

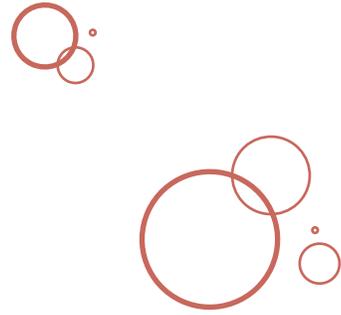
The Board's Role in Credit Union Mergers

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Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these of high-priority issues.

The Institute is governed by an Administrative Board comprised of the credit union industry's top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i3, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the “father of the U.S. credit union movement.” Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.



*Progress is the constant
replacing of the best there is
with something still better!*

— *Edward A. Filene*

Acknowledgments

I'd like to extend my appreciation to all the credit union executives and board members who honestly shared their experiences about this very interesting and exciting phenomenon. They reflect a dedicated workforce of paid and unpaid leadership. Bush School graduate students conducted the case study research and wrote the final case study reports detailing the experiences of two different merging scenarios. These students were also involved in making sense of the interview data and creating themes that effectively captured the sentiments of the participants. The Filene Research Institute Research Council was instrumental in shaping the study, helping to identify case study participants, and providing much needed insight for analysis and interpretation. Finally, I'd like to express appreciation to the dedicated staff members of O'Neil Research, CUNA Research Department, and the Filene Research Institute for all their work on this project.

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By George A. Hofheimer,
Chief Research Officer

Credit union mergers occur at the rate of approximately one per day in the United States. Given the current and future regulatory/competitive environment, it is safe to say that credit union mergers will continue to occur at the same pace or at an even more rapid pace. Most readers of this study will likely be involved in a merger with another credit union in the very near future, if they haven't been already.

Since credit union mergers are a relatively common occurrence, the Filene Research Institute felt it necessary to study the topic in greater detail. In 2006, we sent William Brown, an associate professor at Texas A&M University, and a group of his graduate students on a quest to discover critical issues in the merger process, with a special emphasis on the role of the board of directors. It is important to study the board's role in mergers because

- Merging is a high-stakes decision.
- Relatively little is known about the topic.
- The answers we seek may help inform credit unions about pitfalls in the merger process.

What Did the Researcher Discover?

Brown and his research team used a variety of survey, interview, and case study methodologies to gain new insights into the credit union merger decision. The following are some of their high-level findings:

1. Mergers seem to develop for one of two reasons:
 - Concerns about the long-term viability of the merging credit union (i.e., shrinking or stagnant membership, weakening financial condition).
 - The imminent departure of a longtime CEO.
2. Two-thirds of the mergers discussed in this study are not a part of the organization's long-range plan or predetermined strategic objectives.
3. Potential merger partners are most likely to be identified through existing professional networks.
4. In about 25% of cases, the board is not highly influential in the decision to merge because:
 - Acquiring credit unions are more likely to minimize the board's role.
 - Boards of merging organizations are typically more involved, although not always.

5. Most boards rely heavily on the CEO:
 - To manage and utilize professional relationships.
 - To oversee and manage the process.
 - To provide accurate and complete information.
6. Major issues discussed and decided by the board include:
 - Making sure the merger is in members' best interests (e.g., services offered and financial viability).
 - Ensuring the continued financial viability of the continuing credit union.
 - Staffing issues such as continued employment for longtime employees, consistency of benefits, and retention of key personnel.
 - Board governance issues (e.g., allocation of board seats in the surviving organization).
 - Infrastructure issues such as branch locations and IT systems.
7. Three categories of board involvement emerge:
 - Proactive and very involved (about 25% of participants).
 - Responsive and engaged (about 50% of participants).
 - Minimally engaged and possibly aloof (20–25% of participants).

Practical Implications

As stated at the beginning of this summary, the odds that your credit union will be involved in a merger, as either the acquiring or the merged institution, are quite high. There are relatively few sure bets in the world of consumer finance, so this high-probability event presents a clear opportunity for you and your senior team to plan proactively.

The first and most practical thing you can do once you finish reading this study is to incorporate merger and acquisition scenarios into your strategic plan. In this plan it may make a great deal of sense to objectively define the elements you deem essential to move forward as either an acquiring or a merged institution. In this study, Brown reports that two-thirds of those interviewed failed to take this proactive planning approach. In the words of Louis Pasteur, the famous scientist, "Chance favors the prepared mind."

Second, if you have not already done so, develop a succession plan for your chief executive. Smaller credit unions cite the retirement or resignation of their CEO as one of the main reasons for a merger. Proactive succession planning can ameliorate surprises for the board,

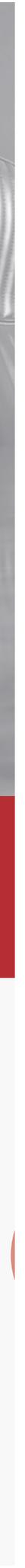
staff, and members and create a culture of organizational continuity in planned and unplanned leadership changes.

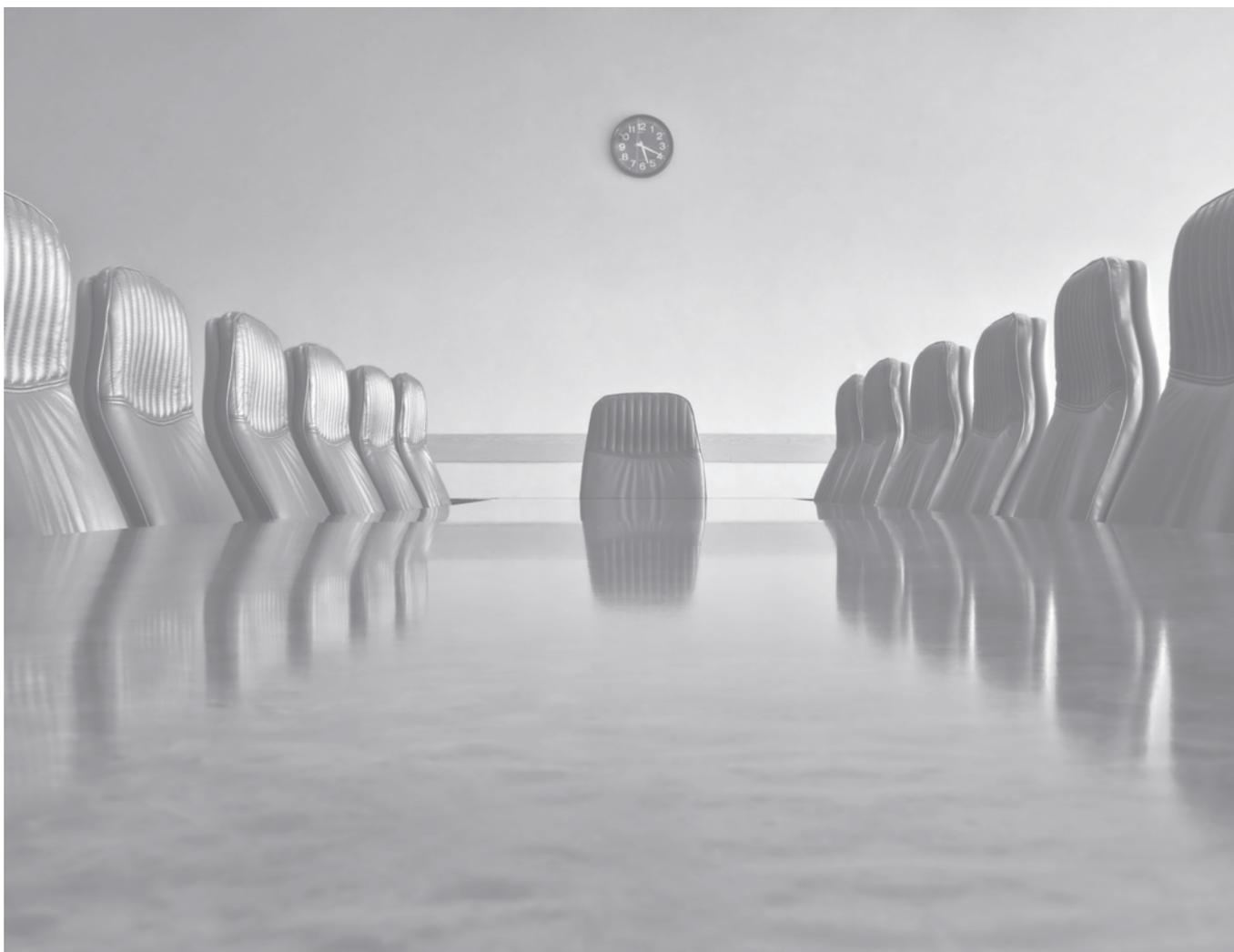
Finally, board members are encouraged to think critically about their role in the merger process. This study reports on a variety of effective and not-so-effective board practices in play during the merger process. Make it a point to self-evaluate your board against the findings of Brown and his research team.



William A. Brown

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CHAPTER 1

Research Overview

Investigating the role of the board of directors in decision making during credit union mergers and acquisitions is essential. It is recognized that mergers are a viable and widespread growth strategy for many credit unions, but there is not a detailed understanding of the board's role in this important process.



Purpose

A merger does not guarantee optimal efficiency or high-quality services. Before a merger, the board should consider “alternatives to merging, such as working with a mentor credit union or expanding the credit union’s field of membership, the potential impact on the credit union’s financial condition and operational capacity to serve the combined membership, and whether the merger is in the members’ best interest” (NCUA, *Credit Union Merger Manual*, 2005, p. 7). This study considers how the board engages in or disengages from the process of working through these issues. Merger opportunities are strategic decision opportunities for organizations, and fundamentally, boards play a critical role in ensuring good decision making.

Method and Analysis

An initial sample of 433 credit unions with assets of \$200 million (M) or less that indicated on their National Credit Union Administration (NCUA) Call Report that they planned to either merge or acquire a credit union were included in the study. Executives of those institutions were mailed a one-page survey to query their interest in participating in a telephone interview about the board’s role in mergers (see Appendix 1). One hundred eighty-four executives responded, a 42% response rate. One hundred forty-six organizations met our criteria of having participated in a merger or acquisition in the last 24 months. Of those, 66 agreed to participate in follow-up interviews. Structured telephone interviews were actually conducted with 42 executives and 10 board members provided by referral from the executive (see Appendix 2 for interview script). Participants provided information on 70 credit unions, either through firsthand experience with their own organization (n=42) or secondary experiences with the merging partner (n=28). Obviously, the firsthand accounts provide the most detailed information, often from the perspective of the executive, and in 10 instances from a board member as well. The secondary reports are also valuable and insightful into the decision processes enacted in most cases by the merging credit union. Although

not as detailed, these accounts provide a glimpse into the activities of the merging entity. Analysis consisted of organizing responses to reflect exclusively the experiences of one credit union, and then the responses were coded to reveal consistent themes or categories.

In addition, we conducted two in-depth case studies. These case studies provide detailed information about two distinctive merging scenarios. Teams of Texas A&M graduate students conducted interviews with two sets of merging partners. The first case study examines the Seasoned Acquirer. This acquiring credit union was involved in 38 mergers from 1986 to 2005 and now has well over \$600M in assets. The second case study examines two relative novices at merging. Both were financially healthy (at the time of the merger the acquiring entity had over \$400M in assets while the merged entity had \$90M) and both offered a full range of services. These cases are used in conjunction with the interview data to highlight and illustrate the key findings of this study. The full case studies are provided in Appendixes 3 and 4.

Overview of Results

The fundamental question under investigation is the extent to which the board enacted its role as trustees of the members' assets at a critical junction in the credit union's history. In most instances the results are presented separately for merging (i.e., those whose charter is discontinued) and continuing (i.e., acquiring) credit unions because they reflect unique experiences for the organization

and different decision-making scenarios for the board. For the continuing entity, the ramifications of the decision are often less significant. In either case we see a range of responses to the impending opportunity or threat. In some instances, boards have developed a strategic

plan that envisions the role of mergers in the health of their credit union; these participants discussed how the current merger had been "in the plan" and appropriately fulfilled the strategic purposes of their credit union. Most boards represented in the study did not have a strategic plan in place but enacted a rigorous response to the opportunity when it was presented. They took the decision seriously and engaged in active oversight to shepherd the merger through. Still other boards seemed to abdicate the decision to executives. In these instances, the board trusted that credit union professionals, either their own or others in the industry, would do the right thing, leaving significant decision opportunities to the executive.

Figure 1: Interview Sample

Type	Firsthand accounts	Secondary reports of merging partner	Total
Acquiring	28	1	29
Merging	14	27	41
Total	42	28	70

THE SEASONED ACQUIRER

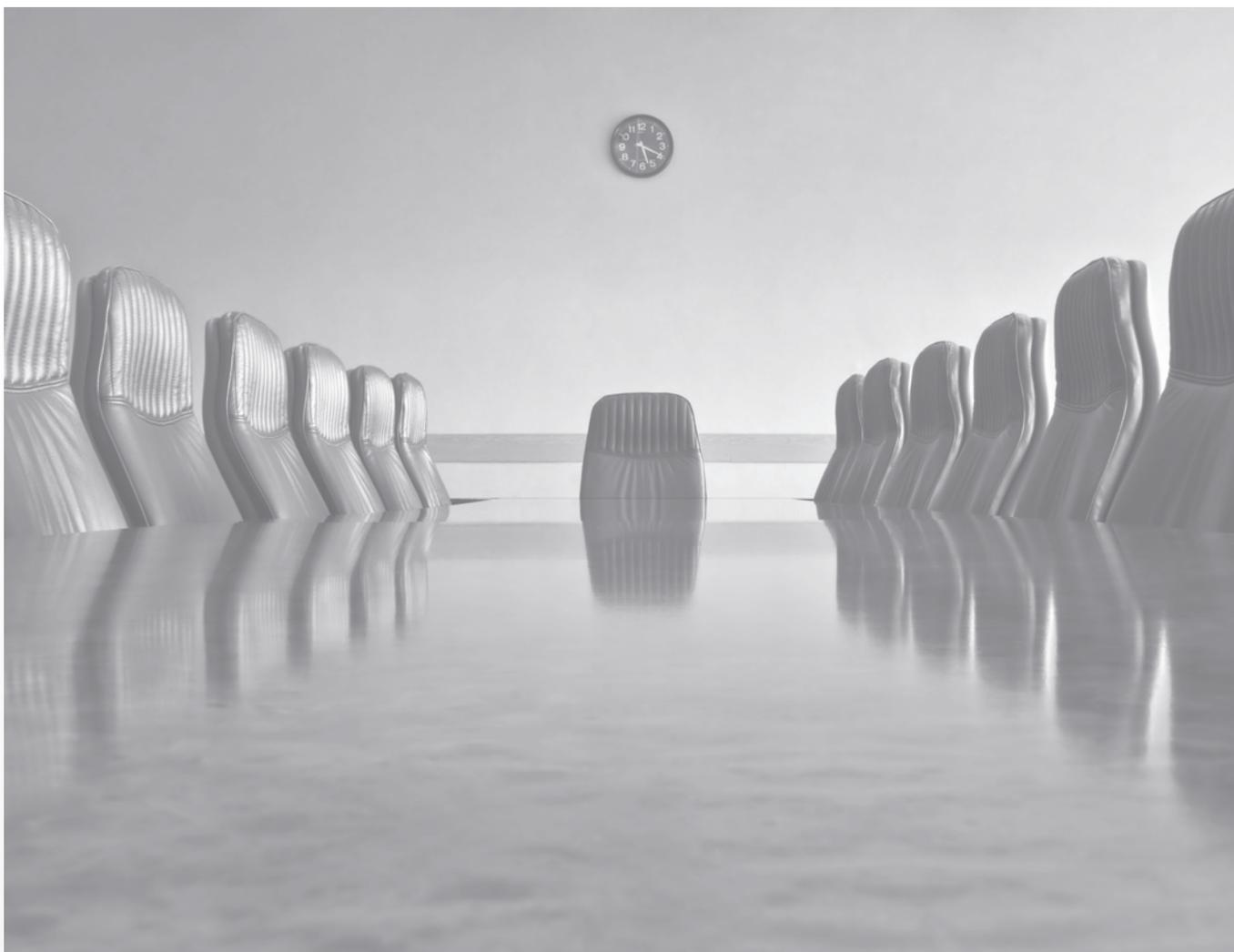
The first case study, presented in Appendix 3, examines the Seasoned Acquirer. This credit union was involved in 38 mergers from 1986 to 2005 and now has well over \$600M in assets. The Seasoned Acquirer has a very sophisticated system for incorporating new merge partners into its existing culture and services. It does not aggressively seek merge partners but is constantly developing and using relationships within the credit union industry to let potential partners know of its interest in locating and conducting acquisitions. It is committed to retaining all employees, and as a result, we were able to speak to three former CEOs who had joined through a merger of their credit union. These former CEOs discussed constraints on the financial health of the merging credit unions, typically instigated by a stagnant or shifting membership base. They perceived the acquiring entity as financially sound and philosophically aligned with broadly accepted credit union principles of meeting member needs through low cost and expansive services.

The board of the Seasoned Acquirer set in place a strategy of growth fueled in part by mergers, but the board is not directly involved in extensive decision making associated with selecting or screen-

ing potential partners. They, of course, “approve” all mergers before they are fully enacted. The boards of merging entities were more actively involved in the decision making, and in most cases they were involved in the identification and selection of potential merge partners.

THE MERGER OF NEAR EQUALS

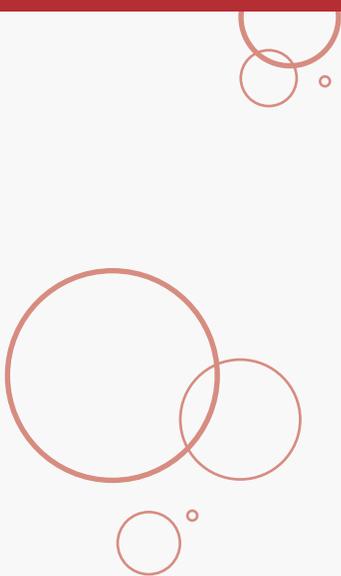
The second case study, presented in Appendix 4, examines two relative novices at merging. Both were financially healthy at the time of the merger (the acquiring entity had over \$400M in assets while the merged entity had \$90M) and both offered a full range of services. It wasn't quite a merger of equals, but the combined entity resulted in about a 25% growth for the continuing credit union, so it was by far the most significant merger operation for either credit union. Both boards were actively involved. The merging entity was very proactive in seeking potential partners, establishing criteria, and negotiating the principles of the merger. Similarly, the board of the continuing credit union was very concerned about the potential impact to its members and the overall financial health of the credit union. Across several dimensions it was an ideal merger that combined similar membership groups, improved the financial strength of the institution, and expanded service options for both groups.



CHAPTER 2

Interview Results

Interviews with board members and executives shed light on the merger decision-making process. The merger opportunity, the selection of a merger partner, and board involvement are important components of an evaluation of merger outcomes.





How the Merger Opportunity Developed

The most commonly cited reason for the development of the merger opportunity was related to concerns about the potential viability of the merging credit union. There were a variety of explanations for those concerns. Some expressed an overall sense that they would not be able to grow effectively because of limited membership opportunities, the prohibitive cost of expanded services, or competition. Many study participants talked about a stagnant membership. As stated by one respondent, “The business-as-usual model wasn’t working.” Another CEO said, “I’ve struggled to try to get the board to realize that if we do not diversify, we may not survive ourselves.” Some had gone through various stages to address these concerns, such as changing their charter or reaching out to other member groups. For the participants in this study, these strategies did not provide sufficient solutions to their growth and long-term viability problems; hence, they explored the possibility of merging with another credit union.

Another common factor that tended to precipitate the merger opportunity was the imminent departure of a longtime CEO. Combined with other leadership concerns (such as “poor management” or lack of interest by the board), this was a prominent explanation for more than half of the merging entities in this study. Sometimes these leadership challenges seemed to come as a surprise to the credit union and left it scrambling to find a partner, but in other instances it was recognized that replacing the CEO was unlikely or undesirable, so the process of seeking a merger partner began.

Figure 2: Most Common Reasons Merger Opportunities Developed

	Firsthand accounts n=42
Concerns about longterm viability Stagnant membership (17) Weak financial condition (8) Inability to expand services (6)	25
CEO/Leadership succession issues	14
Other	3

Note: Participants provided more than one reason for mergers.

Planned or Unplanned Opportunity

About half of the merging credit unions explained that they had been engaged in ongoing conversations with their board about growth concerns for an extended period of time, often years. Those conversations eventually addressed the idea of merging with another credit union. They wanted to retain control of their credit union's future and felt that a systematic process that evolved over time would allow them to shepherd their credit union most effectively. This scenario is evident in our Near Equals case study. The merging board very purposefully elected to move forward while they were in excellent financial shape because it allowed them a better opportunity to oversee and control the merger. They could more effectively choose their prospective partner because, as stated by the acquiring executive, "they were the golden egg."

Similarly, about a third of the acquiring entities discussed their long-term plans to actively pursue mergers if they become available. Typically, the board empowers the executive to follow up on merger opportunities as they develop as part of a strategic growth and development objective. This was the case with the Seasoned Acquirer. There was an established policy to engage in merger opportunities as they fit into the growth objectives of the institution. They were subtle and not aggressive, but very purposeful and thoughtful in locating partners.

Figure 3: Planned or Unplanned Merger by Type

Type	Planned	Unplanned	Total
Acquiring	10	18	28
Merging	7	7	14
Total	17	25	42

The remaining participants did not overtly discuss a growth plan or strategy that included merging as a viable alternative. For the acquiring entities, they were most likely to be contacted by a potential merging partner, and they considered the opportunity as it fit within their current objectives. Many respondents spoke of the board authorizing the CEO to follow up on an opportunity if he or she felt it was appropriate—a tacit acceptance of the CEO's recommendation to "explore the opportunity."

For merging organizations that did not appear to have a strategic objective related to seeking a merger (slightly less than half of the participants), we tended to hear one of two responses. Once confronted with the reality of needing to consider a merger, about half of these boards actively engaged in the process, establishing priorities, evaluating partners, and discussing the pros and cons of different alternatives. They rose to the occasion. The other half of the boards (about 25% of the respondents) relied heavily on paid staff members to oversee and run the process. They appeared to abdicate their roles as fiduciaries. This included the fundamental decision related to selecting the potential partner.

Selecting a Partner

The most commonly reported strategy for locating a potential merger partner involved scanning the environment of known credit unions, selecting a potential partner, and discussing the option of merging. In many cases this process relied on the CEO's network, although sometimes a broader network—through state leagues, regulators, or shared service providers—was tapped. The selection process was informal, relying on existing relationships. In most cases boards entrusted this activity to the CEO. As stated by one CEO, “The largest merger we did was with myself and the president of the other credit union sitting down and discussing it.” As stated by another, “It was more of a conversation between the CEOs of the two credit unions over a period of years.” An acquiring board member detailed the long-term relationships that develop in the credit union industry and the decision to capitalize on this relationship when the opportunity to merge was forthcoming:

They [the merging partner] came to us [the continuing credit union]. We had some help and assistance back and forth for many years. Their credit union had gone through some big changes and our CEO stepped in and provided assistance to keep them running. The relationship was already there.

A more rigorous version of this process entailed an explicit specification of selection criteria and a more formal solicitation of potential partners. Again, this process tended to be initiated by the merging entity and managed by the CEO with direction and oversight from the board. Some of the selection criteria included gaining specific services, retention of staff members, philosophical similarities, or sound fiscal operations (these criteria will be discussed in more detail shortly). About a third of acquiring entities and about half of merging entities discussed specific criteria that they used to select a partner. Even more rigorous were those that developed and solicited formal proposals from potential partners. About a third of the merging entities engaged in this activity. Here is one executive's description of this process:

We put together a set of selection criteria with eight items on it. We said, “These are our criteria for who we are going to merge with.” Sixty percent of the criteria were based on members and member services and 40% were based on our existing staff. We identified four credit unions that we selected to have a discussion with. We added one more later—so, five altogether. We sent out the selection criteria, similar to a request for proposal, and each of the credit unions responded to us. We then set up an entrée for our directors and the management to meet with the potential merger partners, which we did over a week period. We narrowed

the choice down to two final candidates. We then invited the two candidates to come in and meet with our full board.

This executive further detailed how the process unfolded to include a debate of the strengths and weaknesses of potential candidates. In cases where the CEO is allowed to select a partner based on previous relationships, the engagement of the board is muted because the candidate is already selected; hence, the board’s role is to approve the recommendation of the CEO.

Level of Board Engagement Overall

At a very basic level, most of the respondents (both acquiring and merging) talked about the board’s responsibility to “authorize” or “approve” the merger. They discussed how the opportunity was brought to the board, sometimes through the executive committee or board chair, but most often fairly early in the process to seek approval to move forward. One executive stated, “Both managers took it to their boards to see if we wanted to take it further.” Typically, the managers did some preliminary research to ascertain whether the merger was a viable option. For example, a board member of an acquiring institution stated about the executive that “he [the continuing CEO] looked into their [the merging credit union’s] financial condition. He discussed and shared with the board the information he had and made a recommendation.”

Another acquiring CEO stated, “I did some background work . . . before taking it to the board. What I did was very minimal, because I didn’t want to go through a lot if the board was not interested.”

Beyond this basic oversight role, the survey data align with many of the qualitative responses suggesting that in about 75% of cases, the board is influential in decision making (see Figure 4). Acquiring institutions were more likely to see the board as insignificant (about 30% reported limited involvement of the board), while merging entities were less likely to discount board involvement (about 20% reported the board as being only minimally involved). The next two sections provide a thorough discussion of the level of board involvement in acquiring and merging credit unions and how the boards engaged in decision making.

Figure 4: Board Influence in Decision Making

	Not influential	2	3	4	Very influential
How influential were board members in making the merger decision?	4.2% (6)	7.7% (11)	11.2% (16)	25.9% (37)	51.0% (73)

n=143. Numbers in parentheses are the actual number of responses per category.

Board Involvement in Acquiring Credit Unions

It is apparent that the conversations and engagement of merging entities are different from those of acquiring entities. For instance, it was more common for the executive of an acquiring institution to minimize the involvement of the board. As an example, one executive stated, “My board was not really concerned about things.” Or as stated by another respondent about the board’s involvement, “So far it has just been to approve the merger—beyond that they don’t get involved.” A third of the acquiring credit union respondents said the CEO ran the process. For instance, when asked about influence in the decision-making process, an executive stated:

I presented it to them [the board] at a meeting in July and told them I had no problem with it [the acquisition], and if they had any questions they could also talk to the accountant. They went along with it. I took care of everything from there.

This sentiment was corroborated by the board member of the same credit union, who stated, “Our manager knew the people. It was more of his deal. He had worked with them on and off over the years.”

This same sentiment is revealed in comments about how the board should trust the executive. Many executives of acquiring institutions made comments like this one:

My board gives me a lot of room. They trust me, and when these opportunities [acquisitions] come up, they allow me to investigate. They expect me, as part of my job, to listen for those opportunities and create those relationships. They want me to bring it forward if it’s good for our credit union, but if not, they don’t want to get involved in it.

This sense that the executive is enacting the strategic objectives of the credit union by carrying out an acquisition is fairly reflective of how the Seasoned Acquirer operates. Especially when the acquisition was relatively small in scope in relation to the size of the acquiring institution, it was described as an operational activity that competent staff enacted. Clearly, the Seasoned Acquirer is amazingly adept at smoothly incorporating a new credit union. It has a thorough process that engages all levels of management and staff and creates a relatively smooth transition to a broad array of services for the new members.

Not all acquiring boards were so distant in their involvement. For example, one board member discussed how the board members were involved in setting growth strategy options, and how they “. . . hired a consultant and had the consultant and CEO put together a presentation for the board on the various other credit unions around the area—their size, their financials, the number of members, services rendered, profitability, and so on. We were looking for opportunities.” An executive talked about how the two boards met to discuss the potential merger

and gather information: “My board went over to sit down with . . . the merging credit union’s board and asked whichever questions they wanted.” The first example is reflective of a board that is actively engaged in strategy, while the second reflects the need to gather accurate and complete information. When asked about sources of information, the vast majority of acquiring boards said they relied exclusively on what was provided by the executive. In just five instances did board members form a committee to oversee the process and gather information. Yet, when asked about the board’s role, most recognized that the board should be inquisitive and seek the information necessary for effective decision making—the board needs to ask questions that engage the CEO in explaining and justifying the course of action being taken.

Board Involvement in Merging Credit Unions

In nearly three-quarters of the merging entities, the respondents described an active and engaged board as part of the deliberative process. For many, the merger was a long time coming, often after years of discussion and strategizing to address concerns about the viability of their institution. As some stated, it was necessary to come to terms with the existing operating environment. When we asked about alternatives, many explained that they had tried various mechanisms to grow or retain market share but realized it was just too difficult for their institution. As was discussed earlier, this often came to a head when the longtime CEO announced his or her intention to leave the business. Here is a statement from a CEO about the planning process leading up to the merger:

It was drawn out over a period of time. At every meeting we had, we discussed the long-range outlook for credit unions our size, and how our members, particularly the existing ones, would benefit and what services would become available to them. One thing was the inability of a credit union our size to offer services to younger and new members. They had long-term discussions of the pros and cons of staying the way we were or getting involved so we would have the opportunity to grow in the future.

Two types of active boards emerged in the course of the interviews: those that were proactive and took more control of the merger process as a *strategic* initiative, and those that rose to the occasion and enacted their role as trustees when confronted with the reality of their condition.

Those that took a more strategic perspective didn’t want to wait until the credit union was in critical condition. They felt they could better negotiate from a position of quasi-strength. Many talked about

Figure 5: Level of Board Involvement by Type

Type	Strategic/ Proactive	Responsive/ Reactive	Unengaged	Total
Acquiring	10	9	9	28
Merging	7	4	3	14
Total	17	13	12	42

having solid financial profiles and often healthy capital assets (for their size), but they were concerned that the future was likely to deteriorate their financial health. One executive stated succinctly, “The board was trying to be proactive versus waiting until they were in intensive care.” These boards articulated what they wanted in a merging partner and sought to find a candidate that met those requirements. They often engaged in data gathering through interviews with prospective partners and formally evaluated the potential of the partnership. Here are two different examples of boards engaged in that process:

Then the board, as part of its due diligence process, would go through all the make-or-break issues. Ultimately, in the case of the first four [potential partners], red flags would just go up immediately. Some things we heard very often: “Well, it’s a merger of equals, but we’re a little more equal.” Other things were just different corporate cultures.

We used the selection criteria, which were based on the member services that they offered and where the member branches were located. We narrowed the choice down to two final candidates. We then invited the two candidates to come in and meet with our full board in separate Saturday sessions, one in the morning and one in the afternoon. Then they selected a merger partner and we had a special meeting to approve.

The second type of board was nearly as rigorous in the deliberation and selection process—they were just less strategic in their decision making. Often it was a *reaction* to the potential loss of leadership, and the board rose to the occasion to seek out a viable partner. They took the role of oversight seriously, but typically these boards were not quite as thorough as those described earlier. They would engage in a process to select a potential partner—possibly hiring a consultant or third party to provide some analysis, or participating in interviews with prospective candidates—but it was more of a reaction to the impending loss of leadership and less predetermined.

The remaining merging boards (about 25% of the participants) were not as engaged as one would expect. Respondents seemed unable to articulate how the board engaged, or they openly recognized that the board abdicated responsibility for finding a potential partner to the CEO. There was even a story of a credit union that only had one board member left to oversee the transfer of assets to a viable firm. These types of boards had no interest in serving on the continuing credit union board and often trusted the CEO to locate an appropriate partner. Here is a secondary report from an acquiring executive: “The other CEO, her board had charged her with finding a suitable

partner. She did an exhaustive search and narrowed down the field. She decided the best fit was our credit union.” As another example, a board member said, “Our CEO called me and said she found one that was close to our philosophy. She is very knowledgeable about the credit union business. She has been in the business for over 30 years.” Here is another secondhand report from an acquiring CEO:

Their president had a comfort level with me, knowing how I ran the organization here. They felt we would be a better match than the other credit unions. You’re turning the keys to the doors over to someone you don’t know, so he felt comfortable with me. He didn’t feel as comfortable with the others.

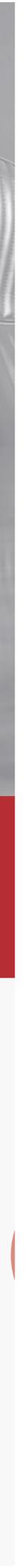
The less than thorough engagement of the board at the critical juncture of the institution’s existence was revealed more subtly through the absence of common decision-making practices. For instance, only half of the merging entities specifically talked about evaluating multiple potential partners as opposed to accepting the recommendation of the CEO. Similarly, about half of the merging respondents recognized that the CEO was the sole source of information for the board. The CEO may or may not have been rigorous in gathering information; for instance, one CEO stated:

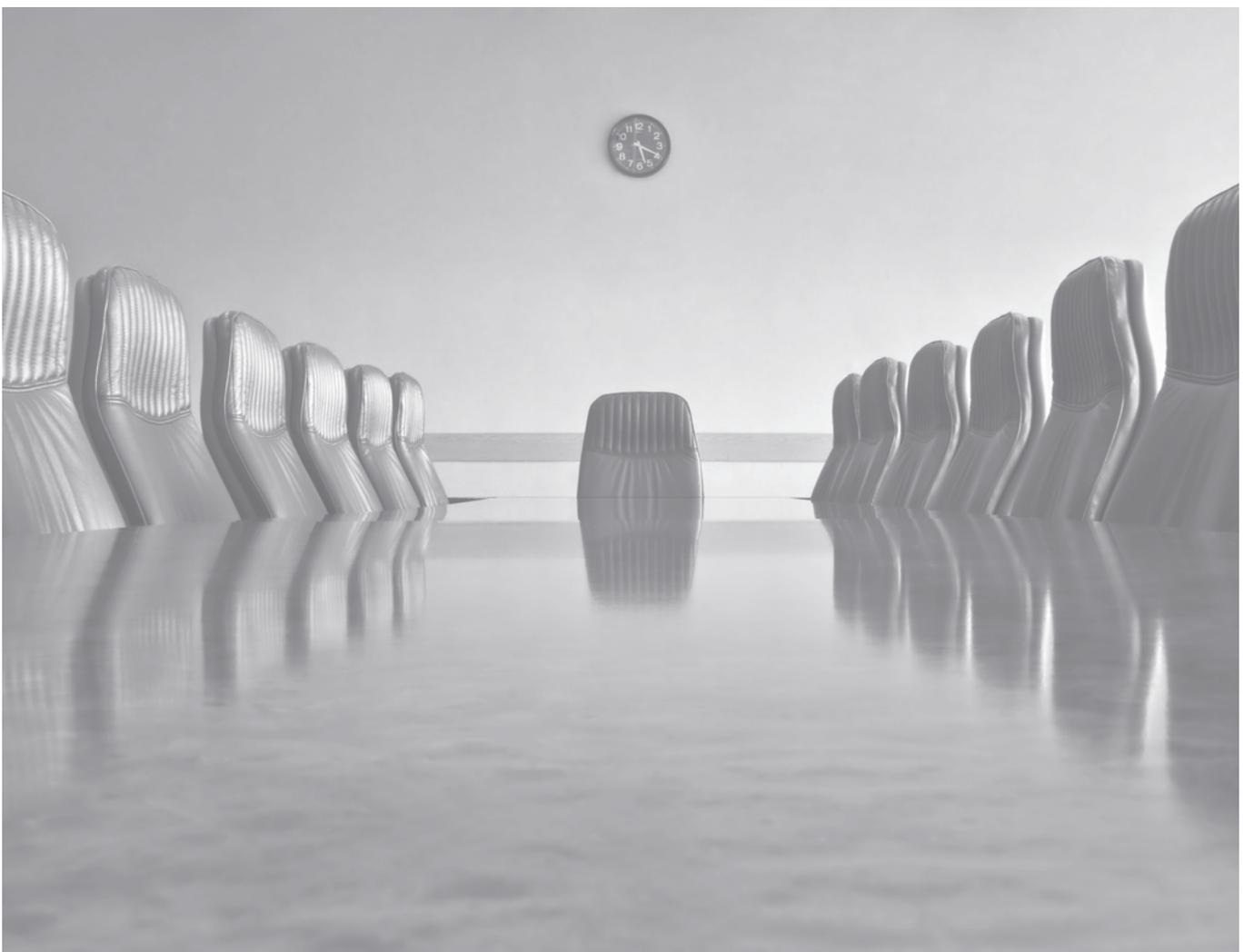
They got it [information] from me, but I did provide them with information from outside sources that I developed. I got information from other credit unions who had done mergers and consultants who shared information. But I provided this information to them [the board].

With regards to influence in decision making, the two individuals most commonly mentioned were the CEO and the board chair. These people were typically described as instrumental in moving the decision making forward and helping keep the board on track. Here is one example:

I was involved in the off-site visits. I put together the selection criteria and brought it to the board for their approval. But it was based on the board. What I tried to do as a manager was not make recommendations as to who we should go to, but let the board decide that based on an equal side-by-side evaluation of the candidates we were interviewing.

Here is a statement about the board chair as influential in decision making: “The board chairman was also influential. Of all my longer-term board members, he also felt that in the long run, credit unions of our size would have a rough road.”





CHAPTER 3

Major Issues to Consider

Member interests, financial viability, staffing, board seats, infrastructure concerns, and determining the right fit are six issues that most commonly need to be negotiated or clarified before a merger proposal is accepted. Levels of attention and thoroughness differ depending on the board's level of engagement.



Member Interests

Member interests, the most frequently cited concern, was difficult to define. Some respondents articulated few specifics but adamantly declared they “wouldn’t do it if it wasn’t in the members’ best interest.” In just 11 instances out of 42 did respondents actively seek input or discuss how they had ascertained the interests of members. Some attempts were more successful than others; for instance, a few respondents talked about surveying members or holding a meeting to gather concerns or preferences. One executive stated, “We did a [member] survey back in February. The biggest complaint was that we’re not convenient—we don’t have convenient hours of operation.”

When asked to provide an explanation of how the board understood or defined member interests, respondents were most likely to cite an expanded range of services as the most important consideration for their members. They also mentioned convenience of branch locations and a desire to maintain continuity for members (i.e., avoid disruption). Here are some examples of how those concerns were articulated:

It was mainly services. There would be more and different services offered. There were also better rates, so all of that looked positive, but you also have to look at the fee structure. That looked similar, where others have ridiculous fees.

We cannot provide modern bell-and-whistle services. With only 267 accounts, we can’t offer anything electronic. In this modern day, people insist on having the entire gamut, but there is no way we can offer it.

Both credit unions were over 60 years old, and they each had a need to make sure their members continued to receive quality and affordable services in a manner they were accustomed to.

That was one of the primary issues in looking at a merger partner, that members got convenience in location as well as hours of operation and the products that were offered.

Financial Viability

A similarly pervasive concern, but with quite a bit more specificity, was the desire to ensure that the continuing institution was financially sound. Both acquiring and merging entities recognized that the financial condition of the potential merging partner was a major issue. Acquiring institutions did not want to dilute their financial condition by incorporating an unhealthy credit union. Often the financial condition of the merging credit union was determined by management and then presented to the board. They talked about gathering information from NCUA websites and more formalized auditing of the potential partner through the due diligence process. This was often stated as a desire to cause no detriment to current membership. The following statements were made by acquiring CEOs:

They [the board] gave general guidelines to the CEOs to make sure they didn't do anything that would harm members' interest.

We discussed what it would mean to our credit union to gain 800 new members who were not used to the services we could provide. There was nothing negative, no reason not to [merge].

Several acquiring CEOs talked about the incoming membership in reference to potential loan default rates as well as the upside of potential market growth. The upside of potential market growth was a bit more difficult for some to anticipate. For instance, one executive had to warn the board that they might see some downturn in profits for a year or so as result of the costs associated with the merger. They actually saw their profits grow because of hidden benefits. Many respondents talked about the conflux of these two factors (costs vs. potential benefits) as creating a win-win situation and becoming one of the major factors that drove the decision to move forward.

For merging entities, the financial concerns were similar and were often conceptualized as a necessary threshold of decision making. A concern specifically mentioned by about 8 institutions (out of 14) was the desire to return some of the capital to members through a dividend. This disbursement was a fundamental negotiating issue to the potential merging partner. As stated by one executive, "Number one is our accumulated capital. Our people want to see it used for the benefit of our people, and not to be put into the pocket of the credit union taking us over."

Staffing

In just about every case, the welfare of the staff was a concern. The board wanted to be sure that the staff were retained and if possible were even better off in the new institution. This included working conditions, growth potential, benefits, and salary. These merging CEOs stated it well:

The second issue, besides membership, was protecting staff. Which staff will be kept? The credit union that would close this branch is large enough to have places to put our staff. The credit union that wants to retain this branch would also want to retain the staff, the member service staff here, because they want the members to see the same friendly faces. The merging partner we've chosen has a better benefit package for the employees. In both cases, employees' seniority would carry over in terms of accumulation of sick leave, accruals of vacation, and investing in retirement.

The uppermost thing on the board's mind was that they would take me and another staff member on as employees and give us the same or better benefits than those we currently had.

This concern for the staff is potentially reflective of a credit union industry that prides itself on being people- and service-oriented. A few executives talked about gaining expertise in management practices or synergies of service offerings (i.e., “they offer mortgages we don’t”), but most simply wanted to “take care of the staff.” They wanted the staff to have a job and the continued security of comparable employment.

Board Seats

The other major issue that needed to be negotiated during the merger process was the role of the merging board members. This issue was discussed without prompting by nearly every interviewee. Would there be a place on the new board for those from the merging entity who wanted to serve? The general consensus was that there should be some way to incorporate one or two board members into the continuing credit union's board. One respondent said, “I think it's a selfish thing [to not give the merging credit union seats on the new board].” The most common solution was to open up one or two seats on the continuing board. Sometimes they were designated as temporary or nonvoting advisory seats, but most often the continuing credit union figured out a way to add a seat or two. As one acquiring CEO recalled:

We discussed expanding the board from five to seven members. A lot of their board members did not want to continue if they merged. By expanding our board by an additional two members, they were happy with that.

There were at least six instances in which a continuing board offered seats and they were not taken by merging board members. Other solutions included adding members to a committee (e.g., supervisory) or offering nonvoting advisory positions. In about six instances, acquiring institutions indicated they did not offer any role for the merging board.

In some cases board seats were considered non-negotiable by the merging or acquiring credit union. In the Near Equals case study, the acquiring credit union did not allocate voting seats for the merging board, but instead allocated two nonvoting positions for a one-year term. The merging entity wanted seats but realized the acquiring board was adamant about limiting their role on the continuing board, so they relented on this point because they saw several other upsides to the merger.

Infrastructure Concerns

Infrastructure concerns such as branch locations, rental agreements, and IT contracts or systems were mentioned by quite a few participants as highly instrumental in their decision making. Retaining branch locations for merging entities or acquiring branches for acquiring institutions were mentioned in about half the merger scenarios discussed. For many of the merging entities, it was very important to keep their branch open or to have an equally convenient location for their members. IT contracts were depicted as another factor in considering a merger. Some respondents said they brought up the possibility of a merger because the IT contract was up for renewal and they thought it might be a good time to consider other options. In another scenario, a few executives discussed how the potential partner shared a similar IT system and how that would facilitate the merger.

Finding the Right Fit

A softer but no less central issue related to locating a partner that combined all the important features *and more* to create a “great fit.” Several of our participants talked about how the merger was an ideal fit for both

Similarly, we heard that respondents were looking for partners that shared similar cultures and values. Some talked about wanting to stay relatively small, others talked about a social mission, and several were looking for membership synergies that would help create a common culture that retained the essence of the merging entity.

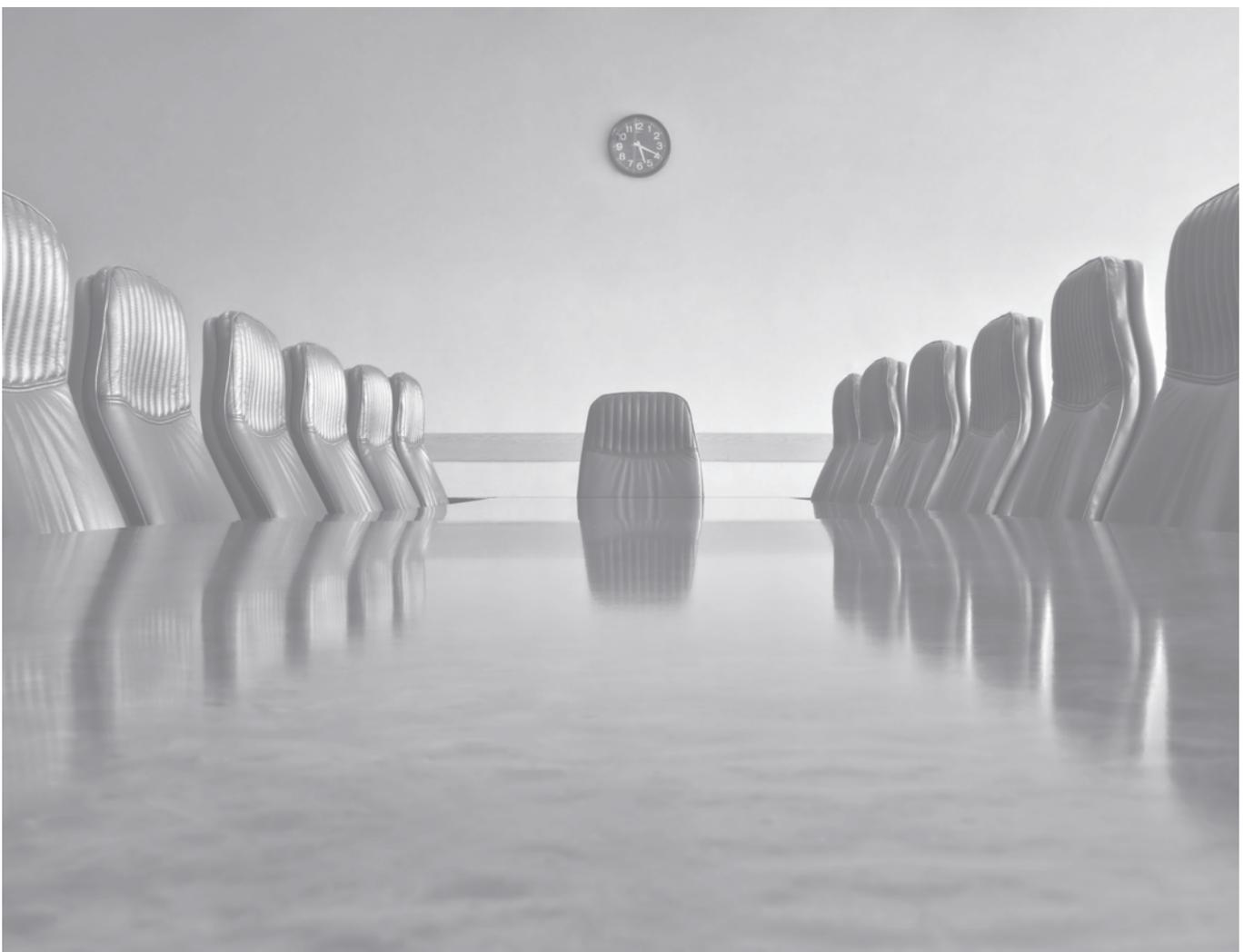
institutions. In our Near Equals case study we heard this again and again from nearly all the participants. In this case the two memberships had characteristics that were similar and yet complimentary. For instance, the merging credit union had a membership of savers who underutilized the loan offerings available. The acquiring credit union was oversubscribed in loan opportunities and was looking to make moves to rectify the situation. It was also more than that—their membership shared a similar industry, and the combined locations could not have been better planned. Similarly, we heard that respondents were looking for partners

that shared similar cultures and values. Some talked about wanting to stay relatively small, others talked about a social mission, and several were looking for membership synergies that would help create a common culture that retained the essence of the merging entity. Here are some statements that capture this concept of fit:

We tried to match up to another credit union who had similar values.

. . . Being put into another credit union whose philosophy was the same as ours—that was a big issue.

We discussed how our credit union would bring the proper attitude that would fit with their membership.



CHAPTER 4

Conclusion

Three patterns of board involvement were identified. Some boards strategically considered mergers. Others considered themselves open to mergers. The third type of board fell short in their fundamental role.



Three patterns of board involvement were revealed in this study. First, there were credit unions that had strategically considered the instrumental role of mergers in their continued growth and viability. These institutions were *proactive* in locating opportunities for the health and viability of their credit union and ensuring the best interests of credit union members. The Seasoned Acquirer is representative of acquiring credit unions that have a plan to grow through acquisitions. They have a system to incorporate new institutions into their organization and are adept at closing the deal. This strategy allows for an expanded membership base that engages in a full array of financial services. The merging partner in the Near Equals case study is representative of a strategically oriented merging credit union that systematically considers the growth and viability constraints of their institution. They perceived the constraints of their current membership base and ascertained that it was necessary to merge their institution into the most appropriate partner. Being proactive meant they had significant control in setting the merging criteria and managing the process. As best they could, they retained control and systematically negotiated on issues that they believed were in the best interests of their members.

The second set of credit unions might describe themselves as “open to mergers,” but it was apparent that they had not strategically considered the role of mergers in the future of their institution. However, when the opportunity or threat was presented, the board actively engaged in thorough decision making to carry out their role as trustee. They *reacted* to the opportunity appropriately. The acquiring institution in the Near Equals case study reflects this idea. Prior to being presented with the opportunity to merge, they were against merging, but the opportunity was just too appealing to not investigate fully. They did investigate expeditiously, but not without reservations—as one board member stated, “We couldn’t learn everything before the merger took place.” In the end, when asked about

the role of mergers in their institution, both the executive and the board members said mergers could have a more formal place in their growth strategy.

The third and final set of credit union boards fell short of both fundamental roles—strategy actor and sound trustee. They delegated their role to the CEO and trusted the longtime executive, either their own or the acquiring CEO, to steward the merger according to the best interests of the members. The credit union often found a local, similar credit union as a merger partner and simply transferred the assets. The board washed their hands of their full responsibilities.

Such a scenario raises quite a few concerns for the industry. The process of merging leaves open the potential for abuse in several ways. The most obvious involves the capital of the merging credit union. At least two entities vie for some of that money. Oftentimes a CEO is retiring and expects a retirement package. The board needs to negotiate such contracts rigorously, and there is relatively little systematic guidance available in the industry to help determine whether the package is equitable. The second claimant is the membership itself. Longtime members have contributed to the development of those proceeds and have a legitimate claim on some of those funds. Determining how that wealth is administered is clearly the responsibility of the board. The industry is populated by trustworthy professionals who monitor each other, and the NCUA also monitors these processes to ensure ethical behavior, but in at least one scenario related during these interviews, the acquiring credit union executive was concerned about the nature of the CEO/board relationship—he believed the CEO was exclusively steering the decision making without effective board oversight.

Recommendations

These three patterns of board engagement in credit union mergers yield several suggestions for the credit union industry—both for institutions that might consider acquiring another credit union and those who might consider how and when they need to merge their institution with another.

- Incorporate the potential of a merger or acquisition into your strategic plan:
 - Realistically evaluate the potential of your membership base.
 - Discuss how the prospect of a merger or acquisition fits into your growth objectives.
 - Identify some of the most pressing issues that would “make or break” the opportunity (i.e., services, staffing, locations).
 - Discuss these issues without the pressure of an impending decision.

- Objectively define the “best interests” of your membership:
 - Ascertain member interests through a variety of different strategies including member surveys and annual meetings.
 - Ensure you can quickly and uniformly determine when a decision is in the best interests of your members.
- Develop a succession plan for executives and board members:
 - Decide what happens when your CEO retires.
 - Determine how new ideas and insights will be brought to the board.
 - Avoid letting the board and the CEO grow old together.
- For those who are planning to merge:
 - Seek and evaluate multiple potential partners. More than once we heard how a credit union that was not initially considered later became the best choice.
 - Critically evaluate the major issues discussed in this report: financial health, member interests, staffing considerations, and the role of the merging board.
 - Allow the board to understand and define not only objective issues related to the bottom line, but softer issues of organizational culture and synergies between the membership that make a potential merger a great fit for both institutions.

Initial Survey

1. During the last **24 months**, has your credit union considered or participated in a merger or acquisition?
 - Yes (Continue with Question 2.)*
 - No (Thank you. You may skip the remaining questions.)*
2. Which of the following best describes your credit union's current field of membership?
 - Community credit union*
 - Single sponsor with substantial addition from SEGs*
 - Predominantly single sponsor*
 - Other (specify): _____*
3. Who initiated the proposal?
 - Your credit union*
 - Another credit union*
 - State/Federal regulator*
 - Other (explain): _____*
4. What was under consideration?
 - Your credit union being acquired by another credit union*
 - Your credit union acquiring another credit union*
 - A joint partnership of roughly equal-sized institutions*
 - Other*
5. Which of the following conditions, if any, precipitated the opportunity for a merger? (Select all that apply.)
 - CEO retiring or leaving*
 - Changes/realignment with SEG*
 - Concerns about financial health of the credit union*
 - Perceived inability to service members*
 - Regulatory issues or concerns*
 - Other (explain): _____*
6. What was the result of the merger proposal?
 - Still ongoing*
 - The proposal was accepted*
 - The proposal was rejected*
 - Other*

7. How influential were board members in making the merger decision?

Not influential

Very influential

1

2

3

4

5

8. Would you be willing to have a 30- to 40-minute telephone conversation about the merger proposal?

No

Yes (Please provide the information below.)

Your name:

Credit union:

Phone:

E-mail:

Structured Telephone Interview Script

We are working with the Filene Research Institute as part of a multi-phase project to better understand mergers and acquisitions in the credit union industry. This study intends to explore the board's role in credit union mergers. For instance, what were board members concerned about, what did they discuss, and how did they come to a decision?

1. Briefly, can you tell me how the merger opportunity developed?

[Ask #2 only if not clearly discussed in #1.]

2. *[Asked only of CEO]* What were some of the first things you did after learning about the merger opportunity?

OR

[Asked only of board member] What did the CEO do before presenting the opportunity to the board?

3. How was the opportunity presented to the board?
4. Overall, please talk about how the board engaged in decision making about the merger opportunity.

PRIMARY PROMPTS

5. How did the board get the information they needed?
6. What were some of the major issues or topics that needed to be negotiated and discussed?
7. How were the interests of members discussed?

SECONDARY PROMPTS

8. Were other alternatives to a merger considered?
 - a. How were those options explored (i.e., subcommittee)?
9. Did the board hold to historical precedence, such as core sponsors or select employee groups, as a rationale for inhibiting the merger?
10. Did certain individuals exhibit significant influence over the decision?

11. Was it a unanimous decision?
12. *[Asked only of continuing credit union]* Can you briefly discuss your credit union's strategy or philosophy toward mergers and acquisitions?
13. What do you believe the role of the board was in this process?
14. *[Asked only of CEO]* Is there a board member we can talk to about this merger opportunity?

Case Study: The Seasoned Acquirer

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Executive Summary

The investigation of our study focused on data collection from one acquiring credit union and three merging credit unions. The phone interviews and additional data provided by current and former employees, board members, and management provided the in-depth analysis of the merging process. Most importantly, the questions were guided; thus, they allowed us to focus on the board process throughout the merger.

This case report presents major themes determined by our case study group. Themes were selected based on the number of responses received and the pertinence of the content to the overarching theme of the board's role in a credit union merger. Themes with less relevant content are highlighted because of the background information and knowledge provided, which vicariously contributes to a comprehensive understanding of the board's involvement and engagement in the merger.

These themes provide the basis for the following conclusions:

- Merging credit unions pursue a strategy based on relationships and knowledge acquired throughout the credit union network. Acquiring credit unions also relied on building relationships over a long period of time.
- Influential in a credit union's decision to merge are the issues of struggling financial condition, lack of membership growth, and stagnant/negative income.
- The level of board involvement in the merger process is dependent on the board/executive relationship. Typically the executive demonstrates a high level of influence on the board's decision-making process, but occasionally a board assumes a more active role.
- The main concerns expressed by the board during the merger process were membership services and welfare, staff employment, and board positions. Responses from management and board members alike centered on the importance of members and their ability to provide for the members. Staff employment and board positions were mentioned, but less frequently.
- A merging credit union's decision to merge was dependent on organizational fit and culture, benefits and services, and board support for the merger.

Introduction

The purpose of this project is to determine how credit union boards consider the pros and cons of potential mergers and how they utilize the decision-making process when considering whether or not to merge. In order to analyze board decision making during a credit union merger, our three team members conducted 11 phone interviews with the acquiring credit union's management, board members, and front-line staff during the period of October 31 to December 6, 2006. Interviews lasted between 25 minutes and an hour; all were conducted on the phone and tape-recorded while one team member transcribed simultaneously.

The financial institution examined in this case study is a credit union that constantly acquires and merges smaller credit unions into its organization. To maintain confidentiality, we refer to this institution as the "acquiring credit union." The three other credit unions that merged with the acquiring credit union are referred to as merging credit unions.

Methodology

The research and data collection for this project were structured to demonstrate the board decision-making process and the engagement of the board during the merging process. This report serves as a final case report after compiling and synthesizing the interview transcripts.

The data collection proceeded as follows:

1. Initial contact with interview host.
2. Leads from host (board members, management, staff).
3. Interviews with leads provided by executive VP/CEO.

In late October 2006, our team called the acquiring credit union's CEO to conduct a preliminary interview, using the interview script provided in Appendix 2. After that initial conversation, the host provided us with contacts from the acquiring credit union's staff so that we could get their special insight into the merging process. These interviewees included midlevel staff, executives, board members, former executives from the merging credit unions, and former board members from the merging credit unions.

Upon the conclusion of each interview, the research team discussed the interview and reviewed the transcript, which was then proofread and sent to all team members for review.

Findings

History of the Acquiring Credit Union

When this acquiring credit union chooses to merge, it is the dominant partner in the relationship. The acquiring credit union was

established more than 68 years ago. It currently has more than 30 branch locations, approximately 90,000 members, and more than 200 employees. Their branch locations are mainly concentrated in the east, but they have locations across the country. The acquiring credit union was involved in 38 mergers from 1986 to 2005 and now has well over \$600M dollars in assets. In the past five years alone, the acquiring credit union has doubled in size. This credit union is very proactive when it comes to merging with other credit unions; however, they walked away from a couple of these potential mergers in the past.

Acquiring Credit Union's Strategy for Mergers and Acquisitions

Identifying strategies for mergers and acquisitions can be difficult; however, this experienced credit union has a plan. They know the importance of growth and have proven themselves to be engaged, energetic, successful, and capable in the world of mergers and acquisitions. According to their CEO, change is woven into their institution. Many distinguishing characteristics and modes of operation are used to describe their strategy in this report. Their strategy includes three distinct features: building relationships, organizational culture, and organized procedures.

The acquiring credit union focuses on *building relationships* within the industry. Using the camaraderie that exists within the credit union industry, this organization develops various relationships over long periods of time. They have experienced mergers that have taken

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up to five years to occur. In many of their mergers, their executives have already met casually with the potential merger credit union's executives. These meetings can be over lunch or through various other channels. Although some mergers have developed because of these relationships, the acquiring credit union's executives are plugged into the industry and try to cultivate relationships with credit unions that could be potential candidates for mergers. One board member stated that there is "constant networking occurring among credit unions." Before meeting with the board, the CEO of the acquiring credit union has already had a "meeting of the minds" with the other credit union's CEO to work on a strategic plan.

The acquiring credit union has an *organizational culture* termed by their CEO as "people-oriented." Most of their strategies and interactions with the merging credit unions exemplify this philosophy. One executive stated that "our organization is pretty welcoming; as an

employee I think people feel welcomed in our credit union.” Many of their executives stated that they knew their size and services would be beneficial to many of the smaller and struggling credit unions. They can provide benefits to both members and staff. For the new members, the acquiring credit union offers a call center where they can ask questions and learn about their services. From the beginning, the acquiring credit union is involved with various member mailings and making sure the credit union holds their members’ meetings in a timely and organized fashion.

Furthermore, the acquiring credit union has a policy that all staff from the merged institution can keep their jobs if they so desire, although they may have to change positions or locations. When talking about the merger process, the CFO stated that the acquiring credit union has “very formalized goals, and new employees become well-versed in the new mission and organizational goals.” The acquiring credit union also performs what they term “cross-pollination” among new and established staff. They transplant staff members from the acquiring credit union to the merging credit union and vice versa for a certain amount of time so they can learn about the other credit union’s atmosphere. Several respondents alluded to the fact that merging with a credit union like this one provides staff with job security and the potential for increases in salaries and positions.



The acquiring credit union has an *organizational culture* termed by their CEO as “people-oriented.” Most of their strategies and interactions with the merging credit unions exemplify this philosophy.

One of the unique features of the acquiring credit union is its *organized procedures* for carrying out a merger, developed over years of experience. A team of seven to eight executives, the “merge team,” oversees the merger process. These team members value the relationship with the merging organization’s staff and membership, yet they know their responsibility and loyalty lies with their executives and board members. The acquiring credit union executives recognize that they are competing with other credit unions their size and larger for the potential merger choice. Therefore, they have their marketing department develop presentations for the merging organization’s board. The presentation “is like a big TV commercial” that includes comparisons of products and services between the two credit unions, annual report or financials, mission and vision, growth opportunities, and employee benefits. In the words of one executive, “The presentation answers questions like why the acquiring credit union wants to merge, and why the acquiring credit union does it the way they do.” The acquiring credit union wants to be the top choice for potential merging candidates. After the merger takes place, the mar-

keting department calls all the new members to welcome them and let them know about all of their services. They call this their “new member nurturing center.”

Merging Credit Unions’ Strategy

Respondents associated with the merging credit unions did not necessarily cite a specific merging strategy; instead, they consistently mentioned the benefits a merger could provide to members. The executives of merged credit unions noted the importance of services to members that could be gained by a merger. These services include more technologically advanced banking methods, more locations, better interest rates, and overall convenience. Board members responded that the list of increased services provided was a top priority for them; they were most impressed by the comparison of current services and potentially increased services.

Influences in the Emergence of the Opportunity to Merge

Merging credit unions described their struggling financial condition as the foremost cause for merging. One credit union was experiencing difficulties, reflected in a lack of membership growth and a stagnant/negative income level. These problems were presented to the board, which caused both the board and the executive to question the viability of the credit union’s future. One board member admitted that to provide more loans, they were forced to lower standards and offer loans to questionable clients. The issue of opportunities for staff was also brought forth by one former employee. The potential for career advancement and greater opportunities existed at a larger, nationally acquiring credit union, whereas at the merging credit union, there was no real potential for advancement.

Another merging credit union also noticed a trend of stagnant/negative income and lack of membership growth. It attempted but failed at efforts to bring the community into its membership. Its former CEO stated that they had received negative results on the NCUA exam, so regulators wanted them to seek potential acquirers. Later, when it became clear that their expenses were too great for the board and executive to rectify the problem, they knew it was time to consider a merger.

Yet another merging credit union was limited to a state charter, according to their former CEO. They pointed to lack of membership growth, given that their clientele was spread across the country. They needed online and automated phone services in order to serve their members. Since fewer members were entering than could cover the increasing costs of services, the CEO and board concluded that they had a dying credit union. Because of the small staff size, the CEO

was essentially a “babysitter,” handling issues from broken plumbing in the restroom to the financials. In this credit union, the executive had to be aware of and involved in all operations of the organization.

Board Engagement

In this case, the acquiring credit union’s board was not very involved in the merger process. According to the CEO, the board “understands its fiduciary responsibilities, but most of the prep work for merging is handled by the management team.” However, once the management team informs the board about the potential merger candidate, the board does give preliminary approval to management to pursue the merger.

For the merging credit union, the board’s engagement was dependent on the board/executive relationship prior to the merger discussion. For the most part, the executive briefed the board and researched issues that arose from the board’s deliberations. One board of a merging credit union wanted to “shepherd the staff and members through the merger” and be involved with the process. The board, according to one former member, wanted to meet the potential merge partners.

The board at another merging credit union was independent and even engaged legal counsel as the merger discussion with the acquiring credit union began. The board was wary of the regulators and feared a “forced” merger, especially if their financial situation worsened. Thus, they relied on the executive and her information regarding merge potentials. In this case, they were fully aware of the acquiring credit union even before they were presented information by the acquiring credit union itself.

For the merging credit union, the board’s engagement was dependent on the board/executive relationship prior to the merger discussion.

Influence

The executive demonstrated a high level of influence and the board used their information to determine whether they liked a merger partner. Board members of one merging credit union responded that they relied heavily on the research and contacts of the executive. A board member of another merging credit union recalled that it was the executive who first encouraged the board to consider mergers.

On the board of one merging credit union, specific committees (e.g., the Investment Committee) met frequently and updated the board as a whole on their conclusions. The counsel of individuals from

these committees was given more credence. At board meetings a few members were more outspoken and verbose than the others, but as a whole the board was actively engaged in the discussions.

Presentation of Information

Again, the executive was the main source of information for the board. The executive of a merging credit union presented the issue of merging. The board reviewed financials at each monthly meeting, and the issue of merging was usually presented and discussed. It became evident, as a former board member said, that “standards were lowering for loan clientele and the overall financial health was suffering.” The executive was the leader in broaching the subject of merging, but the board guided the discussion in terms of a good strategy. For the executive, this meant being in charge of bringing in the top potential merge candidates for review.

At another merging credit union, again the executive presented the financial dilemma of the credit union to the board. The executive explained the increasing difficulty of managing operations given their financial condition and the members’ needs. This discussion prompted the board to suggest that the executive look for merge candidates and conduct research on the opportunities. The executive was responsible for research and providing information on merger potentials.

Main Concerns about the Merger

There were several topics that needed to be discussed before the merging credit unions would agree to the merger. However, three main themes emerged from the interview responses. The majority of concerns centered on membership services and well-being, followed by staff employment and board positions.

CEOs and board members overwhelmingly stated that membership services and welfare was the top priority when it came to merging. Membership services include benefits, additional services, and branch locations that the acquiring credit union can offer. Serving the membership was mentioned as a concern in all 11 interviews. One executive stated that “we wanted someone who could offer our members a lot of services and a lot of benefits.” These merging credit unions wanted assurance that the merger would be advantageous for their members. Yet, one board member had concerns that the merger might not be in the members’ best interests. He stated that the board had “great reservations about getting too big, losing member contact,

and the small feeling in the branches. We were worried it would become impersonal.” In the end, the merging credit union was satisfied. The acquiring credit union offered more services than the merging credit union had; furthermore, the acquiring credit union offered all staff from the merging credit union some type of position within the organization. The CEO of the acquiring credit union simply stated that “the biggest difference, the biggest reason a credit union merges is because it cannot provide products and services for members. We can offer better rates, better products, and better services.”

Eight CEOs and board members representing all three merging credit unions mentioned staff employment as having been vital to the merger decision. One executive wanted to be assured that the staff of both the merging and acquiring credit unions would be treated fairly. Another interesting comment from another merging credit union

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was that they recognized the acquiring credit union could offer their staff more job security and promotions than they themselves could. CEOs, board members, and in this case the acquiring credit union were all concerned about staff placement.

Although it was mentioned less than membership and staff concerns, a few interviewees did express concerns about board positions. These credit unions wanted assurance that their boards would be able to oversee the merger process. Moreover, some expressed the desire for their board members’ involvement with the acquiring credit union’s board. Overall, these credit unions were trying to ensure “what’s best for staff, members, and board” at present and in the future.

Resolution of Issues

The issues of membership services and well-being, staff employment, and board positions were resolved in the initial stages of the merger process. In almost every service area, the acquiring credit union provided membership services beyond what the merging credit union could offer. Furthermore, the acquiring credit union has a policy that all employees from a merging credit union have a job after the merger. The acquiring credit union prepared their future employees through staff meetings and training sessions. Keeping the majority of the staff enabled the merging credit union to continue existing relationships with members with little interruption. However, there are some conditions to the acquiring credit union’s policy. In some cases, staff might have to change positions, move to a new branch location, or work at headquarters.

When it came to the merging credit union board seats, the acquiring credit union also had a plan. The acquiring credit union allowed at least one board member from each merging credit union to sit on their board as director emeritus for one year. This was a nonvoting seat, but in some cases, a director emeritus later attained an official position on the acquiring credit union's board.

Merging Credit Union Decides to Merge

After the issues of member welfare, staff, and board seats were resolved, the merging credit unions had several other issues to consider before making the decision to merge. These considerations encompassed the overall impacts merging would have on the credit union. In this case, the three merging credit unions had to take into account size and organizational fit and culture. A final point of interest for this section was the unanimity of the three separate boards' decision to merge.

The respondents of the three merging credit unions considered organizational fit and culture to be an important aspect of the merger. One executive from a merging credit union stated that the acquiring institution was simply "an extension of our goals." The desire to do what was in the members' best interests was a common theme among all the credit unions, uniting their cultures in some form or fashion. Organizational fit, which included culture, business practices, and size, was important as well. A former board member from a merging credit union stated that "the board wanted to be sure that they were matching up with a like-minded credit union that was the most similar to us in corporate philosophy." In some cases, there was not a good fit between two credit unions. The acquiring credit union's CEO stated, "You need to be realistic. We have passed up two mergers because it wasn't a good fit for those members. We felt we wouldn't be the best one to acquire them." Both merging and acquiring institutions look at fit and culture when making the decision to unite.

Although it was known that the acquiring credit union's culture and philosophy would be dominant in the merging organizations, it still introduced and implemented its culture slowly. Their goals were "very formalized, and new members became well-versed in the new mission and organizational goals." According to the acquiring credit union, some employees on both sides of the merger were traded between the two institutions, to "give them a feel for our system and software, learn the job, and give them a general sense of our side. This way, they get a feel for our culture and people." By doing this, the acquiring credit union made members and staff feel welcome. Furthermore, one former CEO of a merging credit union who is now an acquiring branch manager stated that among the merging

institutions and branches, “there is a similar feeling that the spirit of their original credit union is still alive and they will fight for their members. It is not a big bureaucracy like you would think.” Ultimately, almost all respondents believed that the merger was a good idea when it came to organizational fit and culture. These merging institutions were able to keep most of their staff and members, which allowed them to maintain some of their unique cultures.

Size also played a role in determining whether a merger was ultimately a good idea. Merging credit unions saw size as an advantage, allowing them to gain more members, maintain financial viability, increase member services, and provide job security for their staff. One executive from a merging credit union said they were impressed by the size of the acquiring credit union. Because they had been struggling to grow, it was encouraging for them to see that the acquiring credit union was stable and bigger. On the other hand, a former board member from a merging credit union stated that he “still leans toward the smaller-sized credit unions, but in today’s culture it’s not about mom-and-pop shops—the little guys become obsolete.” Although a few executives and board members saw the merger with the larger acquiring credit union as a potential threat to losing membership contact and organizational culture, the majority of the respondents did not see it that way. In the end, it seems that because they were able to keep the majority of their staff and bank locations, the merging credit unions believed merging was a good decision for them.



Size also played a role in determining whether a merger was ultimately a good idea. Merging credit unions saw size as an advantage, allowing them to gain more members, maintain financial viability, increase member services, and provide job security for their

Overall, the boards supported the mergers. Respondents from each of the three merging credit unions stated that the decision to merge was unanimous. Only one merging credit union reported some disagreement among the board members as to whether they should merge. Nevertheless, when it came time to vote, all of the board members reportedly approved the merger.

Merger Process for the Acquiring Credit Union

After identifying a merger opportunity and contacting the potential merging partner, the acquiring credit union takes the following steps:

1. The management team researches, compiles, and scrutinizes data about the credit union wishing to merge.
2. The executive presents this information to the board to get initial approval to engage in the merger.
3. The CEOs of the two organizations meet to develop a strategic plan.

4. The acquiring credit union forms its Merge Team, which will oversee the merger process.
5. The acquiring credit union's marketing department puts together a presentation, which the senior vice president of branch operations then presents to the merging credit union.
6. The merging credit union's board must approve the merger. If they approve, then the acquiring credit union's board must approve as well.
7. The initial due diligence process begins.

What Does the Due Diligence Process Entail?

The due diligence process involves validating the financials of the credit union wishing to merge. The acquiring credit union performs this function, since smaller credit unions do not usually have the necessary resources, experience, or time. The acquiring credit union does this in stages so as not to overwhelm the merging credit union. In most cases, the acquiring credit union's controller, vice president of lending, and director of IT visit the credit union to discuss the data, technology, investments, bank reconciliation, any pending lawsuits, and audit information from the NCUA with the merging credit union's CEO and second in command. They might also talk with the staff.

Usually, the due diligence process takes only a couple of days. According to one of the merging credit unions, "The due diligence process was not too intense. . . . They had already gotten all of our financials from the NCUA." Before the acquiring credit union reviewers arrive, they send a list of the kinds of information they will need access to so that the merging institution will be prepared for the process. In many cases, the acquiring credit union sends two of their people to go through all of the merging credit union's loans. They assess their loan portfolios, qualities of loans, and loan losses.

The Board's Role

After the due diligence process is complete, it is up to the board of the acquiring credit union to review the financials. The board considers the capital asset size, loan files, data processing systems, and membership size of the merging credit union. It is the board's role to ensure that the merger is sound and beneficial to their organization. At this point, the board can still reject the merger if they do not believe it is in the organizations' best interests. Last year the board rejected a merger after the due diligence process revealed loan fraud. However, in most cases, the board does approve the merger.

Final Stages of the Merger Process

After both boards agree to the merger, the members of the merging credit union vote to approve or disapprove the merger. Following member and board approval, the merger packet is sent to NCUA

for final authorization. This consent can take anywhere from two months to a year. The acquiring credit union usually opts to take longer during the regulatory process in order to ease the transition for the staff. Upon NCUA approval, the acquiring credit union implements the merger and transition from the merging institution to their organization.

There were many commonalities among membership involvement and notification methods. All of the credit unions notified their members of the upcoming merger through mail-outs listing dates and times of future meetings. Members were later given the opportunity to attend an informational meeting. Ballots were mailed out to members so that everyone would have an equal opportunity to vote. All three credit unions received the NCUA-required 60% proxy vote. In this case, the acquiring credit union is very involved in the membership mail-out and voting process. Through their merge team, the marketing department makes sure that they report back to the state after the vote. They also offer the merging credit union's membership a call center that allows them to ask questions and get information.

Other Issues

The interviewees were asked whether credit union boards and executives were concerned about taxation. Several board members and executives mentioned that the topic had come up in their board meetings at least once, but it was usually dismissed. One former board member stated that the potential for taxation of the industry “does not carry the same significance because it’s festering all the time.” Should this issue be a cause for concern among industry leaders? With the banking industry lobbying for the taxation of some credit unions, especially larger ones, the answer may be yes. If credit unions were taxed at some point in the future, how would it affect the industry and its members?

Case Study: The Merger of Near Equals

Executive Summary

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Interviews with four members of the executive staff and two members of the board of directors of the acquiring credit union and two former members of the board of directors of the merging credit union were conducted by three investigators from Texas A&M University in October and November of 2006, following the completion of a merger between the two credit unions, whereby the acquiring credit union merged with the merging credit union (also referred to as the merged credit union). Interviews were transcribed and the content was analyzed to reveal the following themes:

- Both boards were open to mergers, but neither had an aggressive merger strategy in the beginning. The merger originated with the merging credit union as a result of their unique financial situation, and respondents considered both boards to be pretty hands-on throughout the decision-making process.
- Both boards had a number of concerns that were considered during the decision to merge. Chief among these concerns were:
 - Possible benefits to members.
 - Financial implications of merging/acquiring.
 - Authoritative control.
 - Staff placement implications.
 - Procedural concerns.
- Respondents from both credit unions were extremely happy with the cultural similarity and fit of the two institutions, and all respondents expressed that they considered the merger between these two institutions a success.

Background

In 2005, the CEO of the merging credit union approached the CEO of the acquiring credit union with a proposal to merge. The merging credit union had assets of approximately \$90M. The acquiring credit union is a military credit union whose membership is fully comprised of federal employees, most of whom are associated with the Department of Defense. The acquiring credit union's asset size at the time was between \$400M and \$500M.

Prior to approaching the acquiring credit union, which had been involved in a few small mergers, the merging credit union, which had also been involved in at least one other merger, had developed a planning strategy that ultimately culminated in the decision to merge with a \$400M–\$500M credit union. The merging credit union came to the decision to propose the merger following a strategic planning session in which the merging credit union executive staff and board members considered solutions to their unique financial situation.

The merging credit union had branches throughout Massachusetts and one branch in Virginia. As a federally sponsored military credit union, the acquiring credit union had established their home office on an Air Force base and received the land for this office free of charge. Security concerns following the 9/11 terrorist attacks made civilian entrance to the base extremely difficult, and the acquiring credit union was in the process of trying to open branches off base. At this point they had been able to organize a couple of branches in the towns that surround the military base.

The CEO of the acquiring credit union presented the merging credit union's proposal to the acquiring credit union's board of directors. Following a series of meetings that resulted in much discussion, requests for more information, and a due diligence report, the acquiring credit union decided to acquire the merging credit union. It was the goal of this research to determine how the two boards of directors engaged in the process of deciding to take part in this particular merger.

Methodology

Consistent with the established project protocol, three investigators collected the data used in this case study through a series of questions presented during interviews with two members of the acquiring credit union's board of directors and four members of the acquiring credit union's executive staff. Additional interviews were conducted with two former members of the merging credit union's board of directors, both of whom currently hold nonvoting positions on the acquiring credit union's board of directors.

Approximately 90% of the data were collected from interviews conducted during a two-day site visit to the acquiring credit union. The remaining 10% of the data were collected through a series of follow-up phone calls and e-mail messages. The investigators interviewed all respondents individually, with the exception of the two former members of the merging credit union's board of directors, who participated in a joint interview. Respondents were asked a series of predetermined questions designed to elicit responses that dealt directly with board processes and decision making prior to the merger. The

interviews were taped with a digital recorder and later transcribed by the investigators.

The interview transcripts were later synthesized according to question and response and categorized within predetermined themes. Analysis of the synthesis led to the identification of key terms spoken repeatedly by a number of different respondents and categorization of the answers according to these key terms. A final analysis was completed, and the results of this analysis are presented in the following section.

Findings

The interview questions were organized according to six purposes (see Appendix 5), and the results presented here follow the same organizational structure. When appropriate, the number of individuals who mentioned a particular topic is indicated. We begin by discussing topics concerning our primary research question about board processes. We then discuss topics concerning our secondary purpose of determining specific board considerations of pros and cons. Lastly, we discuss topics identified as important but not falling within the primary or secondary purpose. Unless noted, only those ideas that were expressed by more than one individual are presented.

What Was the Context of the Merger Opportunity?

All respondents were asked to discuss the merger proposal and what factors influenced the emergence of the opportunity to merge. Respondents from the merged credit union answered that they approached the acquiring credit union with the merger proposal after a deliberate decision-making process in which the acquiring credit union was identified as the best potential merger candidate. Respondents from the acquiring credit union also reported that they were approached by the merging credit union. The CEO of the acquiring institution responded that the acquiring credit union and the merging credit union had collaborated on a number of projects in the past and that a relationship between the two credit unions existed prior to the presentation of the merger proposal. Respondents were then asked questions about why they wanted to merge and how they chose the acquiring credit union as the best potential merger partner.

Did the Merging Credit Union Board Have a Strategy for Considering Mergers?

The merging credit union respondents answered that while the merging credit union did not have a set strategy toward mergers, when their financial predicament became serious enough to direct their attention, they did participate in a weekend retreat where they developed a strategy that identified merging as the best possible solution to their financial problems. The merging credit union respondents did express that while they did not go on the retreat as a means

of developing a merger strategy, merging their credit union with a larger, more financially sound credit union did eventually stand out as the best possible solution. The merging credit union respondents indicated that prior to the decision to merge with the acquiring credit union, they did not have a merger strategy other than that they were open to possible mergers if they felt it would be of benefit to their credit union and that they had participated in at least one merger prior to being acquired by the acquiring credit union.

Did the Acquiring Credit Union Board Have a Strategy for Considering Mergers?

All of the acquiring credit union respondents indicated that the acquiring credit union board does have a strategy for merging. The majority of the acquiring credit union respondents explained that the acquiring credit union was open to mergers but not actively seeking merger partners. Approximately half of the acquiring credit union respondents (n=3) indicated that the acquiring credit union is looking to grow and diversify, but that they are happy with their status as an independent, federally sponsored credit union and did not feel that merging was a necessity for their survival at the time. One respondent indicated that the acquiring credit union “did not want to acquire for the sake of acquiring.” A follow-up interview with the acquiring credit union CEO indicated that the acquiring credit union’s strategy toward mergers has evolved since the initial interviews. The CEO explained that while in the past the acquiring credit union was open to mergers but not proactive or direct in communicating this to potential partners, as a result of the success of the merger with the merging credit union, the board has decided that they should begin to identify and notify potential candidates of their interest in merging.

Overall, How Was the Acquiring Credit Union Board Involved in the Merger Process?

The acquiring credit union respondents were asked to explain the level of participation by their board. The acquiring credit union staff and board members overwhelmingly (n=5) indicated that their board was extremely hands-on and very involved in the process of determining whether or not to merge. The majority of the acquiring credit union respondents clarified this answer by indicating that once they had made the decision to move forward and acquire the merging credit union, the board acted as more of an oversight body, leaving the conversion details to the CEO and senior management. A few respondents did answer that during the conversion process, the board was very open to management for guidance on specific issues, and they indicated that the CEO did a good job of supplying the board with a lot of information in the beginning. “I [the CEO] presented

them with the detailed information and they made the decision to proceed on that basis.” The merging credit union respondents agreed that they felt the acquiring credit union board was very involved in the initial decision to merge.

Overall, How Was the Merging Credit Union Board Involved in the Merger Process?

When respondents were asked about the level of participation of the merging credit union’s board of directors, two individuals answered that they felt that the merging credit union’s board made the final decision on whether to merge and who to merge with, but they left most of the specific details of the conversion to the CEO: “[The CEO] did the homework.”

What Were the Main Concerns when Considering the Merger?

Preliminary analysis of the interview transcripts identified six major areas of consideration that one or both of the boards looked at when debating the pros and cons of the merger.

The respondents answered that chief among their considerations were:

- Fit.
- Benefits to members as a result of the merger.
- Financial implications of the merger.
- Authoritative control (the negotiation of board seats).
- Executive and staff placement.
- Location.

The majority of respondents did not place particular emphasis on any one of these considerations, though one respondent, the chairman of the acquiring credit union board, did indicate that his immediate concern was with how the merger would benefit his members. Another respondent, the vice chairman of the acquiring credit union board, indicated that his primary concern was the financial implications of acquiring a credit union that was having some minor financial trouble.

Fit

The overall fit of the two organizations was identified as a primary consideration leading to the possible success and/or failure of the merger. The merging credit union respondents indicated that the acquiring credit union was such a good fit that they didn’t want to ruin the merger over minor details such as board seats. “All along we felt like the acquiring credit union was the best fit. Both of the credit unions have a lot of military employees. Logistically,

culturally, history between [the two credit unions] seemed to be an ideal match.” Several the acquiring credit union respondents also indicated that cultural fit was an important aspect of the merger. The acquiring credit union respondents answered that their board passed up another merger opportunity around the same time because they believed it would not be a very good cultural fit. “I think first and foremost you want to think if the fit is right.”

Benefits to Members

Respondents from both credit unions indicated that benefits to members was a major concern when considering the merger, though none of the respondents indicated definitively what the boards considered to be benefits to members. One respondent indicated that he was concerned about benefits to members in the form of new products and services, and the merging credit union respondents answered that when considering member interests during the decision-making process, a number of member benefits were of primary concern: “First, we wanted the convenience (i.e., made sure none of the branches would close). Next, the rates were all very competitive and will allow members to get more return on deposits.” The acquiring credit union’s pricing of products was in the range where the merging credit union wanted to be. The acquiring credit union is extremely fee-adverse, which is similar to what the merging credit union wanted for its members.

The acquiring credit union and merging credit union respondents overwhelmingly answered that chief among their board’s considerations were:

- Fit.
- Benefits to members as a result of the merger.
- Financial implications of the merger.
- Authoritative control (the negotiation of board seats).
- Executive and staff placement.
- Locations.

Financial Implications

A majority of respondents (n=6) from both the acquiring credit union and the merging credit union answered that when considering the pros and cons of the merger, financial implications were a major concern. According to one acquiring credit union respondent, “We were very interested in the financial situation. An analysis of the merger credit union’s financial performance to date, plus a financial and interest-rate risk analysis of the two organizations, was what we asked for.” Another acquiring credit union respondent answered that his main question was, “Is there going to be a benefit financially?”

Because you know we have to look at the bottom line. Is this merger going to take away from our capital?” The merging credit union respondents indicated that their personal financial situation was the main motivator for their decision to merge. “We were a strong CU, but with the way things were going we would need to make some drastic changes. We did not want to get to the point where we would have to close down branches and sell ourselves to another CU. We were having a tough time balancing how much you can keep in the members’ pocket and how much we needed to spend to keep the services going.”

Authoritative Control

Another major concern for both credit union boards was authoritative control through board seats. The acquiring credit union respondents indicated that they did not want to negotiate board seats. The chairman of the acquiring credit union board answered that they were concerned about board seats and did not want to give any to the merging credit union members as a result of the merger. “We wanted to talk to the directors, talk to the management, find out what they wanted. Were they looking for some seats on our board, or did they want to expand our board?” The merging credit union respondents answered that they did initially ask for two to three board seats, but that they did not feel it was a major negotiation point. “They would only allow us to have up to two nonvoting board seats for one year. We originally wanted full representation on the board.” The chairman of the acquiring credit union board indicated that if the merging credit union had pressed for board seats, it would have been a “deal breaker.” The merging credit union respondents answered that they did not want to jeopardize the merger because of board seats, so they agreed to take the two nonvoting seats.

“We had our president and they had their president. Now you have two people that want to be the number-one person. Luckily their guy decided to retire. That made it easy for us.”



“We had our president and they had their president. Now you have two people that want to be the number-one person. Luckily their guy decided to retire. That made it easy for us.” The CEO of the acquiring credit union also responded that a chief concern was whether or not they were going to be able to place the merging credit union’s staff.

Executive and Staff Placement

Executive and staff placement was another primary concern for both credit union boards before the merger. The acquiring credit union respondents answered that there was concern about where they might place the merging credit union’s CEO and executive vice president. “We had our president and they had their president. Now you have two people that want to be the number-one person. Luckily their guy decided to retire. That made it easy for us.” The CEO of the acquiring credit union also responded that a chief concern was whether or not they were going to be able to place the merging credit union’s staff.

Locations

Locations were a major concern of the acquiring credit union board. The merging credit union had a branch in Virginia, and deciding if and how they could manage that out-of-state location was a concern to some members of the acquiring credit union board. “Another concern was the Virginia location; someone would need to take on this branch as well.” Another acquiring credit union respondent answered that “this merger would be a little bit of a challenge because of the Virginia branch. It would be the first time that we have had a branch that is any significant distance away.”

Other Concerns

Also mentioned by a few (n=3) of the acquiring credit union respondents were concerns about the infrastructure systems and the conversion of the two IT systems after the merger.

How Did the Boards Consider Member Involvement as a Decision-Making Factor of the Merger?

When asked how they considered membership involvement in the decision to merge, one respondent from the acquiring credit union answered that while possible benefits to members was the number-one concern, “I asked the members of the board when the other credit union first approached us: What is the benefit to my members? Because if there is not going to be any benefit to my members, then I don’t want to merge just for the heck of it.” Member input in the actual decision-making process was not a chief consideration. “We didn’t think it really affected them. Now, it’s not a secret and we talk about it . . . I mean, there’s a note on our Web page welcoming in the new members, but beyond that it’s not an issue for our members.”

How Did the Merging Credit Union Board Consider Member Involvement in the Merger?

Because the merging credit union board members were legally required to vote to pass the merger proposal, the merging credit union board members answered that they considered member benefits as well as input during the merger process. The merging credit union respondents answered that they sent a letter to the membership explaining the merger, the increased benefits that would result from being acquired by the acquiring credit union, and the “loyalty dividend” that all members would receive if the merger passed: “We sent out communication that told members the board was behind the decision and why.” The merging credit union respondents answered that they also set up an information hotline to note and address any member concerns, and that while they did receive some input and concerns, the merger easily passed the membership vote, with only a small percentage of the members even participating in

the vote. “I think less than 1,000 out of 7,000 members voted. Out of those who voted, it was 90% in favor of the merger.”

Did the Acquiring Credit Union Board Consider Taxation Concerns during the Decision-Making Process?

Respondents were asked if the banking industry’s concern about the growth of credit unions and their nontax status had any effect on the acquiring credit union board’s decision to grow and diversify through this merger. A majority of the respondents answered that it was not a concern at all, with a couple of the respondents indicating that the credit union’s mission is the reason for their nontax status and that the size of the credit union should not matter. “Frankly, I didn’t personally consider that because if you stay true to your mission of serving people, then it’s not going to become an issue.” A couple of respondents indicated that were the credit union to be taxed in the future as a result of its size, the institution would not change its mission or the way in which it provides service, so the tax issue was not a major concern for the credit union during this merger or under any circumstance. “The tax debate is something that we worry about anyway, and trying to protect our own interest. I don’t think the merger was going to make that more or less significant.”

Were There Any Important Lessons Learned as a Result of This Merger?

Respondents were asked to identify the most important lesson learned from this merger. Responses to this answer were varied. One respondent indicated that “understanding the cultures of the two places and the possible success of blending those two cultures” should be a primary concern before any merger takes place. Another respondent answered that a primary concern for any board should be whether or not the two institutions are “merging for the right reasons” and ensuring that the “core group is right.” A third respondent indicated that the biggest lesson learned from this merger is that “cooperation and sharing of information is very important.” The merging credit union respondents in particular indicated that they learned that strategic planning is most important when considering a merger. Specifically, knowing exactly how the costs of merging are going to be met should be determined at the outset, before any other decisions about the merger take place.

Conclusion

It was the goal of this research project to ascertain how credit union boards of directors consider the pros and cons of mergers. This case was selected as an example to explore in detail the decision-making

practices of the board. Investigators conducted in-person interviews during a two-day, on-site visit and follow-up interviews by telephone and e-mail. Investigators discovered that both boards were very involved in the decision-making and actual merger process, and that both boards weighed the pros and cons of the merger rather extensively. Primary among the boards' concerns were issues surrounding member benefits, financial implications, and cultural fit.

Interview Questions for Case Studies

PURPOSE 1: TO GAIN A BETTER UNDERSTANDING OF THE ENTITY'S ORGANIZATIONAL CULTURE, MISSIONS, AND GOALS AS WELL AS THE BOARD'S CONSIDERATION OF THESE FACTORS WHEN MERGING.

1. Can you provide us a brief overview of your organization's mission and goals before and after the merger?
 - a. What kind of charter did you have before and after the merger?
 - b. Were the two organizations' missions and goals grafted into the credit union?
 - c. Has a new culture been created, or is there a dominant culture from the two formerly independent credit unions?
2. Can you briefly describe your credit union's strategy or philosophy toward mergers and acquisitions?
 - a. Briefly, what factors influenced the emergence of the opportunity to merge?
 - b. Did you initiate or were you approached about the merger opportunity?
 - c. [Asked only of CEO] What were some of the first things you did after learning about the merger opportunity?

PURPOSE 2: TO OBTAIN DEEPER INSIGHT INTO THE BOARD ROLES, THEIR RELATIONSHIP WITH EXECUTIVES, AND THE INITIAL STAGES OF THE MERGER PROCESS.

1. How was the opportunity to merge or acquire presented to the board? [*Thoughts: We want to discover the relationship of the board and CEO in the beginning of the process.*]
 - a. Overall, please explain how the board engaged (or not) in the decision making about the merger opportunity.

PURPOSE 3: TO ESTABLISH KEY AREAS OF DECISION MAKING THAT THE BOARD WAS INVOLVED IN THROUGHOUT THE MERGER.

1. Did the board have enough information to make a decision? Where did you get your information?

2. Did certain individuals exhibit significant influence over the decision?
 - a. If so, who and how did they exert that influence?
3. What were some of the major issues or topics that needed to be negotiated?
4. Was the financial situation of the organization a major concern or reason for merging/acquiring?
 - a. If yes, how did the merger or acquisition affect the entities involved?
 - b. Can you provide any before-and-after financial statements or figures?

PURPOSE 4: TO ASSESS OPPORTUNITIES AND THREATS OF MERGERS AND ACQUISITIONS IN THE CREDIT UNION INDUSTRY.

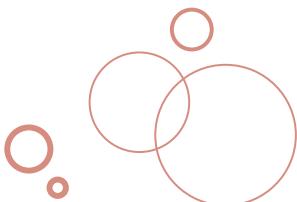
1. Were the prospects of new market opportunities a factor in the decision to merge or acquire?
 - a. Did you consider how the merger or acquisition would affect the existing members/markets?
 - b. For example, were you able to increase your field of membership base?
2. Did the merger or acquisition enable you to provide additional services to your members?
 - a. What were these services? (e.g., small-business services/loans, online banking, ATMs)
3. When merging/acquiring, did the board consider the overall industry implications, such as competition with banking and the increasing regulation of credit unions?
4. Are boards concerned that the size of credit unions and their increasing services offered will lead to taxation?
 - a. As banks lobby against credit unions' tax exemption status, what effect do you think this will have on your industry?

PURPOSE 5: TO IDENTIFY WHAT ALTERNATIVES, IF ANY, THE BOARD CONSIDERS WHEN DECIDING TO MERGE OR ACQUIRE ANOTHER CREDIT UNION.

1. Were there other alternatives to merger that the board considered?
 - a. Did the board consider a community charter?
 - b. How were those options explored?

PURPOSE 6: TO CONCLUDE HOW THE FINAL STAGES OF THE MERGER OR ACQUISITION WERE CONDUCTED.

1. According to NCUA regulation, credit unions must notify their members of the merger or acquisition. What techniques did you use to notify the members?
 - a. What percentage of members approved/denied the merger?
2. Was the board's decision to merge or acquire unanimous?
3. Did the credit union ultimately make the best decision?



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