a capital ratio of about 8.50%.

Challenges

Despite Texas Crossroads' financial success, senior managers felt the credit union was not reaching its full potential and they had real concerns about the future viability of the organization. For one, Texas Crossroads was feeling a lot of competition from the 23 banks and 11 credit unions in the area. There were a total of 71 branch locations, which equates to roughly one branch for every 2,600 households.



Despite Texas Crossroads' financial success, senior managers felt the credit union was not reaching its full potential.

Victoria Courthouse,
Victoria, Texas

Through a merger with TDECU, Texas Crossroads' members paid 18% less on their loans and earned 9% more on their deposits.



*Neighboring Community,
Cuero, Texas*

Despite its size at a healthy \$68 million in assets, senior managers recognized the economies that come with size. Managers felt that in order to remain competitive in the marketplace, Texas Crossroads would need to begin offering mortgage services, expand the hours of operation by 30% and double the number of ATMs. In addition, the credit union's online offerings would need a significant upgrade to offer online account and loan processing. While all of these items needed immediate attention, the credit union did not have the financial resources or manpower to satisfy member needs.

Solution

Texas Crossroads decided to explore mergers as an opportunity to provide the membership all of the amenities that the current organization could not offer. After some analysis of other credit unions in the marketplace, Texas Crossroads partnered with TDECU.

At the time, TDECU was \$750 million in assets and is headquartered in Lake Jackson, TX, about two hours from Victoria. TDECU had a reputation for stellar member service and excellent value. They were so successful that TDECU catered to almost two in three households in the Lake Jackson area, allowing TDECU to expand its field of membership eligibility to more communities throughout South Texas, including the Victoria area.

A partnership with TDECU allowed Texas Crossroads to immediately satisfy the member demand for more products and services, while maintaining the organization's unique culture. Through a merger with TDECU, Texas Crossroads members had access to 7 additional TDECU locations, as well as more than 3,000 shared branch locations and 30,000 shared ATMs. Mortgages, online applications, investment and insurance services were just a few of the additional products offered.

Texas Crossroads employees continued to operate in the Victoria marketplace, but with significantly larger resources to grow their market share in the community. In addition, they were now part of an organization that offered more advancement opportunities, hours devoted to training, and conference opportunities.

Since the merger with Texas Crossroads, TDECU has more than tripled the number of members in the area.

For TDECU, the merger meant immediate access to a new marketplace without the five to 10 year learning curve typically felt when moving into a new area. The employees at Texas Crossroads were already wired into the community and simply needed additional resources to substantially increase their success.

Bottom Line Impact

Benefits to Employees

Texas Crossroads realized the benefits of a merger with a larger entity immediately. Because TDECU was a market leader in compensation, all employees at Texas Crossroads saw an immediate 11% increase in pay and benefits (an increase of \$4,726 on average per employee). Employees also saw an 80% increase in the amount of dollars devoted to employee training and conference education. They became part of TDECU's attractive 401(k) program that included matching and profit sharing, something never offered by Texas Crossroads.

Benefits to Members

Because of TDECU's size, members at Texas Crossroads saw a direct financial benefit through the merger. On average, TDECU offered a 35 basis point rate increase on deposits (9% increase) and 60 basis point rate decrease on loans (18% decrease) than that offered by Texas Crossroads. TDECU was able to offer better rates because of the efficiencies that come with size. While it cost Texas Crossroads \$265 per member to operate the credit union, TDECU could offer more products and services at only \$246 per member meaning an expense savings of \$19 per member, or 8%. This is despite the fact that TDECU spent 27% more on marketing per member (\$9.92 at TDECU versus \$7.79 at Texas Crossroads).

The merger of Texas Crossroads was seen by both credit unions as a "win-win" merger agreement for all stakeholders.

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Texas flag

TDECU Today

Today, TDECU is the largest locally-owned financial institution on the Texas Gulf Coast. TDECU has over \$1.5 billion in assets and serves more than 110,000 member-owners. Victoria and the surrounding communities were a large factor in the credit unions growth. Since the merger with Texas Crossroads, TDECU has more than tripled the number of members in the area.

TDECU currently serves its members through an extensive network of branches, ATMs and online services. They offer a line up of full service financial, mortgage, investment, retirement, insurance and business products and services. TDECU also offers 24/7 call centers, 32,000 surcharge-free ATMs and more than 3,000 shared branches through the Credit Union Service Centers network.



Bluebonnet – State flower of Texas

A Word from a TDECU Board Member David Ozuna



As a former Texas Crossroads Board member and as a current TDECU Board member, I was able to witness firsthand the process of making this partnership a reality, as well as join in the success it has brought both organizations. When Texas Crossroads began looking at the idea of a merger, our core focus was on delivering more value to the members, employees and community.

We found TDECU shared in our cultural commitments and by forming a relationship with them, our goal of offering expanded products and services, along with heightened member convenience was achieved. Both organizations were able to capitalize on the strengths each offered, and in the end, position our combined organization to move into the future for the membership.

Today, TDECU remains stronger than ever. For Texas Crossroads, a merger was exactly what was needed to achieve our goal of continuing to offer our members, employees and community superior value for years to come.

Sincerely,

David Ozuna
TDECU Board Member



For 25 years, D. Hilton Associates has been a trusted credit union partner in assisting credit unions with “win-win” merger agreements. We have a variety of merger solutions including finding the optimal partner, negotiating terms that satisfy all parties, handling the application process, and communicating the benefits to the membership. For more information about the Merger Practice at D. Hilton Associates, please visit our website at www.dhilton.com or call 800.367.0433.



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