# Mergers

Business

The Board has agreed to merge with a one branch $50M credit union located in another My approach is to assess the strategic and financial value of the potential merger. My approach will be conscious of potential strategic value to " company” in the form of; positioning through broader market access and increasing organizational competencies. Additionally financial value can be realized from an undervalued merger opportunity and/or through centralization and economies of scale.

Market Analysis:

Community: During due diligence, the community would be an important component of the market analysis. The market analysis would be conducted by reviewing the competitors within a 20 mile radius. Specifically, an analysis of the market would be conducted. This entails understanding if the market is growing, or if the competitors are cannibalizing each others’ members. Additionally, reviewing ease of entry into the market is done. This is achieved through reviewing the growth of new competitors in the market. Assessment would be conducted to understand if the new competitors have taken significant market share or if the market is locked in among the current players.

Reputation in the market: Conduct an assessment of the image, brand, and the member service reputation of the merging credit union. Reputation can be effectively assessed by using the Better Business Bureau, industry associations, and social media sites.

Viability of membership groups: Viability of membership groups would be investigated. This is through review of the major SEG and garnering the stability of the industry. Review is also conducted on the membership opportunity and geography of the membership.

Agreements:

Major contracts: Review all employment agreements, major supplier, equipment leases, and legal agreements. Determine what line of business or products have been outsourced. Due to the size of the merging credit union they may have third parties perform multiple activities including engaging directly with members. Review the contracts to determine termination timelines and that the contracts clearly define expectations and responsibilities of the third party to help ensure the contacts enforceability, limit the credit unions liability, and mitigate disputes about performance.

Real estate: Determine if merging credit union’s branch is leased or owned.

Owned: If the branch is owned, determine the stay or sell value. Utilize the market assessment to consider remaining in market, moving to new location within market, or exiting the market.

Leased: If the branch is leased, then review the lease and any amendments. If the lease term is under 18 months, analyze the cost of a move. If the term is over 18 months; financial analysis would be done based on location, accessibility, easements, adequate space, and the cost of renovations.

Legal issues: Review any pending litigation and any litigation over the last 3 years would be studied and clearly understood.

Assets:

Assets: Cash, securities, and loans. Assess asset classes in real estate loans, member business loans, automobile loans, and loan participations. The concentration risk should be managed in conjunction with credit, interest rate, and liquidity risk. " company’s” philosophy on concentration risk around real estate loans is to continue to bring our concentration below the current 53% (mortgage fixed 38%, variable 8%, 2nd’s 7%); strategic approach to reduce IRR and to help our liquidity position.

Review documents:

Loan policy and underwriting guidelines including risk rating system and loan loss reserve policy. Review problem loan report and delinquent loan report. Review outstanding loan report including their original loan amount, note date, current risk rating, outstanding balance, available balance, number of days past due, and number of time 30, 60, 90 days past due.

File review:

Depending on portfolio size, the team may choose a sampling technique, or to review every loan. The review entails analyzing low or reduced underwriting documentation, collateral type, geographic area, non-traditional terms, loan-to-value, and monitoring.

Financial:

Conduct review of balance sheet, profit and loss, call reports, management letters from external CPA, and current year budget.

Expense line items: analyze employee salaries and benefits (potential savings), outside services, duplicative services: such as loan servicing, and call center. Income line items: account for any onetime events, potential changes in yield, and if fee line items are sustainable.

Build a profit and loss accounting for duplicative services and centralization; along with adjustments for any onetime time item and any unsustainable fees. Use analysis to assess the impact on " company’s” ROA and Net Worth.

If they have a budget, determine if they are tracking to projections. If more than 5% off projections, assess reasons (market, execution, or service delivery).

Staff assessment:

Ideally a diverse, well trained and motivated staff would assist in a successful merger; along with an opportunity to bring talented staff into the " company". Through staff interviews, assess the education and experience of each team member.

Use interviews to identify key employees with member linkages.

Operational:

Review last two years audit reports. The State and Federal audits will have letters reporting weaknesses or reportable conditions, and managements written responses to auditors’ findings. The reliability and effectiveness of internal controls, compliance with laws and regulations, acted on recommendations included in examinations.

Review last 12 months of board reports. Understand the board of directors level and nature of inherent risk on the balance sheet, risk management practices, market conditions, and reserve allocation of concentration risk.

Due diligence would be completed over a period of two weeks to a month with an internal team that includes the CFO along with employees from lending, accounting, marketing, member services, information technology, and human resources.